

North Carolina Insurance Underwriting Association

Statutory Financial Statements and Supplemental Schedules
(With Independent Auditor's Report Thereon)
December 31, 2016 and 2015

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RSM US LLP

Independent Auditor's Report

The Board of Directors
North Carolina Insurance Underwriting Association
Cary, North Carolina

Report on the Financial Statements

We have audited the accompanying statutory financial statements of North Carolina Insurance Underwriting Association (Association), which comprise the statutory statements of admitted assets, liabilities and surplus of North Carolina Insurance Underwriting Association as of December 31, 2016 and 2015, and the related statutory statements of operations and changes in surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the North Carolina Department of Insurance; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

As described in Note 1 to the financial statements, North Carolina Insurance Underwriting Association prepared these financial statements using accounting practices prescribed or permitted by the North Carolina Department of Insurance, 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 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of North Carolina Insurance Underwriting Association as of December 31, 2016 and 2015, or the results of its operations or its cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the statutory financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of North Carolina Insurance Underwriting Association as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Report on the Supplemental Schedules

Our audit was conducted for the purpose of forming an opinion on the basic statutory financial statements taken as a whole. The accompanying summary investment schedule as of December 31, 2016, and supplemental investment risks and reinsurance interrogatories as of December 31, 2016, and for the year then ended (Supplemental Schedules) are presented for purposes of additional analysis and are not a required part of the basic statutory financial statements. 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 statutory financial statements. The effects on the Supplemental Schedules of the variances between the statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, is presumed to be material. As a consequence, the Supplemental Schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Association as of December 31, 2016, and for the year then ended. The Supplemental Schedules have been subjected to the auditing procedures applied in the audit of the statutory financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory financial statements or to the statutory financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules are fairly stated in all material respects in relation to the statutory financial statements taken as a whole.

RSM US LLP

Greensboro, North Carolina
April 7, 2017

North Carolina Insurance Underwriting Association

**Statutory Statements of Admitted Assets, Liabilities and Surplus
December 31, 2016 and 2015**

	2016	2015
Admitted Assets		
Cash, cash equivalents and short-term investments	\$ 104,600,282	\$ 332,853,258
Bonds, at prescribed value	1,407,158,149	1,021,557,787
Cash and invested assets	1,511,758,431	1,354,411,045
Interest income due and accrued	7,426,603	6,552,067
Premiums receivables	23,669,431	22,975,343
Data processing equipment at cost, less accumulated depreciation of \$1,243,570 and \$996,598 in 2016 and 2015, respectively	529,156	214,416
Total admitted assets	\$ 1,543,383,621	\$ 1,384,152,871
Liabilities and Surplus		
Liabilities:		
Unpaid losses	\$ 23,765,666	\$ 3,764,641
Unpaid loss adjustment expenses	4,209,720	958,094
Net due to North Carolina Joint Underwriting Association	1,713,691	678,412
Unearned premiums	183,489,320	191,053,288
Advance premiums	10,903,156	11,346,285
Accounts payable and accrued expenses	14,437,549	12,172,059
Total liabilities	238,519,102	219,972,779
Commitments and contingencies		
Surplus	1,304,864,519	1,164,180,092
Total liabilities and surplus	\$ 1,543,383,621	\$ 1,384,152,871

See notes to statutory financial statements.

North Carolina Insurance Underwriting Association

**Statutory Statements of Operations and Changes in Surplus
Years Ended December 31, 2016 and 2015**

	2016	2015
Direct premiums written	\$ 368,595,534	\$ 387,213,284
Change in unearned premiums	7,563,968	10,412,236
Ceded reinsurance premiums	<u>(92,609,359)</u>	<u>(129,388,546)</u>
Net earned premiums	<u>283,550,143</u>	<u>268,236,974</u>
Underwriting expenses:		
Losses incurred	81,541,623	17,232,906
Loss adjustment expenses incurred	16,806,153	7,893,650
Commissions	47,820,205	50,326,427
Salaries and benefits	5,573,832	5,237,043
Insurance taxes, licenses and fees	10,576,992	11,113,538
Other underwriting expenses	<u>3,732,424</u>	<u>2,939,729</u>
Total underwriting deductions	<u>166,051,229</u>	<u>94,743,293</u>
Net underwriting gain	117,498,914	173,493,681
Other income	355,497	395,166
Investment income	<u>27,877,224</u>	<u>19,012,434</u>
Net income	145,731,635	192,901,281
Surplus:		
Beginning	1,164,180,092	977,211,165
Change in minimum pension liability	294,551	(317,494)
Change in nonadmitted assets	<u>(5,341,759)</u>	<u>(5,614,860)</u>
Ending	<u>\$ 1,304,864,519</u>	<u>\$ 1,164,180,092</u>

See notes to statutory financial statements.

North Carolina Insurance Underwriting Association

**Statutory Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	2016	2015
Cash flows from operations:		
Premiums collected net of reinsurance	\$ 274,788,398	\$ 259,272,649
Losses and loss adjustment expenses paid	(75,095,125)	(28,886,022)
Net investment income	27,813,061	24,482,225
Underwriting expenses paid	(66,393,136)	(70,721,027)
Net cash provided by operations	161,113,198	184,147,825
Cash flows from investments:		
Cost of long-term investments acquired:		
Bonds and other debt instruments	(944,762,898)	(495,917,169)
Proceeds from investments sold, matured or repaid:		
Bonds and other debt instruments	558,713,684	352,908,489
Net cash used in investments	(386,049,214)	(143,008,680)
Cash flows from financing and miscellaneous sources:		
Other cash applied	(3,316,960)	(3,070,877)
Net (decrease) increase in cash, cash equivalents and short-term investments	(228,252,976)	38,068,268
Cash, cash equivalents and short-term investments:		
Beginning	332,853,258	294,784,990
Ending	\$ 104,600,282	\$ 332,853,258

See notes to statutory financial statements.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

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 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 who are authorized to write and engage in writing essential property insurance in North Carolina on a direct basis, except town and county 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. 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 event or series of 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 Association's 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 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.

