

North Carolina Insurance Underwriting Association

Audited Financial Statements - Statutory Basis

*Years ended December 31, 2021 and 2020
with Report of Independent Auditors*

North Carolina Insurance Underwriting Association

Audited Financial Statements - Statutory Basis

Years ended December 31, 2021 and 2020

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Report of Independent Auditors

Board of Directors
North Carolina Insurance Underwriting Association

Opinions

We have audited the statutory financial statements of North Carolina Insurance Underwriting Association (the Association), which comprise the statutory basis balance sheets as of December 31, 2021 and 2020, and the related statutory basis statements of operations, changes in surplus and cash flows for the years then ended, and the related notes to the statutory basis financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the admitted assets, liabilities, and surplus of the Association as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in accordance with the basis of accounting described in Note A.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Association as of December 31, 2021 and 2020, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Association, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A to the financial statements, the Association prepared these financial statements using accounting practices prescribed or permitted by the North Carolina Department of Insurance (statutory accounting practices), which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with statutory accounting practices. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The accompanying reinsurance summary supplemental filing for general interrogatory 9, supplemental investment risks interrogatories and summary investment schedule of the Association as of December 31, 2021, are presented for purposes of additional analysis and are not a required part of the financial statements but are supplementary information required by the North Carolina Department of Insurance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Johnson Lambert LLP". The signature is written in a cursive, flowing style with large loops and flourishes.

Raleigh, North Carolina
March 25, 2022

North Carolina Insurance Underwriting Association

Balance Sheets - Statutory Basis

As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Admitted assets		
Bonds	\$ 779,017,574	\$ 717,961,487
Cash, cash equivalents and short-term investments	<u>216,497,563</u>	<u>129,905,354</u>
Total cash and invested assets	995,515,137	847,866,841
Accrued investment income	3,188,460	3,679,823
Deferred premiums	28,803,738	25,908,420
EDP equipment and software	<u>3,225</u>	<u>547,541</u>
Total admitted assets	<u><u>\$ 1,027,510,560</u></u>	<u><u>\$ 878,002,625</u></u>
Liabilities and surplus		
Liabilities		
Reserve for losses	\$ 42,991,747	\$ 62,974,212
Reserve for loss adjustment expenses	6,313,253	8,695,788
Commissions payable and other similar charges	3,167,233	2,867,117
Other expenses payable	938,322	807,214
Taxes, licenses and fees payable	1,189,128	474,952
Unearned premiums	192,514,701	174,047,258
Advanced premiums	8,169,785	7,600,347
Reinsurance premiums payable	1,886,750	582,658
Amounts withheld for account of others	183,527	643,693
Payable to affiliates	3,522,275	3,565,263
Pension and postretirement benefit obligation	11,316,714	10,825,481
Other liabilities	<u>13,776,467</u>	<u>14,300,900</u>
Total liabilities	<u>285,969,902</u>	<u>287,384,883</u>
Surplus	<u>741,540,658</u>	<u>590,617,742</u>
Total liabilities and surplus	<u><u>\$ 1,027,510,560</u></u>	<u><u>\$ 878,002,625</u></u>

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Statements of Operations - Statutory Basis

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Underwriting gain		
Premiums earned	\$ 299,468,203	\$ 264,356,293
Deductions		
Losses incurred	61,586,621	98,276,953
Loss adjustment expenses incurred	15,568,076	18,057,315
Other underwriting expenses incurred	<u>77,119,378</u>	<u>75,641,762</u>
Total underwriting expenses	<u>154,274,075</u>	<u>191,976,030</u>
Net underwriting gain	<u>145,194,128</u>	<u>72,380,263</u>
Investment income		
Net investment income earned	12,686,655	12,321,986
Net realized capital gains	<u>388,802</u>	<u>168,558</u>
Net investment income	<u>13,075,457</u>	<u>12,490,544</u>
Other expense	<u>(8,894,546)</u>	<u>(8,382,976)</u>
Net income	<u>\$ 149,375,039</u>	<u>\$ 76,487,831</u>

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Statements of Changes in Surplus - Statutory Basis

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Surplus, beginning of year	\$ 590,617,742	\$ 514,656,476
Net income	149,375,039	76,487,831
Change in net unrealized capital gains and losses	639,969	(639,969)
Change in non-admitted assets	20,403	(155,405)
Change in minimum pension liability	<u>887,505</u>	<u>268,809</u>
Surplus, end of year	<u>\$ 741,540,658</u>	<u>\$ 590,617,742</u>

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Statements of Cash Flows - Statutory Basis

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash from operations		
Premiums collected, net of reinsurance	\$ 316,801,901	\$ 267,044,016
Net investment income received	17,421,570	18,744,749
Miscellaneous expense paid	(8,894,546)	(8,382,976)
Benefits and loss related payments, net	(81,569,086)	(150,012,592)
Commissions and other underwriting expenses paid	<u>(93,924,589)</u>	<u>(100,440,754)</u>
Net cash from operations	<u>149,835,250</u>	<u>26,952,443</u>
Cash (used in) from investments		
Proceeds from bonds sold, matured, or repaid	318,668,674	266,440,360
Net gain on cash and cash equivalents	-	36
Cost of bonds acquired	<u>(382,939,543)</u>	<u>(233,981,632)</u>
Net cash (used in) from investments	<u>(64,270,869)</u>	<u>32,458,764</u>
Cash from financing and miscellaneous sources		
Other cash provided	<u>1,027,828</u>	<u>9,819,697</u>
Net cash from financing and miscellaneous sources	<u>1,027,828</u>	<u>9,819,697</u>
Net change in cash and cash equivalents	86,592,209	69,230,904
Cash and cash equivalents, beginning of year	<u>129,905,354</u>	<u>60,674,450</u>
Cash and cash equivalents, end of year	<u>\$ 216,497,563</u>	<u>\$ 129,905,354</u>

See accompanying notes to the statutory basis financial statements

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements

Years ended December 31, 2021 and 2020

Note A - Organization and Significant Accounting Policies

Organization

North Carolina Insurance Underwriting Association (the Association) was formed August 15, 1969 as an association of insurance companies (Member Insurers) mandated by North Carolina law. The Association is authorized to write commercial, fire, extended coverage and vandalism and malicious mischief coverage in the State of North Carolina. The Association, also known as the Coastal Property Insurance Pool, is a tax-exempt insurer of last resort created by law to provide adequate essential property insurance to property owners having insurable property in the beach and coastal areas of North Carolina. The Association is an association of insurance companies authorized to write essential property insurance coverage in North Carolina. The majority of the Association's policies are submitted by North Carolina licensed agents.

Because the Association only writes business in beach and coastal areas in the State of North Carolina, it has a geographic concentration of policies written, which results in increased loss exposure for severe storms. Under North Carolina law, all insurers authorized to write and engage in writing essential property insurance in North Carolina on a direct basis, except town and country insurance associations, certain assessable mutual companies and certain insurers who only write insurance on property exempted from taxation under the North Carolina General Statutes, are required to participate in the Association. The Association's exposure to coastal properties is described further in Note B.

The Association is administered by a Board of Directors and is subject to the regulation of the Commissioner of Insurance of the State of North Carolina (the Commissioner). The Board of Directors consists of representatives of the Member Insurers, insurance agents appointed by the Commissioner and public members also appointed by the Commissioner. The general manager of the Association is appointed by the Board of Directors.

