

FINAL POLICY YEAR CLOSE OUT PROCEDURES

NORTH CAROLINA JOINT UNDERWRITING ASSOCIATION (FAIR PLAN)

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

As a basis of its recommendation staff will use the most recent 10 years to 25 years event of the Probable Maximum Loss study unless the Association's past hurricane experience suggests the members' equity threshold is inadequate.

- Staff will present the developed members' equity threshold for approval to the Accounting and Fiscal Affairs Committee when it meets in conjunction with the Annual Board of Directors meeting (November). This Committee will thereafter present its recommendation to the Board of Directors.

As Of November 2009 - The current threshold is \$75,000,000.

- 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.

- If the Total Members' Equity is less than the Members' Equity Threshold, then staff will recommend to the Board of Directors that no final settlement be processed.
- Staff will recommend that policy years remain open until the Total Members' Equity is greater than the Members' Equity Threshold.
- When the Total Members' Equity exceeds the Members' Equity Threshold, then staff will recommend to the Board of Directors that the oldest open year be processed for final settlement.
- Staff will present its recommendation for the final settlement to the Accounting and Fiscal Affairs Committee when it meets in conjunction with the Annual Board of Directors meeting (November). This Committee will thereafter present its recommendation to the Board of Directors.
- As directed by the Board of Directors, staff will process the final settlement in the month of December after the Board of Directors meeting.