A summary of the Association's significant accounting policies is as follows:

Risk and uncertainties: Certain risks and uncertainties are inherent in the Association's day to day operations and to the process of preparing its statutory financial statements. The more significant of those risks and uncertainties are presented below and throughout the notes to the statutory financial statements.

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

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Loss reserves: The Association estimates loss and loss adjustment expenses after consultation with the Association's independent actuary. These amounts are recorded net of estimated recoveries for reinsurance ceded. Actual results could differ from these estimates.

Reinsurance: Reinsurance contracts do not relieve the Association from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Association; consequently, allowances are established for amounts deemed to be uncollectible, when necessary. The Association evaluates the financial condition of its reinsurers to minimize exposure to significant losses from reinsurer insolvencies. Management believes that any liabilities arising from this contingency would not be material to the Association's financial position.

Risk-based capital: The National Association of Insurance Commissioners (NAIC) has developed property-casualty risk-based capital (RBC) standards that relate an insurer's reported statutory surplus to the risks inherent in its overall operations. The RBC formula uses the statutory annual statement to calculate the minimum indicated capital level to protect the Association from the various risks that it faces. The NAIC model law calls for various levels of regulatory action based on the magnitude of an indicated RBC capital deficiency, if any. The Association continues to monitor its internal capital requirements and the NAIC's RBC requirements. The Association has determined that its capital levels are in excess of the minimum capital requirements for all RBC action levels. Management believes that the Association's capital levels are sufficient to support the level of risk inherent in its operations.

Investments: The Association is exposed to risks that issuers of securities owned by the Association will default or that interest rates will change and cause a decrease in the value of the Association's investments. With Federal mortgage-backed securities, the Association is exposed to prepayment risk. As interest rates decline, the rate at which these securities pay down principal will generally increase.

Management mitigates these risks by conservatively investing in high-grade securities and by matching estimated maturities of its investments with the anticipated payouts of its liabilities.

Basis of presentation: At the direction of the Commissioner of Insurance of the State of North Carolina, the Association presents its financial statements on the basis of accounting practices prescribed or permitted by the North Carolina Department of Insurance. The State of North Carolina has adopted the SAP as the basis of its statutory accounting practices. There are no state prescribed or permitted practices that differ from NAIC's statutory accounting practices (SAP) that affect items in these financial statements.

Accounting practices and procedures of the NAIC as prescribed or permitted by the insurance department of the applicable state of an insurance company's domicile comprise a financial reporting framework other than accounting principles generally accepted in the United States of America (GAAP). The more significant differences between NAIC practices SAP and GAAP are as follows:

- Investments in bonds and other debt instruments are generally reported at amortized cost, unless required to be reported at fair value by NAIC regulations. Under GAAP, investments in debt securities are designated at purchase as held-to-maturity, trading securities or available-for-sale. Held-to-maturity debt securities are reported at amortized cost, less applicable valuation allowances, and other debt securities are reported at fair value under GAAP. For debt securities designated as trading, unrealized holding gains and losses are reported in operations and for those designated as available-for-sale, unrealized holding gains and losses are reported as a separate component of equity under GAAP.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

- For loan-backed and structured securities, if the Association determines that it intends to sell a security or no longer has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security shall be written down to fair value. For statutory purposes, if the Association subsequently changes its assertion, and now believes it does not intend to sell the security and has the ability and intent to retain the investment for a period of time sufficient to recover the amortized cost, that security will continue to be carried at the lower of cost or market with any future decreases in fair value charged through operations until the security is disposed. For GAAP purposes, once the Association alters its assertion, the securities' amortized cost basis will not be decreased for future reductions in fair value unless an other-than-temporary impairment is determined to have occurred.
- For GAAP purposes, other-than-temporary impairment losses (related to non loan-backed and structured securities) related to debt securities are bifurcated between credit and non-credit with credit losses reported in operations and non-credit reported as a component of equity, whereas for statutory purposes the total other-than-temporary impairment loss is reported in operations.
- Commissions, premium taxes and other costs relating to the acquisition, issuance and renewal of policies are charged to operations as incurred. Under GAAP, such costs, to the extent recoverable, are deferred and amortized over the term of the policy.
- Certain assets, described as nonadmitted, are excluded by direct charges to surplus. In accordance with GAAP, such assets are recorded on the balance sheet, net of valuation allowances.
- Comprehensive income is not determined for SAP; whereas for GAAP, such income is determined.
- Assets and liabilities related to insurance and reinsurance activities are netted in financial statements prepared on the basis of SAP. Under GAAP, those assets and liabilities would be reported at their gross amounts.
- Under SAP, cash, cash equivalents and short-term investments represent cash balances and investments with an initial maturity of one year or less. Under GAAP, the corresponding caption of cash and cash equivalents include cash balances and investments with an initial maturity of three months or less. Further, under GAAP, the statement of cash flows requires a reconciliation of net income to net cash from operations.

Cash, cash equivalents and short-term investments: Cash constitutes a medium of exchange that a bank will accept for deposit and allow an immediate credit to the depositor's account. Cash equivalents are also classified as cash for financial statement purposes, although they do not fall within the above description of cash. Examples include savings accounts and certificates of deposit in banks and other similar institutions with maturity dates of three months or less from the date of acquisition. At times cash deposits with a financial institution may exceed federally insured limits. The Association has not experienced any credit losses related to such deposits, and its management is not aware of any events or circumstances which would raise doubt about the ongoing solvency of the institution.

Investments with remaining maturities of one year or less at the time of acquisition (excluding those investments defined as cash equivalents above) are considered short-term investments. From time to time, the Association holds investments in money market instruments that are reported in accordance with the guidance in the NAIC, *Purposes and Procedures of the Securities Valuation Office (SVO)*, which is generally the reported net asset value.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Investments: Bonds are reported at amortized cost in the accompanying statutory financial statements. Amortization is computed using the scientific (interest) method. Prepayment assumptions for asset-backed securities were obtained from broker dealer survey values or internal estimates. Realized gains and losses on sales of investments are recognized in the statutory statements of operations on a specific-identification basis. Declines in fair value that are considered other-than-temporary are charged to realized losses, and the cost of the investment is adjusted to estimated fair value in the period when the determination is made. In determining whether these losses are expected to be temporary, the Association considers severity of impairment, duration of impairment, forecasted market price recovery and the intent and ability of the Association to hold the investment until the market price has recovered.

