

North Carolina Joint Underwriting Association

Audited Financial Statements - Statutory Basis

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

North Carolina Joint 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 Joint Underwriting Association

Opinions

We have audited the statutory financial statements of North Carolina Joint Underwriting Association (the Association), which comprise the balance sheets - statutory basis as of December 31, 2021 and 2020, and the related statutory basis statements of operations, changes in members' 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 members' 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 cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned in the middle-left area of the page.

Raleigh, North Carolina
March 25, 2022

North Carolina Joint Underwriting Association

Balance Sheets - Statutory Basis

As of December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Admitted assets		
Bonds	\$ 67,809,275	\$ 59,528,922
Cash, cash equivalents and short-term investments	<u>32,436,497</u>	<u>27,846,702</u>
Total cash and invested assets	100,245,772	87,375,624
Accrued investment income	306,963	320,857
Deferred premiums	14,320,805	12,072,661
Reinsurance recoverable on paid losses and loss adjustment expenses	1,804,000	2,143,288
EDP equipment and software	3,225	65,358
Receivable from affiliates	3,522,275	3,565,263
Other amounts receivable	<u>-</u>	<u>97</u>
Total admitted assets	<u>\$ 120,203,040</u>	<u>\$ 105,543,148</u>
Liabilities and members' surplus		
Liabilities		
Reserve for losses	\$ 11,735,768	\$ 9,935,874
Reserve for loss adjustment expenses	2,567,232	2,448,126
Commissions payable and other similar charges	1,910,063	1,651,334
Other expenses payable	1,748,217	1,879,974
Taxes, licenses and fees payable	470,866	280,170
Unearned premiums	66,723,915	57,963,304
Advanced premiums	2,621,699	2,196,641
Amounts withheld for account of others	291,611	119,378
Pension and postretirement benefit obligation	7,672,353	7,218,907
Other liabilities	<u>2,929,074</u>	<u>2,672,517</u>
Total liabilities	<u>98,670,798</u>	<u>86,366,225</u>
Members' surplus	<u>21,532,242</u>	<u>19,176,923</u>
Total liabilities and members' surplus	<u>\$ 120,203,040</u>	<u>\$ 105,543,148</u>

See accompanying notes to the statutory basis financial statements

North Carolina Joint Underwriting Association

Statements of Operations - Statutory Basis

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Underwriting gain (loss)		
Premiums earned	\$ 109,612,508	\$ 96,816,358
Deductions		
Losses incurred	61,796,909	67,541,317
Loss adjustment expenses incurred	10,840,363	12,123,075
Other underwriting expenses incurred	<u>36,416,068</u>	<u>33,084,855</u>
Total underwriting expenses	<u>109,053,340</u>	<u>112,749,247</u>
Net underwriting gain (loss)	<u>559,168</u>	<u>(15,932,889)</u>
Investment income		
Net investment income earned	377,327	551,348
Net realized capital gain	<u>20,510</u>	<u>21,362</u>
Net investment income	<u>397,837</u>	<u>572,710</u>
Other income	<u>431,663</u>	<u>367,988</u>
Net income (loss)	<u>\$ 1,388,668</u>	<u>\$ (14,992,191)</u>

See accompanying notes to the statutory basis financial statements

North Carolina Joint Underwriting Association

Statements of Changes in Members' Surplus - Statutory Basis

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Members' surplus, beginning of year	\$ 19,176,923	\$ 24,067,794
Net income (loss)	1,388,668	(14,992,191)
Change in net unrealized capital losses	81,040	(81,040)
Change in non-admitted assets	64,701	(179,231)
Change in minimum pension liability	820,910	292,601
Assessment to member companies, net	<u>-</u>	<u>10,068,990</u>
Members' surplus, end of year	<u>\$ 21,532,242</u>	<u>\$ 19,176,923</u>