Basis of Reporting

For regulatory purposes, the Association prepares its financial statements in accordance with accounting practices prescribed or permitted by the North Carolina Department of Insurance (statutory accounting practices). Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners (NAIC), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The NAIC Accounting Practices and Procedures Manual (NAIC Statutory Accounting Practices) has been adopted as a component of prescribed or permitted practices by the state of North Carolina. There are no differences between statutory surplus as presented in these financial statements as of December 31, 2021 and 2020 (as prescribed or permitted by the state of North Carolina) and NAIC Statutory Accounting Practices.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

The preparation of statutory basis financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory balance sheets, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statutory accounting practices vary in some respects from accounting principles generally accepted in the United States of America (GAAP). The more significant variances from GAAP applicable to the Association are as follows:

- For statutory purposes, debt securities are generally carried at amortized cost or fair value based on the rating received from the Securities Valuation Office (SVO) of the NAIC. Debt securities with ratings of 1 or 2 are carried at amortized cost, and debt securities with ratings of 3 to 6 are carried at the lower of amortized cost or fair value. Under GAAP, investments in debt securities, other than those intended to be held-to-maturity, are recorded at fair value, with unrealized gains and losses recorded as either a separate component of accumulated other comprehensive income (for debt securities classified as available-for-sale), or as a direct charge to net income (debt securities classified as trading securities).
- Policy acquisition costs, net of ceding commission received pursuant to reinsurance agreements, are charged to operations in the year such costs are incurred, rather than being deferred and amortized over the terms of the policies as would be required under GAAP.
- Certain assets, including most property and equipment and certain receivables, are non-admitted for statutory purposes. Those assets designated as non-admitted are charged against surplus.
- Reserves for losses and loss adjustment expenses and unearned premiums are reported net of applicable reinsurance, whereas for GAAP purposes these reserves are recorded gross of applicable reinsurance.
- For statutory purposes, a reserve for reinsurance is established, through a direct charge to surplus, for unsecured reinsurance recoverables from unauthorized reinsurers and overdue authorized reinsurance recoverables; such reserves are provided under GAAP based on management's estimates of doubtful recoveries, but are charged against net income.
- The statutory statements of cash flow does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by operating activities is not provided.
- Comprehensive income is not reported for statutory purposes.

The effects on the financial statements of the variances between statutory accounting practices and GAAP, although not reasonably determinable, are presumed to be material and pervasive.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

COVID-19 Risks and Uncertainties

The ongoing COVID-19 coronavirus pandemic (COVID-19) continues to have a global impact creating uncertainty, volatility, and disruption across economies and financial markets. The Association's operational and financial performance will depend on certain developments, including the duration and spread of COVID-19 and its impact on the Association and its policyholders, members, employees and vendors. As such, COVID-19 could have an effect on the Association's financial position in the future. The ultimate duration and impact of the COVID-19 outbreak on the Association's financial position cannot be reasonably estimated at this time.

Investments

Investments are recorded at admitted asset values, as prescribed by the NAIC's SVO valuation procedures. Amortization is calculated using the effective interest method.

The Association invests in bonds. Investment securities are exposed to risks such as interest rate, market, liquidity and credit risk. Due to the level of the risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the balance sheets - statutory basis.

Declines in fair value of invested assets below cost or amortized cost are evaluated for other-than-temporary impairment (OTTI). The decision as to whether an impairment of a security is other-than-temporary incorporates both quantitative criteria and qualitative information. The Association conducts a periodic review to identify and evaluate securities for OTTI.

When, in the opinion of management, a decline in the estimated fair value of an investment is considered to be other-than-temporary, the investment is written down to its estimated fair value. For debt securities, OTTI is considered to have occurred if it is probable that the Association will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition. The determination of an other-than-temporary decline in estimated fair value includes, in addition to other relevant factors, a periodic assessment of the changes in value relative to cost, determination of the Association's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value, and the financial condition, credit analysis, and future prospects of the issuer. Any such write-downs are reported as net realized losses on investments.

Current accounting guidance establishes a three-level hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1), the next priority to quoted prices for identical assets in inactive markets or similar assets in active markets (Level 2) and the lowest priority to unobservable inputs (Level 3).

Accrued interest over 90 days past due is non-admitted. No portion of the investment income due and accrued was required to be non-admitted as of December 31, 2021 and 2020.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

Cash, Cash Equivalents and Short Term Investments

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist of investments with original maturities of one year or less when purchased. The Association maintains certain cash and cash equivalents balances that exceed FDIC insurance thresholds, which management does not consider to be a significant risk.

Deferred Premiums

Premiums receivable are presented net of non-admitted amounts. Deferred premiums consist of future, unbilled installments. Due to terms included in policies that require cancellation if payment is not made prior to applicable payment due dates, the Association does not record billed and uncollected premiums.

Premiums

Premiums written directly, net of premiums ceded pursuant to reinsurance agreements, are earned ratably over the terms of the policy. Premiums written, net of reinsurance ceded, relating to the unexpired portion of policies in-force at the balance sheet date are recorded as unearned premiums. Expenses incurred in connection with acquiring new insurance business, such as sales commissions, are charged to operations as incurred and are reduced for ceding commissions received or receivable under reinsurance agreements. Premiums collected in advance of the effective date of policies are recorded as advanced premiums.

If anticipated losses, loss adjustment expenses, commissions and other acquisition costs exceed the Association's recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve is recognized by recording an additional liability for the deficiency. The Association does not include investment income as a factor in the premium deficiency reserve calculation. The Association recorded no premium deficiency reserve as of December 31, 2021 or 2020.

Losses and Loss Adjustment Expenses (LAE)

The reserve for unpaid losses and LAE represent the estimated ultimate net cost of all reported and unreported losses that are unpaid as of the balance sheet date, net of amounts recoverable pursuant to reinsurance agreements. In establishing the reserve for losses and LAE, two generally accepted actuarial methodologies, the paid loss and incurred loss development methods, were predominately applied to each line of business. The liability for unpaid losses and LAE is an accounting estimate and, similar to other accounting estimates, actual future losses could differ from the initial estimate. The methods of determining such estimates and the resulting estimated liability are continually reviewed by management and updated. The Association booked the total reserves for losses and LAE precisely to its consulting actuary's central estimate as of December 31, 2021 and 2020. For December 31, 2021 and 2020 estimates, the consulting actuary's methodology focuses on the monthly loss development patterns associated with individual storms. Although considerable variability is inherent in such estimates, management believes that the reserve for losses and LAE is adequate.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

The Association has not reduced its reserve for losses and LAE for anticipated salvage and subrogation recoveries. Such recoveries are reported as a reduction of losses incurred when the cash related to such recoveries is received. Salvage and subrogation recoveries for the years ended December 31, 2021 and 2020 were \$74,828 and \$192,719, respectively.

Member Participation

Each Member Insurer's participation in the Association's operations is in proportion to its North Carolina insurance writings for the affected lines of business in the preceding calendar year. Participation percentages vary from year to year. Assessments of members related to each fiscal year are based on their participation. Since the Association has the authority to assess its members to cover members' deficits, members can be assessed annually to meet the liquidity requirements of the Association. Assessments are also permitted for large unanticipated losses. Assessments are recognized as a component of surplus.