For loan-backed or structured securities, factors considered by management in determining whether an other-than-temporary impairment exists include the Association's stated intent to not sell, the Association's ability to hold such investments until the fair value recovers, and the discounted cash flows of the security based on the yield at the date of acquisition. If the Association intends to sell or if the Association does not have the ability and intent to hold the security for a period of time sufficient to recover its amortized cost basis, an other-than-temporary impairment exists, and the security is written down to fair value with the amount of the write-down recorded as a realized loss. If the Association does not intend to sell the security and has the ability and intent to hold the security for a period of time sufficient to recover the amortized cost basis, the Association calculates the cash flows expected to be collected. In this calculation, the Association compares the present value of cash flows expected to be collected, discounted at the security's effective interest rate at date of purchase, to the amortized cost basis. If the present value of cash flows is less than the amortized cost basis, a realized loss is recorded for the difference. The present value of cash flows then becomes the new cost basis.

Accrued investment income: The Association nonadmits investment income due and accrued if amounts are over 90 days past due. As of December 31, 2016 and 2015, the Association had no income due or accrued over 90 days past due.

Premiums in course of collection: The Association records premiums in course of collection at total unpaid balance, which approximates estimated fair value, net of any nonadmitted receivables. The Association determines past due status of individual accounts receivable based on the effective date of the policy and generally does not charge interest on past due amounts. Premiums that management believes to be ultimately not collectible are written off upon such determination. Any premiums considered to be past due 90 days or more are nonadmitted.

Data processing equipment: Data processing equipment is carried at cost less accumulated depreciation. The Association provides for depreciation on these assets using the straight-line method over three to five years. Depreciation expense was \$246,972 and \$187,315 for the years ended December 31, 2016 and 2015, respectively. Maintenance and repairs are charged to expense as incurred.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Nonadmitted assets: Certain assets designated as nonadmitted assets have been charged directly to surplus. Amounts related to nonadmitted assets for the years ended December 31, 2016 and 2015, are as follows:

	2016	2015
Furniture and equipment, less accumulated depreciation of \$1,041,920 and \$901,561 in 2016 and 2015, respectively	\$ 256,189	\$ 461,141
Prepaid expenses	29,650	58,038
Prepaid assets	11,375,735	5,800,636
	<u>\$ 11,661,574</u>	<u>\$ 6,319,815</u>

Depreciation on nonadmitted assets (furniture and equipment) is computed by applying the straight-line method over the estimated useful lives of the related assets. Estimated lives are three to five years for furniture and equipment. This depreciation expense of \$140,359 and \$155,299 for the years ended December 31, 2016 and 2015, respectively, is reflected in the statutory statements of operations and changes in surplus.

Reserves for losses and loss adjustment expenses: Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and, while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the period determined.

Establishing liabilities for claims is subject to significant uncertainties that make reserve estimation difficult. In establishing liabilities for claims, the Association considers all pertinent information as it becomes available and establishes incurred but not reported reserves where appropriate. Although the reserves are deemed adequate to cover all probable claims, there is a possibility that adverse development from prior accident years could occur in the future.

Estimates for catastrophic events are inherently more uncertain than those for non-catastrophic losses due to the unique circumstances involving a catastrophe. Due to the low frequency of historical catastrophic events, standard actuarial loss development methods are difficult to apply and may result in a wider range of estimates of ultimate catastrophic losses. Therefore, material changes to estimates related to these events are reasonably possible in the near term after these events occur and are reflected in operations as more information becomes available.

Reinsurance: Reinsurance premiums and liabilities related to reinsurance ceded are accounted for on a basis consistent with that used in accounting for the original policies issued by the Association and the terms of the reinsurance contracts. Premiums and losses on reinsurance ceded are reported as reductions of premiums earned and losses and loss adjustment expenses incurred, respectively, in the statutory statements of operations and changes in surplus.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Member participation: Each Member Insurer's participation in the Association's operations is in proportion to its member's 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. Special assessments are also permitted for large unanticipated losses.

Premiums and related commissions: Premiums are earned over the periods covered by the policies on a daily pro-rata basis. Unearned premium reserves are established to cover the unexpired portion of premiums written. Expenses incurred related to the acquisition of new insurance business, including such acquisition costs as commissions, premium taxes and other underwriting expenses, are charged to expense when incurred. When the Association receives premium payments from policyholders prior to the effective date of the related policy, the Association records an advance premiums liability. On the policy effective date, the Association reduces the advance premium liability and records written premium.

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.

Note 2. Exposure to Coastal Properties

Although the Association has experienced a decrease in both policy count and exposure in the current year, the Association has significant exposure to coastal properties which have a higher risk of catastrophic events. During 2016, both policy count and aggregate exposure decreased 5.9% to 216,641 and \$81.5 billion, respectively. During 2015, both policy count and aggregate exposure decreased 2.7% to 230,254 and \$88.6 billion, respectively.

In the event of losses and expenses to the Association exceeding available surplus, the Association is authorized to issue a non-recoupable assessment upon its members in accordance with its Plan of Operation. Member Insurer assessments shall not exceed one billion dollars (\$1,000,000,000) for losses incurred from any event or series of events that occur in a given calendar year, regardless of when such assessments are actually levied on or collected from member companies. Any assessment levied on Member Insurers by the Association (as ordered by the Association's Board of Directors) generally is due from the Member Insurers within 30 days of assessment.

