

FINAL POLICY YEAR CLOSE OUT PROCEDURES

NORTH CAROLINA JOINT UNDERWRITING ASSOCIATION (FAIR PLAN)

- The FAIR Plan will close out the fifth open policy year at the end of each fiscal year (September 30).

For example at September 30, 2004 the following years will be open - 2004, 2003, 2002, 2001 and 2000. Therefore, a recommendation would be made to close out the 2000 policy year during the November 2005 Board of Directors meeting.

- The FAIR Plan will retain members' equity to help cover losses of future hurricanes.
- Staff will recommend the members' equity threshold.

Staff will use the most recent 10 years to 25 years event of the Probable Maximum Loss study unless the Association past hurricane experience suggests the members' equity threshold is inadequate.

- The developed members' equity threshold will be presented for approval to the Accounting and Fiscal Affairs Committee at the Annual Board of Directors meeting (November). This committee will present their recommendation to the Board of Directors.

As Of November 2006 - The current threshold is \$50,000,000.

- Staff will use the following formula to determine the total members' equity:

$$\begin{array}{r} \text{Members' Equity} \\ + \text{Unearned Premium Reserves} \\ \hline \text{Total Members' Equity} \end{array}$$

This information will be found on the Exhibit 3B of the Beach Plan's Financial Statement at September 30 of the current year.

- When the final settlement of the fifth year results in a members' equity the distribution will be reviewed to determine:
 - 1) Will the total distribution or any portion of the distribution reduce the members' account below the approved members' equity threshold?

- a) If the distribution reduces the members' account below the approved threshold then it will be rolled forward to an open policy year that has a combined members' deficit.

If there are no remaining open policy years with a members' deficit then the distribution will roll forward to the current open year.

The "rolling forward" of the distribution will be handled by issuing a Distribution/Assessment Statement to the Member Companies. The affected years will be processed by using each Member's participation percentages. A distribution will be shown for the fifth year and a special assessment will be shown for the "rolled forward" year.

These transactions must take place since each company's percentage of participation changes from one policy year to the next. (A distribution at the end of the fifth year would happen if a company has no participation in the "rolled forward" year.)

- 2) If the distribution will not significantly reduce the members' account below the approved threshold then the distribution will be processed.

- If the final settlement of the fifth year results in a members' deficit an assessment will be processed.
- The recommendation for the final settlement of the fifth year will be presented to the Accounting and Fiscal Affairs Committee at the Annual Board of Directors meeting (November). This committee will present their recommendation to the Board of Directors.
- The final settlement for the fifth open year will be processed in the month of December after the Board of Directors meeting.