Reinsurance

The Association utilizes ceded reinsurance to limit its insurance risk. Reinsurance recoverable is estimated using assumptions consistent with those used to estimate the reserve for losses and LAE. In preparing financial statements, management makes estimates of amounts recoverable from reinsurers, which include consideration of amounts, if any, estimated to be uncollectible by management based on an assessment of factors, including the creditworthiness of the reinsurers. Any change in the ability of the Association's reinsurers to meet their contractual obligations could have a detrimental impact on the Association's ability to meet its regulatory capital and surplus requirements, as reinsurance contracts do not relieve the Association from its obligations to policyholders. Reinsurance recoverable on losses and LAE paid by the Association are reported as an asset, while reinsurance recoverable on unpaid losses and LAE are reported as a reduction of the gross reserve. The Association did not record a valuation allowance for reinsurance recoverable as of December 31, 2021 or 2020.

Electronic Data Processing Equipment

Admitted electronic data processing (EDP) equipment is stated at cost, less accumulated depreciation, and is depreciated using the straight-line method over three to five years, as appropriate. EDP equipment is limited to 3% of surplus, subject to certain specified adjustments. Maintenance and repair costs are charged to expense as incurred.

Federal Income Taxes

In 1992, the Association received correspondence from the Internal Revenue Service (IRS) indicating that it is tax-exempt under Section 501(c)(6) of the Internal Revenue Code. The Association's tax-exempt status was examined by the IRS in 2011, and the Association's exemption was reaffirmed.

Subsequent Events

The Association evaluated subsequent events through March 25, 2022, the date on which these financial statements were available to be issued, and considered any relevant matters in the preparation of the financial statements and footnotes.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note B - Exposure to Coastal Properties

The Association has significant exposure to coastal properties, which have a higher risk of catastrophic events. During 2021, risk count and aggregate exposure was 212,181 and \$83.5 billion, respectively. During 2020, risk count and aggregate exposure was 204,725 and \$78.2 billion, respectively.

In the event that losses and expenses of the Association exceed available surplus, the Association is authorized to issue a non-recoupable assessment upon its Member Insurers not to exceed one billion dollars (\$1,000,000,000) for losses incurred from any events that occur in a given calendar year, regardless of when such assessments are actually levied on or collected from Member Insurers. Each Member Insurer of the Association must participate in non-recoupable assessments levied by the Association in the proportion that its net direct premium written in North Carolina during the preceding calendar year for residential and commercial properties outside of the beach and coastal areas bears to the aggregate net direct premiums written in North Carolina during the preceding calendar year for residential and commercial properties outside of the beach and coastal areas by all Member Insurers. Any assessment levied on Member Insurers by the Association (as ordered by the Board of Directors) generally is due from the Member Insurers within 30 days of assessment. There were no assessments during 2021 and 2020.

When the Association knows that it has incurred losses and loss expenses in a particular calendar year that will exceed the combination of available surplus, reinsurance and other sources of funding, including permissible member company assessments, the Association shall immediately give notice to the Commissioner that a deficit event has occurred. The Association can enter into any financing arrangements for the purpose of financing a deficit, provided that the pledge of catastrophe recovery charge amounts under such financing agreements shall not result in the actual levying of any catastrophe recovery charge until after the Association has incurred a deficit and until after the Commissioner has approved implementation of the Association's catastrophe recovery charge plan.

Note C - Insurance Activity

Premium activity as of December 31, 2021 and 2020 is summarized as follows:

	2021		
	Direct	Ceded	Net
Premiums written	\$ 390,904,620	\$ (72,968,974)	\$ 317,935,646
Change in unearned premium	(19,941,866)	1,474,423	(18,467,443)
Premiums earned	<u>\$ 370,962,754</u>	<u>\$ (71,494,551)</u>	<u>\$ 299,468,203</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - Insurance Activity (Continued)

	2020		
	Direct	Ceded	Net
Premiums written	\$ 348,593,120	\$ (78,716,555)	\$ 269,876,565
Change in unearned premium	(10,724,296)	5,204,024	(5,520,272)
Premiums earned	\$ 337,868,824	\$ (73,512,531)	\$ 264,356,293

Deferred premiums consist of the following at December 31, 2021 and 2020:

	2021	2020
Deferred premiums	\$ 28,986,327	\$ 25,979,052
Non-admitted premium balances	(182,589)	(70,632)
Admitted deferred premiums	\$ 28,803,738	\$ 25,908,420

Activity in the reserve for losses and LAE for the years ended December 31, 2021 and 2020, is summarized as follows:

	2021	2020
Balance at January 1	\$ 71,670,000	\$ 130,647,000
Losses and LAE incurred related to:		
Current year	61,883,000	106,573,000
Prior years	15,271,697	9,761,268
Total incurred losses and LAE	77,154,697	116,334,268
Losses and LAE paid related to:		
Current year	45,849,000	80,193,000
Prior years	53,670,697	95,118,268
Total paid losses and LAE	99,519,697	175,311,268
Balance at December 31	\$ 49,305,000	\$ 71,670,000

The estimated cost of losses and LAE attributable to insured events of prior years increased by \$15,271,697 and \$9,761,268 in 2021 and 2020, respectively. The 2021 and 2020 increases are primarily due to unfavorable loss trends related to Hurricane Florence, a catastrophic event that occurred in September 2018. Hurricane Florence caused unprecedented damage to North Carolina's coastal region and required a large initial estimate of incurred but not reported (IBNR) reserves, creating added subjectivity for prior reserve estimates. As updated information became known during 2021 and 2020, the 2018 reserves estimate related to Hurricane Florence was adjusted. Increases or decreases in losses and LAE reserve estimates occur as the result of the ongoing analysis of recent loss development trends. Original estimates have been adjusted as additional information becomes known regarding individual claims.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - Insurance Activity (Continued)

There were no reinsurance recoverables offsetting the reserve for losses and LAE as of December 31, 2021 and 2020. There were no amounts recovered pursuant to reinsurance agreements during the years ended December 31, 2021 and 2020.

At December 31, 2021 and 2020, there was no provision for reinsurance established related to unauthorized or overdue reinsurance recoverables.

There is no unsecured reinsurance recoverable for individual reinsurers whose balances exceeded 3% of the Association's surplus as of December 31, 2021 and 2020.

The Association utilizes ceded reinsurance to limit insurance risk within its risk financing program. The Association's risk financing program also includes surplus, Member Insurer assessments and other statutorily-prescribed mechanisms for financing a deficit event affecting the Association. The Association's risk financing program, effective May 1, 2021, for potential claims obligations that arise from May 1, 2021, to May 1, 2022, provides reinsurance coverage from \$1.515 billion to \$3.050 billion. Several of the Association's reinsurance treaties require collateral to be held in a trust account in the event that ceded reinsurance recoveries are to be paid to the Association. Potential losses above \$3.050 billion would be covered by issuing post-event bonds, which would be funded by a catastrophe recovery charge. The Association's risk financing program includes three issued and outstanding catastrophe bonds, a type of insurance-linked security providing \$800 million of reinsurance coverage if a pre-specified catastrophic event were to occur. Member Insurer assessments provide \$1.00 billion of coverage prior to exceeding aggregate reinsurance limits.