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, then 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.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 3. Bonds

Amortized cost (admitted amount), aggregate fair value and gross unrealized gains and losses pertaining to the portfolio of bonds as of December 31, 2016 and 2015, are as follows:

	2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury obligations	\$ 437,008,438	\$ 6,067,426	\$ (3,807,964)	\$ 439,267,900
Federal agency obligations	162,781,622	5,412,605	(660,087)	167,534,140
Federal agency mortgage- backed securities	68,710,472	635,096	(1,156,807)	68,188,761
Commercial mortgage-backed securities	77,264,805	-	(1,846,862)	75,417,943
Other loan-backed securities	121,761,290	-	(1,060,760)	120,700,530
Corporate debt	539,631,522	74,522	(10,932,191)	528,773,853
	<u>\$ 1,407,158,149</u>	<u>\$ 12,189,649</u>	<u>\$ (19,464,671)</u>	<u>\$ 1,399,883,127</u>

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Treasury obligations	\$ 488,046,665	\$ 8,064,244	\$ (1,571,359)	\$ 494,539,550
Federal agency obligations	498,529,073	7,435,574	(955,672)	505,008,975
Federal agency mortgage- backed securities	34,982,049	1,184,649	(176,567)	35,990,131
	<u>\$ 1,021,557,787</u>	<u>\$ 16,684,467</u>	<u>\$ (2,703,598)</u>	<u>\$ 1,035,538,656</u>

Amortized cost and aggregate fair value of bonds held as of December 31, 2016 and 2015, according to final contractual maturity dates, are as indicated below. Actual future maturities will differ from the maturities shown because certain issuers have the right to call or prepay obligations.

	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts due in less than one year	\$ 120,167,475	\$ 120,526,600	\$ 142,042,479	\$ 142,416,650
Amounts due after one year through five years	972,808,832	970,619,368	530,602,820	533,543,845
Amounts due after five years through ten years	150,697,307	149,079,101	212,967,579	222,918,338
Amounts due after ten years	163,484,535	159,658,058	135,944,909	136,659,823
	<u>\$ 1,407,158,149</u>	<u>\$ 1,399,883,127</u>	<u>\$ 1,021,557,787</u>	<u>\$ 1,035,538,656</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 3. Bonds (Continued)

The following table shows unrealized gross losses and fair value, for the Association's investments, aggregated by individual category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016 and 2015:

	2016					
	12 Months or Less		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ 93,561,000	\$ 3,110,805	\$ 109,914,300	\$ 697,159	\$ 203,475,300	\$ 3,807,964
Federal agency obligations	9,415,000	640,783	24,796,640	19,304	34,211,640	660,087
Federal agency mortgage-backed securities	49,266,982	1,127,524	1,010,091	29,283	50,277,073	1,156,807
Commercial mortgage-backed securities	75,417,943	1,846,862	-	-	75,417,943	1,846,862
Other loan-backed securities	120,700,530	1,060,760	-	-	120,700,530	1,060,760
Corporate debt	487,223,642	10,932,191	-	-	487,223,642	10,932,191
	<u>\$ 835,585,097</u>	<u>\$ 18,718,925</u>	<u>\$ 135,721,031</u>	<u>\$ 745,746</u>	<u>\$ 971,306,128</u>	<u>\$ 19,464,671</u>

	2015					
	12 Months or Less		More Than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ 124,810,250	\$ 1,518,052	\$ 85,727,650	\$ 53,307	\$ 210,537,900	\$ 1,571,359
Federal agency obligations	199,920,485	807,020	40,006,000	148,652	239,926,485	955,672
Federal agency mortgage-backed securities	5,740,804	76,380	1,798,071	100,187	7,538,875	176,567
	<u>\$ 330,471,539</u>	<u>\$ 2,401,452</u>	<u>\$ 127,531,721</u>	<u>\$ 302,146</u>	<u>\$ 458,003,260</u>	<u>\$ 2,703,598</u>

The Association evaluates impairment at each reporting period for each security (other than loan-backed or structured securities) where the fair value of the investment is less than its amortized cost. It is expected that the securities would not be settled at a price less than the amortized cost of the investment, as the Association has the ability and intent to hold the investment until recovery. The Association evaluated the credit ratings of these holdings, noting neither a significant deterioration since purchase nor other factors which may indicate an other-than-temporary impairment, such as the length of time and extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and the Association's intent and ability to hold the investment for a sufficient time in order to enable recovery of its cost.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 3. Bonds (Continued)

The Association evaluated each loan-backed and structured security for impairment where the fair value of the investment was less than its amortized cost. For those securities that the Association intends to sell or does not have the ability to hold until recovery, an impairment is recorded equal to the difference of amortized cost and fair value. For all other loan-backed and structured securities, the Association developed assumptions around prepayment speeds, expected default rates and the value of the underlying collateral. These assumptions were used to develop expected cash flows which were discounted at the effective yield at the date of acquisition (or most recent impairment). These modeled cash flows were compared against the current amortized cost basis. If the expected discounted cash flows were less than the amortized cost basis, the security was written down to the discounted cash flow amount, with the difference recorded as a realized loss.

Proceeds from sales of investments in bonds totaled \$443,694,516 and \$235,908,488 in 2016 and 2015, respectively. Net realized gains of \$5,294,098 and \$971,190 are reflected in the statutory statements of operations and changes in surplus for the years ended December 31, 2016 and 2015, respectively.

For the years ended December 31, 2016 and 2015, no securities were determined to be other than temporarily impaired.

Investment income, net of investment expenses, for the years ended December 31, 2016 and 2015, is comprised of primarily interest on bonds and short-term investments.

Note 4. Reserve for Losses and Loss Adjustment Expenses

Activity in the reserve for losses and loss adjustment expenses for the years ended December 31, 2016 and 2015, is summarized as follows:

	2016	2015
Balance at January 1	\$ 4,722,735	\$ 8,482,201
Incurred related to:		
Current year	90,002,485	24,964,718
Prior years	8,345,291	161,838
Total incurred	<u>98,347,776</u>	<u>25,126,556</u>
Paid related to:		
Current year	(67,343,201)	(21,374,712)
Prior years	(7,751,924)	(7,511,310)
Total paid	<u>(75,095,125)</u>	<u>(28,886,022)</u>
Balance at December 31	<u>\$ 27,975,386</u>	<u>\$ 4,722,735</u>

As a result of changes in estimates related to insured events of prior years, the provision for losses and loss adjustment expenses was adjusted as indicated in the table above. The increase in prior year incurred losses and loss adjustment reserves of \$8,345,291 and \$161,838 in 2016 and 2015, respectively, resulted from claim settlements during the year as well as additional information received regarding unpaid individual claims.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 4. Reserve for Losses and Loss Adjustment Expenses (Continued)

The components of unpaid losses and loss adjustment expenses as of December 31, 2016 and 2015, are as follows:

	2016	2015
Unpaid losses:		
Case basis	\$ 8,929,580	\$ 2,002,719
Incurred but not reported	14,836,086	1,761,922
	<u>23,765,666</u>	<u>3,764,641</u>
Unpaid loss adjustment expenses:		
Case basis	1,367,861	448,670
Incurred but not reported	2,841,859	509,424
	<u>4,209,720</u>	<u>958,094</u>
	<u>\$ 27,975,386</u>	<u>\$ 4,722,735</u>

Note 5. Related Party Transactions

A related organization, North Carolina Joint Underwriting Association (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 61% allocated to the Association and the remainder to NCJUA for the year ended December 31, 2016, and 63% allocated to the Association and remainder to NCJUA for the year ended December 31, 2015, 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 financial statements. At December 31, 2016 and 2015, the Association had a net payable to NCJUA of \$1,713,691 and \$678,412, respectively.