See accompanying notes to the statutory basis financial statements

North Carolina Joint Underwriting Association

Statements of Cash Flows - Statutory Basis

Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash from (used in) operations		
Premiums collected, net of reinsurance	\$ 116,520,601	\$ 99,396,127
Net investment income received	874,543	1,002,031
Miscellaneous income	431,663	367,988
Benefits and loss related payments, net	(59,660,259)	(62,906,206)
Commissions and other underwriting expenses paid	<u>(46,819,657)</u>	<u>(45,211,824)</u>
Net cash from (used in) operations	<u>11,346,891</u>	<u>(7,351,884)</u>
Cash used in investments		
Proceeds from bonds sold, matured, or repaid	24,785,553	23,277,142
Cost of bonds acquired	<u>(33,447,678)</u>	<u>(30,692,009)</u>
Net cash used in investments	<u>(8,662,125)</u>	<u>(7,414,867)</u>
Cash from financing and miscellaneous sources		
Other cash provided	<u>1,905,029</u>	<u>9,619,501</u>
Net cash from financing and miscellaneous sources	<u>1,905,029</u>	<u>9,619,501</u>
Net change in cash and cash equivalents	4,589,795	(5,147,249)
Cash and cash equivalents, beginning of year	<u>27,846,702</u>	<u>32,993,951</u>
Cash and cash equivalents, end of year	<u>\$ 32,436,497</u>	<u>\$ 27,846,702</u>

See accompanying notes to the statutory basis financial statements

North Carolina Joint 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 Joint 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 fire, extended coverage and vandalism and malicious mischief coverage in the State of North Carolina. The Association, also known as the FAIR (Fair Access to Insurance Requirements) Plan, is a tax-exempt insurer of last resort created by law to provide adequate basic property insurance to property owners having insurable property in North Carolina. The Association is an association of insurance companies authorized to write basic 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 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 basic property insurance in North Carolina on a direct basis, except town and country mutual 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. Member Insurers share proportionately, based on premiums written, in the expenses, income and losses of the Association. 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.

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 members' 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 Joint 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 members' 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 members' 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 Joint 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 Joint 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. Premiums collected in advance of the effective date of policies are recorded as advanced 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.

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 reserve for losses and LAE precisely to its consulting actuary's central estimate as of December 31, 2021 and 2020. Although considerable variability is inherent in such estimates, management believes that the reserve for losses and LAE is adequate.

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 \$739,751 and \$580,771, respectively.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (Continued)

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 members' 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 members' 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 members' 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 Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note B - Insurance Activity

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

	2021		
	Direct	Ceded	Net
Premiums written	\$ 129,943,952	\$ (11,570,833)	\$ 118,373,119
Change in unearned premium	(8,760,611)	-	(8,760,611)
Premiums earned	\$ 121,183,341	\$ (11,570,833)	\$ 109,612,508
	2020		
	Direct	Ceded	Net
Premiums written	\$ 113,084,045	\$ (11,434,000)	\$ 101,650,045
Change in unearned premium	(4,833,687)	-	(4,833,687)
Premiums earned	\$ 108,250,358	\$ (11,434,000)	\$ 96,816,358

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

	2021	2020
Deferred premiums	\$ 14,394,781	\$ 12,117,205
Non-admitted premium balances	(73,976)	(44,544)
Admitted deferred premiums	\$ 14,320,805	\$ 12,072,661

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	\$ 12,384,000	\$ 11,581,001
Losses and LAE incurred related to:		
Current year	71,893,000	82,749,000
Prior years	744,272	(3,084,608)
Total incurred losses and LAE	72,637,272	79,664,392
Losses and LAE paid related to:		
Current year	(59,363,000)	(71,341,000)
Prior years	(11,355,272)	(7,520,393)
Total paid losses and LAE	(70,718,272)	(78,861,393)
Balance at December 31	\$ 14,303,000	\$ 12,384,000

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note B - Insurance Activity (Continued)

The estimated cost of losses and LAE attributable to insured events of prior years increased by \$744,272 in 2021 and decreased by \$3,084,608 in 2020, respectively. The 2021 increase is driven by higher than expected non-catastrophe loss activity for the 2017, 2019 and 2020 accident years. The 2020 decrease is primarily due to favorable loss trends, net of reinsurance, related to Hurricane Dorian and Hurricane Florence. 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.

The reserve for losses and LAE as of December 31, 2021 and 2020 have been offset by reinsurance recoverables amounting to \$719,000 and \$2,489,000, respectively. Amounts recovered pursuant to reinsurance agreements during the years ended December 31, 2021 and 2020 were \$2,138,594 and \$8,960,885, respectively.