The Association's risk financing program, effective May 1, 2020, for potential claims obligations that arise from May 1, 2020, to May 1, 2021, provides reinsurance coverage from \$1.400 billion to \$3.015 billion. Potential losses above \$3.015 billion would be covered by issuing post-event bonds, which would be funded by a catastrophe recovery charge. The Association's risk financing program includes two issued and outstanding catastrophe bonds, a type of insurance-linked security providing \$550 million of reinsurance coverage if a pre-specified catastrophic event were to occur. Member Insurer assessments provide \$1.00 billion of coverage prior to exceeding aggregate reinsurance limits.

For the excess of loss coverages described above, the Association is charged a provisional premium, which may be adjusted in accordance with a formula included in the reinsurance agreement for each excess layer if the limits of insurance in force (total insured value) increases by an average of greater than 10% or decreases by an average of greater than 5%. Adjustment to provisional premiums was not required under the reinsurance agreements for the years ended December 31, 2021 and 2020.

The Association has not received a ceding commission as part of its reinsurance arrangements. Therefore, upon cancellation, no return commission would be due. At December 31, 2021 and 2020, the Association accrued \$3,167,233 and \$2,867,117, respectively, of commissions to be paid by the Association to agents under their agency agreements, which is included as part of commissions payable and other similar charges.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments

The cost or amortized cost and fair value of investments in bonds as of December 31, 2021 are summarized as follows:

	2021			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury obligations	\$ 97,209,973	\$ 2,371,540	\$ 71,560	\$ 99,509,953
Federal agency mortgage-backed securities	64,263,439	251,576	822,937	63,692,078
Mortgage-backed securities	72,749,713	889,052	163,266	73,475,499
Other loan-backed securities	93,463,696	40,378	759,240	92,744,834
Corporate debt obligations	439,545,753	2,758,218	4,705,307	437,598,664
Special revenue obligations	11,785,000	264,073	9,330	12,039,743
Total bonds	<u>\$ 779,017,574</u>	<u>\$ 6,574,837</u>	<u>\$ 6,531,640</u>	<u>\$ 779,060,771</u>

The cost or amortized cost and fair value of investments in bonds as of December 31, 2020 are summarized as follows:

	2020			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury obligations	\$ 106,452,429	\$ 6,072,785	\$ -	\$ 112,525,214
Federal agency mortgage-backed securities	67,125,320	1,344,338	-	68,469,658
Mortgage-backed securities	79,740,909	2,275,553	422,172	81,594,290
Other loan-backed securities	35,780,737	1,057,971	856,120	35,982,588
Corporate debt obligations	417,077,092	10,344,045	-	427,421,137
Special revenue obligations	11,785,000	563,852	-	12,348,852
Total bonds	<u>\$ 717,961,487</u>	<u>\$ 21,658,544</u>	<u>\$ 1,278,292</u>	<u>\$ 738,341,739</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments (Continued)

The summary of the amortized cost and fair value of the Association's investment in bonds at December 31, 2021 by contractual maturity, is shown below:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Maturity:		
In 2022	\$ 60,688,883	\$ 61,408,374
In 2023-2026	417,595,460	418,634,136
In 2027-2031	59,935,066	58,856,093
Due after 2031	10,321,317	10,249,757
Federal agency mortgage-backed securities	64,263,439	63,692,078
Mortgage-backed securities	72,749,713	73,475,499
Other loan-backed securities	<u>93,463,696</u>	<u>92,744,834</u>
Total bonds	<u>\$ 779,017,574</u>	<u>\$ 779,060,771</u>

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from disposal of bonds and the related gross realized gains and losses during December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Proceeds - sales and redemptions	\$ 60,441,924	\$ 28,348,688
Proceeds - maturity, calls and paydowns	258,226,750	238,091,672
Gross gains on disposals	815,723	362,764
Gross losses on disposals	426,921	192,242

Major categories of the Association's 2021 and 2020 net investment income are summarized as follows:

	<u>2021</u>	<u>2020</u>
Investment income:		
Bonds	\$ 13,822,745	\$ 13,948,809
Cash and cash equivalents	<u>201,928</u>	<u>161,225</u>
Gross investment income	14,024,673	14,110,034
Investment expenses	<u>(1,338,018)</u>	<u>(1,788,048)</u>
Net Investment Income	<u>\$ 12,686,655</u>	<u>\$ 12,321,986</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments (Continued)

The following table shows the fair value and gross unrealized losses aggregated by investment category and length of time securities have been in an unrealized loss position, as of December 31, 2021 and 2020:

	2021					
	Less than 12 Months		Greater than 12 Months		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
U.S. Treasury obligations	\$ 10,249,757	\$ 71,560	\$ -	\$ -	\$ 10,249,757	\$ 71,560
Federal agency mortgage-backed securities	43,965,926	822,937	-	-	43,965,926	822,937
Mortgage-backed securities	26,447,774	163,266	-	-	26,447,774	163,266
Other loan-backed securities	83,950,618	645,537	3,502,739	113,703	87,453,357	759,240
Corporate debt obligations	304,270,443	4,705,307	-	-	304,270,443	4,705,307
Special revenue obligations	1,490,670	9,330	-	-	1,490,670	9,330
Total bonds	\$470,375,188	\$ 6,417,937	\$ 3,502,739	\$ 113,703	\$473,877,927	\$ 6,531,640
	2020					
	Less than 12 Months		Greater than 12 Months		Total	
	Unrealized		Unrealized		Unrealized	
	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
Mortgage-backed securities	\$ 11,365,783	\$ 26,864	\$ 18,844,327	\$ 395,308	\$ 30,210,110	\$ 422,172
Other loan-backed securities	10,310,644	856,120	-	-	10,310,644	856,120
Total bonds	\$ 21,676,427	\$ 882,984	\$ 18,844,327	\$ 395,308	\$ 40,520,754	\$ 1,278,292

Based on consideration of the factors described in Note A, management believes that these securities are not other-than-temporarily impaired. For the years ended December 31, 2021 and 2020, no securities were determined to be other than temporarily impaired.

As of December 31, 2021, there were no bonds with NAIC ratings of 3 or lower held by the Association. As of December 31, 2020, the Association held one bond with an NAIC rating of 3, which was carried at fair value due to amortized cost exceeding fair value. The change in net unrealized capital losses for that bond of \$639,969 is presented in the statutory statements of changes in surplus.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note D - Investments (Continued)

The following tables show fair value hierarchy levels for the Association's investments as of December 31, 2021 and 2020:

	2021			
	Level 1	Level 2	Level 3	Fair value
Bonds	\$ -	\$ 779,060,771	\$ -	\$ 779,060,771

	2020			
	Level 1	Level 2	Level 3	Fair value
Bonds	\$ -	\$ 738,341,739	\$ -	\$ 738,341,739

Note E - Debt

The Association entered into a credit agreement on July 1, 2021 that is effective through December 31, 2021. A previous credit agreement was executed on July 1, 2020 and was effective through December 31, 2020. Under the credit agreement, the Association has access to a limited purpose revolving line of credit loan in the amount up to \$350,000,000. The purpose of this executed agreement is to provide the Association with funds to cover immediate cash flow needs resulting from a catastrophic event affecting the state of North Carolina. As part of the credit agreement, the Association and North Carolina Joint Underwriting Association (NCJUA), a related organization, are required to maintain a combined \$30,000,000 cash balance with the issuing bank. During 2021 and 2020, the Association and NCJUA appropriately maintained the minimum balance required under the agreement.