Note 6. Lease Commitments

The Association and NCJUA jointly rent home office facilities under an operating lease agreement, which expires in calendar year 2025. The Association was allocated 61% and 63% of the costs under this lease agreement during the years ended December 31, 2016 and 2015, respectively. The Association's allocated share of rent expense was \$424,348 and \$361,405 in the years ended December 31, 2016 and 2015, 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, 2016, is as follows:

	Amount
Calendar years ending December 31:	
2017	\$ 397,308
2018	334,761
2019	344,302
2020	341,588
2021	347,530
Thereafter	1,332,168
	<u>\$ 3,097,657</u>

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

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 7. Litigation

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 8. Employee Benefit Plans

Pension benefits: The Association and NCJUA participate in a multiple-employer pension plan called the Insurance Organizations' Pension Trust (the Plan). Employees automatically participate in the Plan on the first day of the month on or after the date they complete a year of eligible service and are at least age 21. A 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, 2016 and 2015, the Association is allocated 61% and 63%, respectively, of the 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 health care 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 5 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.

For measurement purposes, the discount rate used in 2016 in determining the accumulated postretirement benefit obligation was 4.25%. The health care cost-trend rate was 7.00%, decreasing 0.25% per year to an ultimate rate of 4.50% in 2023. The discount rate used in 2015 in determining the accumulated postretirement benefit obligation was 4.50%. The health care cost-trend rate was 7.00%, decreasing 0.25% per year to an ultimate rate of 5.0% in 2022.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 was enacted during 2003 (the Act). The Act creates Medicare Part D, which could have some effect on the Association's obligations under the postretirement health 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 employer is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 8. Employee Benefit Plans (Continued)

The reconciliations of the benefit obligations as of December 31, 2016 and 2015, for pension and postretirement are as follows:

	Underfunded	
	2016	2015
Pension benefits		
Benefit obligation at beginning of year	\$ 5,681,073	\$ 5,133,074
Service cost	346,365	306,456
Interest cost	253,321	221,934
Actuarial loss	229,685	339,307
Benefits paid	(187,156)	(319,698)
Benefit obligation at end of year	<u>\$ 6,323,288</u>	<u>\$ 5,681,073</u>
Accumulated benefit obligation, end of year	<u>\$ 5,145,834</u>	<u>\$ 4,544,964</u>

	Underfunded	
	2016	2015
Postretirement benefits:		
Benefit obligation at beginning of year	\$ 3,771,667	\$ 3,324,252
Service cost	286,478	250,332
Interest cost	171,406	146,337
Contributions by plan participants	16,041	10,787
Actuarial loss	75,675	109,508
Benefits paid	(77,434)	(69,549)
Benefit obligation at end of year	<u>\$ 4,243,833</u>	<u>\$ 3,771,667</u>

The changes in plan assets at December 31, 2016 and 2015, are as follows:

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Changes in plan assets:				
Fair value of plan assets, beginning of year	\$ 3,394,167	\$ 3,549,686	\$ -	\$ -
Actual return on plan assets	317,016	(107,849)	-	-
Contributions by reporting entity	333,011	272,028	61,393	58,762
Contributions by participants	-	-	16,041	10,787
Benefits paid	(187,156)	(319,698)	(77,434)	(69,549)
Fair value of plan assets, end of year	<u>\$ 3,857,038</u>	<u>\$ 3,394,167</u>	<u>\$ -</u>	<u>\$ -</u>

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 8. Employee Benefit Plans (Continued)

The reconciliation of the funded status to the net amount recognized at December 31, 2016 and 2015, is as follows:

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Funded status:				
Underfunded:				
Accrued benefit costs	\$ (523,677)	\$ (378,272)	\$ (3,587,592)	\$ (3,116,828)
Liability for benefits	(1,942,573)	(1,908,634)	(656,241)	(654,839)
Total liabilities recognized	\$ (2,466,250)	\$ (2,286,906)	\$ (4,243,833)	\$ (3,771,667)

The liability for the underfunded status for the pension and postretirement benefits is included in accounts payable and accrued expenses on the statutory statements of admitted assets, liabilities and surplus as of December 31, 2016 and 2015, respectively.

The components of net periodic benefit costs at December 31, 2016 and 2015, are as follows:

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Components of net periodic benefit costs:				
Service cost	\$ 346,365	\$ 306,456	\$ 286,478	\$ 250,332
Interest cost	253,321	221,934	171,406	146,337
Expected return on plan assets	(234,485)	(258,968)	-	-
Amount of recognized gains and losses	125,270	75,119	-	-
Amount of prior service cost	(44)	(45)	173,220	178,900
Net periodic benefit cost	\$ 490,427	\$ 344,496	\$ 631,104	\$ 575,569

The amounts in unassigned funds (surplus) related to actuarial (gains) and losses total \$1,822,930 and \$226 at December 31, 2016 for pension and postretirement benefits, respectively. The amounts in unassigned funds (surplus) related to prior service costs total \$(131) and \$437,242 at December 31, 2016 for pension and postretirement benefits, respectively.

The amounts in unassigned funds (surplus) related to actuarial (gains) and losses total \$1,860,096 and \$(77,922) at December 31, 2015 for pension and postretirement benefits, respectively. The amounts in unassigned funds (surplus) related to prior service costs total \$(181) and \$630,478 at December 31, 2015 for pension and postretirement benefits, respectively.