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

The Association's unsecured reinsurance balances (including ceded case and incurred but not reported (IBNR) reserves, and ceded unearned premiums) with any one reinsurer in excess of 3% of members' surplus as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Berkshire Hathaway Specialty Insurance Company	\$ 732,250	\$ 1,344,440

The Association utilizes ceded reinsurance to limit insurance risk within its risk financing program. The Association's risk financing program also includes members' 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, includes Member Insurer assessments from \$15 million to \$115 million and reinsurance coverage from \$115 million to \$230 million. Potential losses above \$230 million could be covered by unlimited Member Insurer assessments.

The Association's risk financing program, effective May 1, 2020, for potential claims obligations that arise from May 1, 2020, to May 1, 2021, includes Member Insurer assessments from \$15 million to \$115 million and reinsurance coverage from \$115 million to \$260 million. Potential losses above \$260 million could be covered by unlimited Member Insurer assessments.

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.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note B - Insurance Activity (Continued)

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 \$1,910,063 and \$1,651,334, 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.

Note C - 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	\$ 2,908,749	\$ 77,270	\$ -	\$ 2,986,019
Federal agency mortgage-backed securities	7,549,502	35,948	135,821	7,449,629
Mortgage-backed securities	9,003,106	93,294	17,725	9,078,675
Other loan-backed securities	5,702,386	4,482	52,379	5,654,489
Corporate debt obligations	41,625,532	254,619	376,545	41,503,606
Special revenue obligations	1,020,000	24,610	-	1,044,610
Total bonds	<u>\$ 67,809,275</u>	<u>\$ 490,223</u>	<u>\$ 582,470</u>	<u>\$ 67,717,028</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	\$ 2,478,377	\$ 182,366	\$ -	\$ 2,660,743
Federal agency mortgage-backed securities	7,152,252	172,293	-	7,324,545
Mortgage-backed securities	9,391,686	297,805	22,576	9,666,915
Other loan-backed securities	5,846,124	142,295	127,874	5,860,545
Corporate debt obligations	33,640,483	878,156	-	34,518,639
Special revenue obligations	1,020,000	62,943	-	1,082,943
Total bonds	<u>\$ 59,528,922</u>	<u>\$ 1,735,858</u>	<u>\$ 150,450</u>	<u>\$ 61,114,330</u>

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - 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	\$ 6,476,480	\$ 6,487,736
In 2023-2026	35,584,389	35,593,535
In 2027-2031	3,067,030	3,009,275
Due after 2031	426,382	443,689
Federal agency mortgage-backed securities	7,549,502	7,449,629
Mortgage-backed securities	9,003,106	9,078,675
Other loan-backed securities	<u>5,702,386</u>	<u>5,654,489</u>
Total bonds	<u>\$ 67,809,275</u>	<u>\$ 67,717,028</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	\$ 6,918,460	\$ 2,616,850
Proceeds - maturity, calls, and paydowns	17,867,093	20,660,292
Gross gains on disposals	80,815	53,569
Gross losses on disposals	(60,305)	(32,207)

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	\$ 1,224,720	\$ 1,327,388
Cash and cash equivalents	<u>24,049</u>	<u>17,789</u>
Gross investment income	1,248,769	1,345,177
Investment expenses	<u>(871,442)</u>	<u>(793,829)</u>
Net Investment Income	<u>\$ 377,327</u>	<u>\$ 551,348</u>

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - 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	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Federal agency mortgage-backed securities	\$ 5,551,917	\$ 135,821	\$ -	\$ -	\$ 5,551,917	\$ 135,821
Mortgage-backed securities	4,121,943	17,725	-	-	4,121,943	17,725
Other loan-backed securities	4,556,830	52,379	-	-	4,556,830	52,379
Corporate debt obligations	25,504,179	376,545	-	-	25,504,179	376,545
Total bonds	<u>\$ 39,734,869</u>	<u>\$ 582,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,734,869</u>	<u>\$ 582,470</u>