Should a catastrophic event occur in the state of North Carolina, the Association is statutorily granted the authority to issue a Special Assessment to its Members. The Board of Directors approved Special Assessment would serve as collateral for any draws on the revolving line of credit loan, up to the maximum of the approved Special Assessment amount or \$350,000,000. For any outstanding loan amounts related to the revolving line of credit, interest will accrue at a variable rate of one-month London Interbank Offered Rate (LIBOR) + 0.0% or adjusted LIBOR + 1.00%, depending on the terms of the individual drawdown. For any outstanding loan amounts related to the previous credit agreement, interest would accrue at a variable rate of one-month LIBOR + 0.75%. Interest shall be computed and charged for the actual number of days elapsed on the basis of a year consisting of 360 days.

The Association did not draw on the line of credit during 2021 and 2020. As of December 31, 2021 and 2020, the Association did not have any outstanding balances in relation to the line of credit.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note F - Other Underwriting Expenses

The significant components of other underwriting expenses incurred during 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
Net commissions and brokerage	\$ 50,599,490	\$ 44,853,450
Board, bureaus and associations	256,719	243,571
Surveys and underwriting reports	6,249	6,219
Salaries and related items	4,940,835	7,175,254
Employee relations and welfare	3,048,427	2,950,007
Insurance	97,870	91,216
Directors' fees	49,054	12,652
Travel and travel items	13,790	12,911
Rent and rent items	586,189	647,440
Cost or depreciation of EDP equipment and software	464,190	4,625,575
Printing and stationery	123,067	188,032
Postage and telephone	485,601	506,594
Legal and auditing	284,316	225,624
Taxes, licenses and fees	10,993,285	9,798,455
Other miscellaneous expenses	<u>5,170,296</u>	<u>4,304,762</u>
Other underwriting expenses incurred	<u>\$ 77,119,378</u>	<u>\$ 75,641,762</u>

Note G - Non-Admitted Assets

The significant components of non-admitted assets as of December 31, 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Prepaid expenses	\$ 8,332	\$ 21,880	\$ (13,548)
Property and equipment	573,430	692,242	(118,812)
Deferred premiums	<u>182,589</u>	<u>70,632</u>	<u>111,957</u>
Totals	<u>\$ 764,351</u>	<u>\$ 784,754</u>	<u>\$ (20,403)</u>

Note H - Related-Party Transactions

A related organization, NCJUA, shares the same headquartered facility and is operated by the same personnel as the Association. This arrangement periodically results in receivables or payables between the Association and NCJUA. Most expenses are allocated between the two parties with 52% allocated to the Association and the remainder to NCJUA for the years ended December 31, 2021 and 2020, except for certain expenses (furniture, computer hardware, board fees, programming, etc.) which are shared equally. If this cost sharing arrangement was not in place, the actual expense amounts for the Association would vary from the amounts reported in the statutory basis financial statements. At December 31, 2021 and 2020, the Association had a net payable to NCJUA of \$3,522,275 and \$3,565,263, respectively.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note I - Capital and Surplus

Under North Carolina insurance regulations, the Association is not required to maintain a minimum capital and surplus. The Association received approval from the North Carolina Department of Insurance (the Department) exempting the Association from NAIC established risk-based capital (RBC) filing requirements. The Association is required to file information regarding its risk financing program annually.

The components contributing to the cumulative increase (reduction) of unassigned surplus at December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Net distributions to Member Insurers	\$ (292,072)	\$ (292,072)
Non-admitted assets	(764,351)	(784,754)
Net unrealized capital losses	-	(639,969)

Note J - Commitments and Contingencies

The Association and NCJUA jointly rent home office facilities under an operating lease agreement, which has an expiration in calendar year 2029. The Association was allocated 52% of the costs under this lease agreement during the years ended December 31, 2021 and 2020. The Association's allocated share of rent expense was \$675,537 and \$666,604 in the years ended December 31, 2021 and 2020, respectively. The Association also leases certain equipment jointly with NCJUA.

The Association's share of the future lease payments, based on current cost sharing provisions with NCJUA, under the terms of operating lease agreements at December 31, 2021, is as follows:

<u>Year</u>	<u>Amount</u>
2022	\$ 703,049
2023	702,041
2024	608,921
2025	558,579
2026 and after	<u>1,917,988</u>
	<u>\$ 4,490,578</u>

The Association and NCJUA are also required to pay a proportionate share of operating expense increases during the lease term for the building.

In the ordinary course of business, the Association from time to time is involved in litigation. Management does not believe the ultimate disposition of any current litigation in which the Association is involved will have a material effect on the Association's financial condition.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans

Pension Benefits

The Association and NCJUA participate in a multiple-employer pension plan with other organizations called the Insurance Organizations Employees' Retirement Plan (the pension plan), which is administered by the Insurance Organizations' Pension Trust (IOPT). Employees automatically participate in the Plan on the first day of the month on or after the date they complete one year of eligible service and are at least age 21. One year of eligible service for determining plan participation is the 12-month period beginning on their date of hire and each anniversary of that date during which the employee completes at least 1,000 hours of service. The Association's funding policy is to make the minimum annual contributions required by applicable regulations, which are based on recommendations from the Plan's actuary. For the years ended December 31, 2021 and 2020, the Association is allocated 52% of their allocated costs associated with their participation in the plan under the current cost-sharing arrangement with NCJUA.

Postretirement Benefits

In addition to pension benefits, the Association and NCJUA provide certain healthcare and life insurance (postretirement) benefits for retired employees. The costs and accrued liabilities associated with these benefits are allocated between the two entities in the same proportions as for the pension plan. Based on the number of years of service and retirement age, retirees are eligible to continue medical coverage on a contributory basis or noncontributory basis. Medical benefit eligibility requirements include that employees: (1) meet normal or early retirement requirements, as defined by the pension plan; (2) must have been a full time employee five years or more immediately preceding retirement; and (3) must meet group coverage eligibility immediately preceding retirement. Spouses of retirees may also be eligible to participate.

The Association uses December 31 as the measurement date for calculating its obligations related to the plans.

Projected benefit obligations represent the obligations for past service and for expected future compensation as of the measurement date. Accumulated benefit obligations represent obligations based on employee service and compensation earned as of the measurement date.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The reconciliations of the benefit obligations as of December 31, 2021 and 2020, for pension and postretirement benefits are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Benefit obligation at beginning of year	\$ 10,613,207	\$ 8,982,452	\$ 6,109,657	\$ 5,593,949
Service cost	654,759	563,832	382,810	382,384
Interest cost	295,270	304,917	166,963	189,204
Contributions by plan participants	-	-	18,780	23,160
Actuarial loss (gain)	228,818	951,048	(266,982)	34,386
Benefits paid	(201,784)	(189,042)	(101,145)	(113,426)
Settlements	<u>(415,686)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Benefit obligation at end of year	<u>\$ 11,174,584</u>	<u>\$ 10,613,207</u>	<u>\$ 6,310,083</u>	<u>\$ 6,109,657</u>
Accumulated benefit obligation, end of year	<u>\$ 8,274,326</u>	<u>\$ 7,923,460</u>	<u>\$ 6,310,083</u>	<u>\$ 6,109,657</u>

The actuarial losses and gains for 2021 and 2020 are primarily due to adjustments to the discount rate to reflect current market conditions for an investment portfolio of high-quality debt instruments.