The amounts in unassigned funds (surplus) arising during the years ended December 31, 2016 and 2015, are as follows:

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Net (gain) loss arising during the period	\$ 21,884	\$ 631,006	\$ 75,675	\$ 109,508

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 8. Employee Benefit Plans (Continued)

The amounts of unassigned funds (surplus) expected to be recognized in the fiscal year as components of net periodic benefit cost for 2017, is as follows:

	Pension Benefits		Postretirement Benefits	
Net prior service cost or (credit)	\$	(44)	\$	173,220
Net recognized (gains) losses		123,871		-

The following table presents the assumptions used in determining present value of the benefit obligation for the pension plan and the accumulated postretirement benefit obligation as of December 31, 2016 and 2015:

	Pension Benefits		Postretirement Benefits	
	2016	2015	2016	2015
Weighted-average assumptions used in computing ending obligations:				
Discount rate	4.25%	4.50%	4.25%	4.50%
Rate of compensation increase	3.50%	4.00%	N/A	N/A
Weighted-average assumptions used in computing net cost:				
Discount rate	4.50%	4.25%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Expected return on plan assets	7.00%	7.25%	N/A	N/A
Assumed health care cost trends rate:				
Health care cost trend rate assumed for next year	N/A	N/A	7.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A	N/A	4.50%	5.00%
Year that the rate reached the ultimate trend rate	N/A	N/A	2023	2022

Assumed health care cost trend rates could have a significant effect on the amounts reported for the postretirement benefit plan. The following table summarizes the effects of a 1% increase and a 1% decrease in assumed health care cost trend rates at December 31:

	1% Increase		1% Decrease	
	2016	2015	2016	2015
Effect on total service and interest cost components of net periodic postretirement benefit cost	\$ 99,793	\$ 81,669	\$ (77,342)	\$ (64,131)
Effect on the health care component of the accumulated postretirement benefit obligation	770,759	722,154	(608,887)	(568,546)

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 8. Employee Benefit Plans (Continued)

Increase or decrease in the projected benefit obligation (PBO) resulting from a plan amendment is amortized on a straight-line basis over the average expected remaining service of active participants expected to benefit under the Plan. Reduction in PBO first reduces any unrecognized prior service cost; any remaining amount is amortized on a straight-line basis described above. Net loss (gain) in excess of 10% of the greater of PBO or the fair value of assets is amortized on a straight-line basis over the average expected remaining service of active participants expected to benefit under the Plan.

Increase in the accumulated postretirement benefit obligation (APBO) resulting from a plan amendment is amortized on a straight-line basis over the average expected remaining service of active participants expected to benefit under the plan. Amortization of net prior service costs (credit) resulting from a plan change is included as a component of Net Periodic Postretirement Benefit Cost (Income) in the year first recognized and every year thereafter until such time as it is fully amortized. The annual amortization payment is determined in the first year as the increase in APBO due to the plan change divided by the average remaining service period to full eligibility for participating employees expected to receive benefits under the Plan. Reductions in APBO first reduce any unrecognized prior service cost; any remaining amount is amortized on a straight-line basis as described above.

Non-vested APBO was recognized under SSAP 92 effective January 1, 2013, and is amortized over the period to full vesting for the non-vested group.

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 Postretirement Benefit Cost (Income) for a year.

Net loss (gain) in excess of 10% of the APBO is amortized on a straight-line basis over the average expected remaining service of active participants expected to benefit under the Plan.

Plan assets: The members of the Plan participate in a multiple-employer pension trust. 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 Plan at the end of the Association's fiscal year, and the on-going target allocation, by asset category, follows:

Asset category:	Target	As of December 31, 2016	Target	As of December 31, 2015
Equity securities	55.0%	56.1%	55.0%	54.3%
Debt securities	45.0	42.8	45.0	44.1
Cash	-	1.1	-	1.6
Total	100.0%	100.0%	100.0%	100.0%

The Plan's investment policy is set by the Trustees of the Insurance Organizations' Pension Trust (IOPT). The expected rate of return on plan assets was determined based on the average rate of earnings expected to be earned on the current and target asset categories.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 8. Employee Benefit Plans (Continued)

The following table summarizes the plan assets' fair value measurements at December 31, 2016 and 2015:

	2016			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Equity securities (a)	\$ -	\$ 2,163,799	\$ -	\$ 2,163,799
Debt securities (a)	-	1,650,812	-	1,650,812
Cash (b)	42,427	-	-	42,427
	<u>\$ 42,427</u>	<u>\$ 3,814,611</u>	<u>\$ -</u>	<u>\$ 3,857,038</u>

	2015			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total Fair Value
Equity securities (a)	\$ -	\$ 1,843,033	\$ -	\$ 1,843,033
Debt securities (a)	-	1,496,828	-	1,496,828
Cash (b)	54,306	-	-	54,306
	<u>\$ 54,306</u>	<u>\$ 3,339,861</u>	<u>\$ -</u>	<u>\$ 3,394,167</u>

(a) Equity and debt securities consist of common collective funds which are valued at the 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 Plan at year end.

To assess the appropriate classification of instruments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of instruments from one fair value level to another. In such instances, the transfer is reported as if it occurred at the beginning of the reporting period.

The Association evaluates the significance of transfers between levels based upon the nature of the instrument and size of the transfer. For the years ended December 31, 2016 and 2015, there were no significant transfers in or out of levels 1, 2 or 3.

Cash flows: The Association expects to contribute approximately \$355,000 to its pension plan and approximately \$84,000 to its other postretirement benefit plan in 2017.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 8. Employee Benefit Plans (Continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in fiscal years:

Years:	Pension Plan	Postretirement Plan
2017	\$ 155,478	\$ 83,814
2018	173,326	103,143
2019	194,006	128,185
2020	215,583	154,285
2021	242,102	181,095
2022-2026	1,611,973	1,263,302

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, 2016 and 2015, was \$127,763 and \$113,812, respectively.