	2020					
	Less than 12 Months		Greater than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities	\$ 656,690	\$ 1,552	\$ 994,939	\$ 21,024	\$ 1,651,629	\$ 22,576
Other loan-backed securities	1,687,527	127,874	-	-	1,687,527	127,874
Total bonds	<u>\$ 2,344,217</u>	<u>\$ 129,426</u>	<u>\$ 994,939</u>	<u>\$ 21,024</u>	<u>\$ 3,339,156</u>	<u>\$ 150,450</u>

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 two bonds with an NAIC rating of 3, which were carried at fair value due to amortized cost exceeding fair value. The change in net unrealized capital losses for those bonds of \$81,040 is presented in the statutory statements of changes in members' surplus.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note C - 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	\$ -	\$ 67,717,028	\$ -	\$ 67,717,028

	2020			
	Level 1	Level 2	Level 3	Fair value
Bonds	\$ -	\$ 61,114,330	\$ -	\$ 61,114,330

Note D - Debt

The Association entered into a credit agreement on July 1, 2021 that is effective through June 29, 2022. A previous credit agreement was executed on July 1, 2020 and was effective through June 30, 2021. Under the credit agreements, the Association has access to a limited purpose revolving line of credit loan in the amount up to \$100,000,000. The purpose of these executed agreements 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 Insurance Underwriting Association (NCIUA), 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 NCIUA 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 \$100,000,000. 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) +1.00%. For any outstanding loan amounts related to the previous credit agreement, interest would accrue at a variable rate of one-month LIBOR + 1.75%. 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 or 2020. As of December 31, 2021 and 2020, the Association did not have any outstanding balances in relation to the line of credit.

Note E - Assessment of Member Insurers

The Association made no assessments during 2021. In August 2020, the Association assessed \$26,563,752 to Member Insurers due to the impact of Hurricane Isaias and several smaller catastrophic events. In November 2020, an assessment refund of \$16,494,762 to Member Insurers was approved to return excess assessment funds related to the 2019 Hurricane Dorian assessment. As of December 31, 2021 and 2020, the Association had collected all assessments from its Member Insurers and issued all assessment refunds.

North Carolina Joint 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	\$ 19,386,390	\$ 16,763,272
Board, bureaus and associations	149,915	143,667
Surveys and underwriting reports	11,587	17,418
Salaries and related items	4,560,771	4,809,967
Employee relations and welfare	2,815,524	2,765,327
Insurance	90,341	84,199
Directors' fees	49,054	12,652
Travel and travel items	13,745	12,854
Rent and rent items	541,097	571,779
Cost or depreciation of EDP equipment and software	126,662	575,239
Printing and stationery	103,368	142,996
Postage and telephone	442,647	454,421
Legal and auditing	200,312	217,228
Taxes, licenses and fees	3,641,539	3,170,673
Real estate taxes	4,674	7,213
Other miscellaneous expenses	<u>4,278,442</u>	<u>3,335,950</u>
Other underwriting expenses incurred	<u>\$ 36,416,068</u>	<u>\$ 33,084,855</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	\$ 339,865	\$ 317,585	\$ 22,280
Property and equipment	573,430	692,243	(118,813)
Deferred premiums	73,976	44,544	29,432
Other receivables	<u>4,001</u>	<u>1,601</u>	<u>2,400</u>
Totals	<u>\$ 991,272</u>	<u>\$ 1,055,973</u>	<u>\$ (64,701)</u>

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note H - Related-Party Transactions

A related organization, NCIUA, 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 NCIUA. Most expenses are allocated between the two parties with 48% allocated to the Association and the remainder to NCIUA 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 receivable from NCIUA of \$3,522,275 and \$3,565,263, respectively.

Note I - Capital and Members' Surplus

Under North Carolina insurance regulations, the Association is not required to maintain a minimum capital and members' 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 members' surplus at December 31, 2021 and 2020, were as follows:

	<u>2021</u>	<u>2020</u>
Net assessment of Member Insurers	\$ 177,235,125	\$ 177,235,125
Non-admitted assets	(991,272)	(1,055,973)
Net unrealized capital losses	-	(81,040)

Note J - Commitments and Contingencies

The Association and NCIUA jointly rent home office facilities under an operating lease agreement, which has an expiration in calendar year 2029. The Association was allocated 48% 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 \$623,573 and \$569,506 in the years ended December 31, 2021 and 2020, respectively. The Association also leases certain equipment jointly with NCIUA.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note J - Commitments and Contingencies (Continued)

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

<u>Year</u>	<u>Amount</u>
2022	\$ 648,968
2023	648,038
2024	562,081
2025	515,611
2026 and after	<u>1,770,451</u>
	<u>\$ 4,145,149</u>

The Association and NCIUA 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.