The changes in plan assets at December 31, 2021 and 2020, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Changes in plan assets:				
Fair value of plan assets, beginning of year	\$ 5,897,383	\$ 4,844,598	\$ -	\$ -
Actual return on plan assets	355,698	709,485	-	-
Contributions by reporting entity	532,342	532,342	82,365	90,266
Contributions by participants	-	-	18,780	23,160
Benefits paid	(201,784)	(189,042)	(101,145)	(113,426)
Settlements	<u>(415,686)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fair value of plan assets, end of year	<u>\$ 6,167,953</u>	<u>\$ 5,897,383</u>	<u>\$ -</u>	<u>\$ -</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The reconciliation of the funded status to the net amount recognized at December 31, 2021 and 2020 is as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Funded status:				
Components:				
Accrued benefit costs	\$ (1,660,494)	\$ (1,388,968)	\$ (5,536,851)	\$ (5,069,443)
Liability for benefits	<u>(3,346,137)</u>	<u>(3,326,856)</u>	<u>(773,232)</u>	<u>(1,040,214)</u>
Assets and liabilities recognized:				
Liabilities recognized	<u>\$ (5,006,631)</u>	<u>\$ (4,715,824)</u>	<u>\$ (6,310,083)</u>	<u>\$ (6,109,657)</u>

The liability for the underfunded status for pension and postretirement benefits is included in pension and postretirement benefit obligation on the statutory balance sheets as of December 31, 2021 and 2020.

The components of net periodic benefit costs at December 31, 2021 and 2020, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Components of net periodic benefit costs:				
Service cost	\$ 654,759	\$ 563,832	\$ 382,810	\$ 382,384
Interest cost	295,270	304,917	166,963	189,204
Expected return on plan assets	(324,143)	(261,593)	-	-
Recognized actuarial loss	<u>177,982</u>	<u>155,828</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 803,868</u>	<u>\$ 762,984</u>	<u>\$ 549,773</u>	<u>\$ 571,588</u>

The amounts in unassigned funds (surplus) recognized as components of net periodic benefit cost at December 31, 2021 and 2020, are as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Items not yet recognized as a component of net periodic cost - prior year	\$ 3,166,278	\$ 2,818,951	\$ 196,028	\$ 161,642
Net gain arising during the period	(177,982)	(155,828)	-	-
Net loss (gain) recognized	<u>197,263</u>	<u>503,155</u>	<u>(266,982)</u>	<u>34,386</u>
Items not yet recognized as a component of net periodic cost - current year	<u>\$ 3,185,559</u>	<u>\$ 3,166,278</u>	<u>\$ (70,954)</u>	<u>\$ 196,028</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

Estimated future benefit payments under the pension plan and postretirement plan as of December 31, 2021, which reflect expected future service, are as follows for years following December 31, 2021:

	Pension Plan	Postretirement Plan
Year Ending December 31:		
2022	\$ 172,797	\$ 94,391
2023	209,085	128,587
2024	244,918	155,808
2025	279,011	172,631
2026	316,130	199,425
2027 - 2031	2,244,501	1,399,373

Future benefit payments are estimated based on the same assumptions used to measure the benefit obligations of the plans as of December 31, 2021 and include estimated future employee service.

The following table presents the assumptions used in determining the benefit obligation for the pension plan and the postretirement plan as of December 31, 2021 and 2020:

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Weighted-average assumptions used in computing ending obligations:				
Discount rate	3.25 %	3.00 %	3.25 %	3.00 %
Rate of compensation increase	3.50 %	3.50 %	N/A	N/A
Weighted-average assumptions used in computing net cost:				
Discount rate	3.00 %	3.75 %	3.00 %	3.75 %
Rate of compensation increase	3.50 %	3.50 %	N/A	N/A
Expected return on plan assets	6.00 %	6.00 %	N/A	N/A
Assumed health care cost trends rate:				
Health care cost trend rate assumed for next year	N/A	N/A	6.25 %	6.25 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50 %	4.50 %
Year that the rate reached the ultimate trend rate	N/A	N/A	2026	2026

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The discount rate is determined each year as of the measurement date based on a review of interest rates associated with long-term high-quality corporate bonds. The discount rate is used in calculating the benefit obligation as of the measurement date and the net periodic benefit (income)/cost for the upcoming plan year.

The expected long-term return on assets is based on an evaluation of the historical behavior of the broad financial markets and the Association's investment portfolio, taking into consideration input from the plan's investment consultants and actuaries regarding expected long-term market conditions and investment management performance.

Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions is included as a component of net periodic benefit (income)/cost for a year.

Plan Assets

The members of the pension plan participate in a multiple-employer pension trust, IOPT. Plan assets are held in a single trust for all employers who participate in the plan. Each year, assets are allocated to the Association based on its historical contributions, benefit disbursements and share of investment return.

The asset allocation for the pension plan at the end of the Association's fiscal year, and the on-going target allocation, by asset category, follows:

	<u>Target</u>	<u>As of December 31, 2021</u>	<u>Target</u>	<u>As of December 31, 2020</u>
Asset category:				
Equity securities	50.0 %	50.5 %	50.0 %	52.5 %
Debt securities	50.0 %	48.6 %	50.0 %	45.9 %
Cash	<u>0.0 %</u>	<u>0.9 %</u>	<u>0.0 %</u>	<u>1.6 %</u>
Total	<u><u>100.0 %</u></u>	<u><u>100.0 %</u></u>	<u><u>100.0 %</u></u>	<u><u>100.0 %</u></u>

The pension plan's investment policy is set by the Trustees of the IOPT. The expected rate of return on plan assets was determined based on the average rate of return expected to be earned on the current and target asset categories.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

The following table summarizes the pension plan assets' fair value measurements at December 31, 2021 and 2020:

	2021				
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Net Asset Value (NAV)	Total Fair Value
Equity securities (a)	\$ -	\$ -	\$ -	\$ 3,114,817	\$ 3,114,817
Debt securities (a)	-	-	-	2,997,626	2,997,626
Cash (b)	-	-	-	55,510	55,510
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,167,953</u>	<u>\$ 6,167,953</u>

	2020				
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Net Asset Value (NAV)	Total Fair Value
Equity securities (a)	\$ -	\$ -	\$ -	\$ 3,096,128	\$ 3,096,128
Debt securities (a)	-	-	-	2,706,899	2,706,899
Cash (b)	-	-	-	94,356	94,356
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,897,383</u>	<u>\$ 5,897,383</u>

(a) Equity and debt securities consist of common collective funds which are valued at net asset value (NAV), as a practical expedient to measure fair value, based on the fair value of the underlying investments.

(b) Cash consists of money market funds, which are valued at NAV of shares held by the pension plan at year end.