Note 9. Fair Values of Financial Instruments

Due to their short-term maturity or settlement, the fair values of cash, cash equivalents and short-term investments, balances due on account from insureds and others, payables and remittances and items not allocated approximate their carrying amounts as reflected in the statutory statements of admitted assets, liabilities and surplus. The fair value and amortized cost of bonds are estimated based on quoted market prices if available, and if not, fair values are estimated using present value or other valuation techniques. These techniques are significantly affected by our assumptions, including discount rates and estimates of future cash flows. Potential taxes and other transactions costs have not been considered in estimating fair values. The fair value and amortized cost of bonds were approximately \$1,399,883,000 and \$1,407,158,000, respectively, at December 31, 2016, and approximately \$1,035,539,000 and \$1,021,558,000, respectively, at December 31, 2015.

The Association has not historically maintained financial instruments for trading purposes.

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Association employs a hierarchical disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment in measuring fair value.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 9. Fair Values of Financial Instruments (Continued)

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2:** Valuations derived from inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:
- Quoted prices for similar assets or liabilities in active markets
 - Quoted prices for identical or similar assets or liabilities in markets that are not active
 - Inputs other than quoted prices that are observable for the asset or liability
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means
- Level 3:** Valuations are derived from techniques that require significant unobservable inputs. The unobservable inputs reflect the Association's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The Association held no investments that were required to be recorded at fair value as of December 31, 2016 and 2015.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 9. Fair Values of Financial Instruments (Continued)

The following table summarizes the Association's investments measured at fair value as of December 31, 2016 and 2015:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
U.S. Treasury obligations	\$ -	\$ 439,267,900	\$ -	\$ 439,267,900
Federal agency obligations	-	167,534,140	-	167,534,140
Federal agency mortgage-backed securities	-	68,188,761	-	68,188,761
Commercial mortgage-backed securities	-	75,417,943	-	75,417,943
Other loan-backed securities	-	120,700,530	-	120,700,530
Corporate debt	-	528,773,853	-	528,773,853
Total investments	\$ -	\$ 1,399,883,127	\$ -	\$ 1,399,883,127

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
U.S. Treasury obligations	\$ -	\$ 494,539,550	\$ -	\$ 494,539,550
Federal agency obligations	-	505,008,975	-	505,008,975
Federal agency mortgage-backed securities	-	35,990,131	-	35,990,131
Total investments	\$ -	\$ 1,035,538,656	\$ -	\$ 1,035,538,656

Note 10. Reinsurance Agreements

The claims paying capacity of the Association is composed of premiums received from policies issued, surplus, investment income on surplus, any payments received under the Association's risk financing program, any assessments levied on the Association's Member Insurers and other statutorily-prescribed mechanisms for financing a deficit event affecting the Association. The Association's risk financing program, effective May 1, 2016, for potential claims obligations that arise from May 1, 2016, to May 1, 2017, provides protection from \$2.10 billion to \$3.55 billion. Potential losses above \$3.55 billion could be covered by issuing post-event bonds, which would be funded by a catastrophe recovery charge.

There were no reimbursed losses and loss adjustment expenses for the years ended December 31, 2016 and 2015.

North Carolina Insurance Underwriting Association

Notes to Statutory Financial Statements

Note 10. Reinsurance Agreements (Continued)

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 or decreases by an average of greater than 10%. The effect of reinsurance on the Association premiums written and earned during the years ended December 31, 2016 and 2015, is as follows:

	2016		2015	
	Written	Earned	Written	Earned
Direct	\$ 368,595,534	\$ 376,159,502	\$ 387,213,284	\$ 397,625,520
Ceded	(92,609,359)	(92,609,359)	(129,388,546)	(129,388,546)
Net premiums	<u>\$ 275,986,175</u>	<u>\$ 283,550,143</u>	<u>\$ 257,824,738</u>	<u>\$ 268,236,974</u>

Reinsurance contracts do not relieve the Association of its primary obligation to policyholders, and failure of the reinsurers to discharge their obligations could result in losses to the Association. The Association, with the assistance of its reinsurance intermediary, regularly evaluates the financial condition of its reinsurers and monitors concentrations of credit risk related to its reinsurance activities.

No credit losses resulted from ceded reinsurance activities during the years ended December 31, 2016 and 2015.

There is no unsecured reinsurance recoverable on paid and unpaid losses and loss adjustment expenses for individual reinsurers whose balances exceeded 3% of the Association's surplus as of December 31, 2016 and 2015.

The Association has not received a ceding commission as part of its reinsurance arrangements. Therefore, upon cancellation, no return commission will be due.

Note 11. Differences From Annual Statements

Certain amounts in the audited financial statements have been reclassified from the presentation in the annual statement. Common stock of \$2,572,012 and \$9,038,387 in the annual statements for the years ended December 31, 2016 and 2015, respectively, have been reported as short-term investments on these financial statements. These reclassifications have no effect on net income or statutory surplus.

Note 12. Subsequent Events

Events or transactions that occur after the statutory statements of admitted assets, liabilities and surplus date, but before statutory financial statements are complete and available to be issued, are reviewed by the Association to determine if they are to be recognized.

All of the effects of subsequent events that provide additional evidence about conditions that existed at the statutory statements of admitted assets, liabilities, and surplus date, including the estimates inherent in the process of preparing the statutory financial statements, are recognized in the statutory financial statements. The Association does not recognize subsequent events that provide evidence about conditions that did not exist at the statements of admitted assets, liabilities and surplus date but arose after, but before the statutory financial statements are available to be issued. In some cases, nonrecognized subsequent events are disclosed to keep the statutory financial statements from being misleading.

The Association has evaluated subsequent events through April 7, 2017, which is the date the statutory financial statements were available to be issued.

North Carolina Insurance Underwriting Association

Supplemental Summary Investment Schedule December 31, 2016

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
Bonds:				
U.S. treasury securities	\$ 437,008,438	28.9	\$ 437,008,438	28.9
U.S. government agency obligations (excluding mortgage-backed securities) issued by U.S. government sponsored agencies	162,781,622	10.8	162,781,622	10.8
Mortgage-backed securities (includes residential and commercial MBS):				
Pass-through securities:				
Issued or guaranteed by GNMA	7,013,195	0.5	7,013,195	0.5
Issued or guaranteed by FNMA and FHLMC	61,697,277	4.1	61,697,277	4.1
CMOs and REMICs:				
All other	77,264,805	5.1	77,264,805	5.1
Other debt and other fixed income securities (excluding short term):				
Unaffiliated domestic securities	644,729,451	42.6	644,729,451	42.6
Unaffiliated non-U.S. securities	16,663,361	1.1	16,663,361	1.1
Equity interests:				
Investments in money markets	2,572,012	0.2	2,572,012	0.2
Cash, cash equivalents and short-term investments	102,028,270	6.7	102,028,270	6.7
Total invested assets	\$ 1,511,758,431	100.0	\$ 1,511,758,431	100.0

See accompanying independent auditor's report.