Note K - Employee Benefit Plans

Pension Benefits

The Association and NCIUA 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 48% of their allocated costs associated with their participation in the plan under the current cost-sharing arrangement with NCIUA.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

Postretirement Benefits

In addition to pension benefits, the Association and NCIUA 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.

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

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Benefit obligation at beginning of year	\$ 7,204,628	\$ 5,699,316	\$ 3,935,500	\$ 3,459,462
Service cost	604,393	520,460	353,364	352,969
Interest cost	272,556	281,462	154,119	174,650
Contributions by plan participants	-	-	17,335	21,379
Actuarial loss (gain)	211,217	877,890	(246,444)	31,741
Benefits paid	(186,263)	(174,500)	(93,365)	(104,701)
Settlements	(383,711)	-	-	-
Benefit obligation at end of year	<u>\$ 7,722,820</u>	<u>\$ 7,204,628</u>	<u>\$ 4,120,509</u>	<u>\$ 3,935,500</u>
Accumulated benefit obligation, end of year	<u>\$ 7,637,840</u>	<u>\$ 7,313,964</u>	<u>\$ 4,120,509</u>	<u>\$ 3,935,500</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.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

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	\$ 3,921,221	\$ 2,949,417	\$ -	\$ -
Actual return on plan assets	328,336	654,911	-	-
Contributions by reporting entity	491,393	491,393	76,030	83,322
Contributions by participants	-	-	17,335	21,379
Benefits paid	(186,263)	(174,500)	(93,365)	(104,701)
Settlements	<u>(383,711)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fair value of plan assets, end of year	<u>\$ 4,170,976</u>	<u>\$ 3,921,221</u>	<u>\$ -</u>	<u>\$ -</u>

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	\$ (1,532,763)	\$ (1,282,125)	\$ (5,110,939)	\$ (4,679,486)
(Liability) asset for benefits	<u>(2,019,081)</u>	<u>(2,001,282)</u>	<u>990,430</u>	<u>743,986</u>
Assets and liabilities recognized:				
Liabilities recognized	<u>\$ (3,551,844)</u>	<u>\$ (3,283,407)</u>	<u>\$ (4,120,509)</u>	<u>\$ (3,935,500)</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	\$ 604,393	\$ 520,460	\$ 353,364	\$ 352,969
Interest cost	272,556	281,462	154,119	174,650
Expected return on plan assets	(299,209)	(241,471)	-	-
Recognized actuarial loss	<u>164,291</u>	<u>143,842</u>	<u>-</u>	<u>-</u>
Net periodic benefit cost	<u>\$ 742,031</u>	<u>\$ 704,293</u>	<u>\$ 507,483</u>	<u>\$ 527,619</u>

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

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

	Pension Benefits		Postretirement Benefits	
	2021	2020	2021	2020
Items not yet recognized as a component of net periodic cost - prior year	\$ 2,161,861	\$ 1,841,253	\$ 100,198	\$ 68,457
Net gain arising during the period	(164,291)	(143,842)	-	-
Net loss (gain) recognized	182,090	464,450	(246,444)	31,741
Items not yet recognized as a component of net periodic cost - current year	<u>\$ 2,179,660</u>	<u>\$ 2,161,861</u>	<u>\$ (146,246)</u>	<u>\$ 100,198</u>

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	\$ 159,504	\$ 87,131
2023	193,001	118,695
2024	226,079	143,822
2025	257,549	159,351
2026	291,812	184,085
2027 - 2031	2,071,848	1,291,728

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.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

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

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.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

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>	As of <u>December 31, 2021</u>	<u>Target</u>	As of <u>December 31, 2020</u>
Asset category:				
Equity securities	50.00 %	50.50 %	50.00 %	52.50 %
Debt securities	50.00 %	48.60 %	50.00 %	45.90 %
Cash	0.00 %	0.90 %	0.00 %	1.60 %
Total	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</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.