The collective investment funds have no unfunded commitments. The Plan Administrator may withdraw money from the funds daily; however, they may be required to give a one year notice prior to redemption if the collective fund is invested primarily in assets that are not readily marketable. Short term investment funds have no unfunded commitments. The Plan Administrator may withdraw money from the funds daily; however, they may be required to give a 15 day notice prior to redemption. These funds are invested in a variety of debt and equity instruments, with a goal of providing resources to be available as payouts are required.

North Carolina Insurance Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

Cash Flows

The Association expects to contribute \$700,881 to its pension plan and \$94,391 to its postretirement plan in 2022.

Impact of Medical Modernization Act on Postretirement Benefits

The Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was enacted during 2003. The Act creates Medicare Part D, which could have some effect on the Association's obligations under the postretirement plan. Measures of the accumulated postretirement benefit obligation and the net periodic benefit cost recorded in these financial statements do not reflect any changes brought about by the Act because the Association is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

Defined Contribution Plan

The Association also offers an Employee Savings Plan to employees working at least 1,000 hours in a year. This plan is offered through a single employer arrangement with the Association matching 100% of employee contributions up to 6% of the employees' earnings. The employee is 100% vested in his or her contributions and earnings. The employee is 100% vested in the Association's contributions after completing three years of service. The Association's expense for the years ended December 31, 2021 and 2020, was \$299,376 and \$295,959 respectively.

North Carolina Insurance Underwriting Association

Reinsurance Summary Supplemental
Filing for General Interrogatory 9

As of December 31, 2021, the Association's reinsurance program does not include any contracts with risk limiting features identified in paragraphs 114 through 119 of Statement of Statutory Accounting Principle No. 62R¹, *Property and Casualty Reinsurance*.

¹ This statement applies to all reinsurance contracts entered into, renewed or amended on or after January 1, 1994.



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2021
(To Be Filed by April 1)

Of The North Carolina Insurance Underwriting Association.....
ADDRESS (City, State and Zip Code) Raleigh, NC 27607
NAIC Group Code 0000 NAIC Company Code 00000 Federal Employer's Identification Number (FEIN) 23-7102759

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement\$1,027,510,560

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	Federal National Mortgage Association	MBS	\$ 58,484,702	5.7 %
2.02	Athene Global Funding	Bonds	\$ 20,512,741	2.0 %
2.03	Apple Inc.	Bonds	\$ 12,933,878	1.3 %
2.04	Amazon.com, Inc.	Bonds	\$ 10,899,713	1.1 %
2.05	VMware, Inc.	Bonds	\$ 10,447,153	1.0 %
2.06	Bank of America Corporation	Bonds	\$ 10,000,000	1.0 %
2.07	Discover Card Execution Note Trust	ABS	\$ 9,998,046	1.0 %
2.08	Swedbank AB (publ)	Bonds	\$ 9,997,484	1.0 %
2.09	QUALCOMM Incorporated	Bonds	\$ 9,996,892	1.0 %
2.10	Pfizer Inc.	Bonds	\$ 9,957,200	1.0 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	Bonds		Preferred Stocks		
	1	2	3	4	
3.01	NAIC-1	\$ 636,101,604	61.9 %	3.07 P/RP-1	\$ %
3.02	NAIC-2	\$ 151,261,489	14.7 %	3.08 P/RP-2	\$ %
3.03	NAIC-3	\$	%	3.09 P/RP-3	\$ %
3.04	NAIC-4	\$	%	3.10 P/RP-4	\$ %
3.05	NAIC-5	\$	%	3.11 P/RP-5	\$ %
3.06	NAIC-6	\$	%	3.12 P/RP-6	\$ %

4. Assets held in foreign investments:

4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes [] No [X]

If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

4.02 Total admitted assets held in foreign investments \$64,538,8196.3 %

4.03 Foreign-currency-denominated investments \$ %

4.04 Insurance liabilities denominated in that same foreign currency \$ %

SUPPLEMENT FOR THE YEAR 2021 OF THE North Carolina Insurance Underwriting Association

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	<u>1</u>	<u>2</u>
5.01 Countries designated NAIC-1	\$ 64,538,819	6.3 %
5.02 Countries designated NAIC-2	\$	%
5.03 Countries designated NAIC-3 or below	\$	%

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	<u>1</u>	<u>2</u>
Countries designated NAIC - 1:		
6.01 Country 1: United Kingdom	\$ 12,511,607	1.2 %
6.02 Country 2: Japan	\$ 10,410,867	1.0 %
Countries designated NAIC - 2:		
6.03 Country 1:	\$	%
6.04 Country 2:	\$	%
Countries designated NAIC - 3 or below:		
6.05 Country 1:	\$	%
6.06 Country 2:	\$	%

	<u>1</u>	<u>2</u>
7. Aggregate unhedged foreign currency exposure	\$	%

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:

	<u>1</u>	<u>2</u>
8.01 Countries designated NAIC-1	\$	%
8.02 Countries designated NAIC-2	\$	%
8.03 Countries designated NAIC-3 or below	\$	%

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:

	<u>1</u>	<u>2</u>
Countries designated NAIC - 1:		
9.01 Country 1:	\$	%
9.02 Country 2:	\$	%
Countries designated NAIC - 2:		
9.03 Country 1:	\$	%
9.04 Country 2:	\$	%
Countries designated NAIC - 3 or below:		
9.05 Country 1:	\$	%
9.06 Country 2:	\$	%

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>
	Issuer	NAIC Designation		
10.01	Swedbank AB (publ)	1FE	\$ 9,997,485	1.0 %
10.02	B.A.T. International Finance p.l.c.	2FE	\$ 9,750,000	0.9 %
10.03	Banque Fédérative du Crédit Mutuel Société anonyme	1FE	\$ 8,991,548	0.9 %
10.04	Mitsubishi UFJ Financial Group, Inc.	1FE	\$ 8,010,867	0.8 %
10.05	Credit Suisse Group AG	2FE	\$ 6,909,794	0.7 %
10.06	Nordea Bank Abp	1FE	\$ 6,492,587	0.6 %
10.07	Macquarie Group Limited	1FE	\$ 4,950,000	0.5 %
10.08	Westpac Banking Corporation	1FE	\$ 4,274,931	0.4 %
10.09	Sumitomo Mitsui Financial Group, Inc.	1FE	\$ 2,400,000	0.2 %
10.10	HSBC HOLDINGS PLC FXD-FRN	1FE	\$ 1,700,000	0.2 %

SUPPLEMENT FOR THE YEAR 2021 OF THE North Carolina Insurance Underwriting Association

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 11.01 is yes, detail is not required for the remainder of interrogatory 11.

	<u>1</u>	<u>2</u>	
11.02 Total admitted assets held in Canadian investments	\$	%
11.03 Canadian-currency-denominated investments	\$	%
11.04 Canadian-denominated insurance liabilities	\$	%
11.05 Unhedged Canadian currency exposure	\$	%

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions:

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

	<u>1</u>	<u>2</u>	<u>3</u>	
12.02 Aggregate statement value of investments with contractual sales restrictions	\$	%
Largest three investments with contractual sales restrictions:				
12.03	\$	%
12.04	\$	%
12.05	\$	%

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

	<u>1</u>	<u>2</u>	<u>3</u>	
	Issuer			
13.02	\$	%
13.03	\$	%
13.04	\$	%
13.05	\$	%
13.06	\$	%
13.07	\$	%
13.08	\$	%
13.09	\$	%
13.10	\$	%
13.11	\$	%

SUPPLEMENT FOR THE YEAR 2021 OF THE North Carolina Insurance Underwriting Association

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 14.01 above is yes, responses are not required for 14.02 through 14.05.

	<u>1</u>		<u>2</u>		<u>3</u>	
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities .....	\$	.....		.....	%
	Largest three investments held in nonaffiliated, privately placed equities:					
14.03	.....	\$	.....		.....	%
14.04	.....	\$	.....		.....	%
14.05	.....	\$	.....		.....	%

Ten largest fund managers:

	<u>1</u>		<u>2</u>		<u>3</u>		<u>4</u>
	Fund Manager		Total Invested		Diversified		Nondiversified
14.06	\$	\$	\$
14.07	\$	\$	\$
14.08	\$	\$	\$
14.09	\$	\$	\$
14.10	\$	\$	\$
14.11	\$	\$	\$
14.12	\$	\$	\$
14.13	\$	\$	\$
14.14	\$	\$	\$
14.15	\$	\$	\$

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	<u>1</u>		<u>2</u>		<u>3</u>	
15.02	Aggregate statement value of investments held in general partnership interests .....	\$	.....		.....	%
	Largest three investments in general partnership interests:					
15.03	\$	%
15.04	\$	%
15.05	\$	%

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16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	Type (Residential, Commercial, Agricultural)		
16.02	\$ %
16.03	\$ %
16.04	\$ %
16.05	\$ %
16.06	\$ %
16.07	\$ %
16.08	\$ %
16.09	\$ %
16.10	\$ %
16.11	\$ %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans		
16.12	Construction loans	\$ %
16.13	Mortgage loans over 90 days past due	\$ %
16.14	Mortgage loans in the process of foreclosure	\$ %
16.15	Mortgage loans foreclosed	\$ %
16.16	Restructured mortgage loans	\$ %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan to Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$ %	\$ %	\$ %
17.02 91 to 95%.....	\$ %	\$ %	\$ %
17.03 81 to 90%.....	\$ %	\$ %	\$ %
17.04 71 to 80%.....	\$ %	\$ %	\$ %
17.05 below 70%.....	\$ %	\$ %	\$ %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

	1	2	3
	Description		
18.02	\$ %
18.03	\$ %
18.04	\$ %
18.05	\$ %
18.06	\$ %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

	1	2	3
19.02	Aggregate statement value of investments held in mezzanine real estate loans:	\$ %
	Largest three investments held in mezzanine real estate loans:		
19.03	\$ %
19.04	\$ %
19.05	\$ %

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20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	%	\$	\$	\$
20.02 Repurchase agreements	\$	%	\$	\$	\$
20.03 Reverse repurchase agreements	\$	%	\$	\$	\$
20.04 Dollar repurchase agreements	\$	%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	%	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned		Written	
	1	2	3	4
21.01 Hedging	\$	%	\$	%
21.02 Income generation	\$	%	\$	%
21.03 Other	\$	%	\$	%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
22.01 Hedging	\$	%	\$	\$	\$
22.02 Income generation	\$	%	\$	\$	\$
22.03 Replications	\$	%	\$	\$	\$
22.04 Other	\$	%	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year End		1st Quarter 3	At End of Each Quarter	
	1	2		2nd Quarter 4	3rd Quarter 5
23.01 Hedging	\$	%	\$	\$	\$
23.02 Income generation	\$	%	\$	\$	\$
23.03 Replications	\$	%	\$	\$	\$
23.04 Other	\$	%	\$	\$	\$

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage of Column 1 Line 13	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage of Column 5 Line 13
1. Long-Term Bonds (Schedule D, Part 1):						
1.01 U.S. governments	97,209,973	9.765	97,209,973		97,209,973	9.765
1.02 All other governments		0.000				0.000
1.03 U.S. states, territories and possessions, etc. guaranteed		0.000				0.000
1.04 U.S. political subdivisions of states, territories, and possessions, guaranteed		0.000				0.000
1.05 U.S. special revenue and special assessment obligations, etc. non-guaranteed	76,048,439	7.639	76,048,439		76,048,439	7.639
1.06 Industrial and miscellaneous	605,759,162	60.849	605,759,162		605,759,162	60.849
1.07 Hybrid securities		0.000				0.000
1.08 Parent, subsidiaries and affiliates		0.000				0.000
1.09 SVO identified funds		0.000				0.000
1.10 Unaffiliated Bank loans		0.000				0.000
1.11 Total long-term bonds	779,017,574	78.253	779,017,574		779,017,574	78.253
2. Preferred stocks (Schedule D, Part 2, Section 1):						
2.01 Industrial and miscellaneous (Unaffiliated)		0.000				0.000
2.02 Parent, subsidiaries and affiliates		0.000				0.000
2.03 Total preferred stocks		0.000				0.000
3. Common stocks (Schedule D, Part 2, Section 2):						
3.01 Industrial and miscellaneous Publicly traded (Unaffiliated)		0.000				0.000
3.02 Industrial and miscellaneous Other (Unaffiliated)		0.000				0.000
3.03 Parent, subsidiaries and affiliates Publicly traded		0.000				0.000
3.04 Parent, subsidiaries and affiliates Other		0.000				0.000
3.05 Mutual funds		0.000				0.000
3.06 Unit investment trusts		0.000				0.000
3.07 Closed-end funds		0.000				0.000
3.08 Total common stocks		0.000				0.000
4. Mortgage loans (Schedule B):						
4.01 Farm mortgages		0.000				0.000
4.02 Residential mortgages		0.000				0.000
4.03 Commercial mortgages		0.000				0.000
4.04 Mezzanine real estate loans		0.000				0.000
4.05 Total valuation allowance		0.000				0.000
4.06 Total mortgage loans		0.000				0.000
5. Real estate (Schedule A):						
5.01 Properties occupied by company		0.000				0.000
5.02 Properties held for production of income		0.000				0.000
5.03 Properties held for sale		0.000				0.000
5.04 Total real estate		0.000				0.000
6. Cash, cash equivalents and short-term investments:						
6.01 Cash (Schedule E, Part 1)	101,923,579	10.238	101,923,579		101,923,579	10.238
6.02 Cash equivalents (Schedule E, Part 2)	106,228,465	10.671	106,228,465		106,228,465	10.671
6.03 Short-term investments (Schedule DA)	8,345,519	0.838	8,345,519		8,345,519	0.838
6.04 Total cash, cash equivalents and short-term investments	216,497,563	21.747	216,497,563		216,497,563	21.747
7. Contract loans		0.000				0.000
8. Derivatives (Schedule DB)		0.000				0.000
9. Other invested assets (Schedule BA)		0.000				0.000
10. Receivables for securities		0.000				0.000
11. Securities Lending (Schedule DL, Part 1)		0.000		XXX	XXX	XXX
12. Other invested assets (Page 2, Line 11)		0.000				0.000
13. Total invested assets	995,515,137	100.000	995,515,137		995,515,137	100.000