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

	<u>2021</u>				
	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)	\$ -	\$ -	\$ -	\$ 2,106,342	\$ 2,106,342
Debt securities (a)	-	-	-	2,027,094	2,027,094
Cash (b)	-	-	-	37,540	37,540
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,170,976</u>	<u>\$ 4,170,976</u>

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

	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)	\$ -	\$ -	\$ -	\$ 2,058,641	\$ 2,058,641
Debt securities (a)	-	-	-	1,799,840	1,799,840
Cash (b)	-	-	-	62,740	62,740
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,921,221</u>	<u>\$ 3,921,221</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.

Cash Flows

The Association expects to contribute \$646,968 to its pension plan and \$87,131 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.

North Carolina Joint Underwriting Association

Notes to Statutory Basis Financial Statements (Continued)

Note K - Employee Benefit Plans (Continued)

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 \$276,347 and \$273,193, respectively.

North Carolina Joint 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 Joint 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) 56-1222676

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\$120,203,040

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

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	Federal National Mortgage Association	MBS	\$ 7,549,502	6.3 %
2.02	Athene Global Funding	Bonds	\$ 1,824,087	1.5 %
2.03	JPMorgan Chase & Co.	Bonds	\$ 1,563,200	1.3 %
2.04	Onemain Financial Issuance Trust 2021-1	ABS	\$ 1,499,640	1.2 %
2.05	Hyundai Capital America, Inc.	Bonds	\$ 1,498,713	1.2 %
2.06	Protective Life Global Funding	Bonds	\$ 1,426,102	1.2 %
2.07	Bank of America Corporation	Bonds	\$ 1,278,700	1.1 %
2.08	AbbVie Inc.	Bonds	\$ 1,250,132	1.0 %
2.09	Benchmark 2018-B2 Mortgage Trust	MBS	\$ 1,231,287	1.0 %
2.10	Guardian Life Global Funding	Bonds	\$ 1,208,186	1.0 %

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

	Bonds	1	2	Preferred Stocks	3	4
3.01	NAIC-1	\$ 53,277,769	44.3 %	3.07 P/RP-1	\$	%
3.02	NAIC-2	\$ 15,290,189	12.7 %	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..... \$ 4,784,390 4.0 %

4.03 Foreign-currency-denominated investments \$ %

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

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

	<u>1</u>	<u>2</u>
5.01 Countries designated NAIC-1	\$ 4,784,390	4.0 %
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: Australia	\$ 1,127,066	0.9 %
6.02 Country 2: Japan	\$ 1,083,234	0.9 %
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	Banque Fédérative du Crédit Mutuel Société Anonyme	1FE	\$ 999,061	0.8 %
10.02	Mitsubishi UFJ Financial Group, Inc.	1FE	\$ 783,234	0.7 %
10.03	Macquarie Group Limited	1FE	\$ 710,000	0.6 %
10.04	Credit Suisse Group AG	2FE	\$ 575,816	0.5 %
10.05	Swedbank AB (publ)	1FE	\$ 499,783	0.4 %
10.06	Nordea Bank Abp	1FE	\$ 499,430	0.4 %
10.07	Westpac Banking Corporation	1FE	\$ 417,066	0.3 %
10.08	Sumitomo Mitsui Financial Group, Inc.	1FE	\$ 300,000	0.2 %
10.09	\$	%
10.10	\$	%

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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	\$	%

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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	2,908,749	2.902	2,908,749		2,908,749	2.902
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	8,569,502	8.548	8,569,502		8,569,502	8.548
1.06 Industrial and miscellaneous	56,331,024	56.193	56,331,024		56,331,024	56.193
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	67,809,275	67.643	67,809,275		67,809,275	67.643
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)	21,671,190	21.618	21,671,190		21,671,190	21.618
6.02 Cash equivalents (Schedule E, Part 2)	10,006,623	9.982	10,006,623		10,006,623	9.982
6.03 Short-term investments (Schedule DA)	758,684	0.757	758,684		758,684	0.757
6.04 Total cash, cash equivalents and short-term investments	32,436,497	32.357	32,436,497		32,436,497	32.357
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	100,245,772	100.000	100,245,772		100,245,772	100.000