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2016

(To be filed by April 1)

Of North Carolina Insurance Underwriting Association

Address (City, State, Zip Code): Cary NC 27518

NAIC Group Code.....0

NAIC Company Code.....00000

Employer's ID Number.....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. \$...1,543,383,621

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

	1	2	3	4
	<u>Issuer</u>	<u>Description of Exposure</u>	<u>Amount</u>	<u>Percentage of Total Admitted Assets</u>
2.01	Federal Home Loan Mortgage Corporation	Bonds, MBS	\$.....90,388,911	.....5.857 %
2.02	Federal National Mortgage Association....	Bonds, MBS	\$.....75,584,888	.....4.897 %
2.03	FHL Banks Office of Finance.....	Bonds	\$.....33,064,116	.....2.142 %
	Farm Credit Banks Consolidated			
2.04	Systemwide Bonds And Discount Notes	Bonds	\$.....25,440,984	.....1.648 %
2.05	Chevron Corporation.....	Bonds	\$.....17,293,908	.....1.121 %
2.06	The Goldman Sachs Group, Inc.....	Bonds	\$.....17,031,563	.....1.104 %
2.07	Pricoa Global Funding I.....	Bonds	\$.....16,651,135	.....1.079 %
2.08	Cisco Systems, Inc.....	Bonds	\$.....16,388,487	.....1.062 %
2.09	New York Life Global Funding.....	Bonds	\$.....16,146,622	.....1.046 %
2.10	UnitedHealth Group Incorporated.....	Bonds	\$.....16,084,652	.....1.042 %

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

		1	2
	<u>Bonds</u>		
3.01	NAIC-1.....	\$1,277,713,558	.....82.787 %
3.02	NAIC-2.....	\$.....156,541,022	.....10.143 %
3.03	NAIC-3.....	\$.....	.....0.000 %
3.04	NAIC-4.....	\$.....	.....0.000 %
3.05	NAIC-5.....	\$.....	.....0.000 %
3.06	NAIC-6.....	\$.....	.....0.000 %
	<u>Preferred Stocks</u>		
		3	4
3.07	P/RP-1.....	\$.....	.....0.000 %
3.08	P/RP-2.....	\$.....	.....0.000 %
3.09	P/RP-3.....	\$.....	.....0.000 %
3.10	P/RP-4.....	\$.....	.....0.000 %
3.11	P/RP-5.....	\$.....	.....0.000 %
3.12	P/RP-6.....	\$.....	.....0.000 %

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 [X] No []

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	\$.....16,663,361	.....1.080 %
4.03	Foreign-currency-denominated investments	\$.....	.....0.000 %
4.04	Insurance liabilities denominated in that same foreign currency	\$.....	.....0.000 %

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

		1	2
5.01	Countries designated NAIC-1.....	\$.....	.....0.000 %
5.02	Countries designated NAIC-2.....	\$.....	.....0.000 %
5.03	Countries designated NAIC-3 or below.....	\$.....	.....0.000 %

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

		1	2
	Countries designated NAIC-1:		
6.01	Country 1: .....	\$.....	.....0.000 %
6.02	Country 2: .....	\$.....	.....0.000 %
	Countries designated NAIC-2:		
6.03	Country 1: .....	\$.....	.....0.000 %
6.04	Country 2: .....	\$.....	.....0.000 %
	Countries designated NAIC-3 or below:		
6.05	Country 1: .....	\$.....	.....0.000 %
6.06	Country 2: .....	\$.....	.....0.000 %

7. Aggregate unhedged foreign currency exposure..... \$.....0.000 %

(Continued)

8.	Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2	
8.01	Countries designated NAIC-1.....	\$.....	0.000 %	
8.02	Countries designated NAIC-2.....	\$.....	0.000 %	
8.03	Countries designated NAIC-3 or below.....	\$.....	0.000 %	
9.	Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:			
	Countries designated NAIC-1:	1	2	
9.01	Country 1:	\$.....	0.000 %	
9.02	Country 2:	\$.....	0.000 %	
	Countries designated NAIC-2:			
9.03	Country 1:	\$.....	0.000 %	
9.04	Country 2:	\$.....	0.000 %	
	Countries designated NAIC-3 or below:			
9.05	Country 1:	\$.....	0.000 %	
9.06	Country 2:	\$.....	0.000 %	
10.	Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
		1	2	
	<u>Issuer</u>	<u>NAIC Designation</u>		
			3	4
10.01	.....	.....	\$.....	0.000 %
10.02	.....	.....	\$.....	0.000 %
10.03	.....	.....	\$.....	0.000 %
10.04	.....	.....	\$.....	0.000 %
10.05	.....	.....	\$.....	0.000 %
10.06	.....	.....	\$.....	0.000 %
10.07	.....	.....	\$.....	0.000 %
10.08	.....	.....	\$.....	0.000 %
10.09	.....	.....	\$.....	0.000 %
10.10	.....	.....	\$.....	0.000 %
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.			
11.02	Total admitted assets held in Canadian Investments.....	\$.....	0.000 %	
11.03	Canadian currency-denominated investments.....	\$.....	0.000 %	
11.04	Canadian-denominated insurance liabilities.....	\$.....	0.000 %	
11.05	Unhedged Canadian currency exposure.....	\$.....	0.000 %	
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.			
		1	2	3
12.02	Aggregate statement value of investments with contractual sales restrictions.....	\$.....	0.000 %	
	Largest three investments with contractual sales restrictions:			
12.03	.....	\$.....	0.000 %	
12.04	.....	\$.....	0.000 %	
12.05	.....	\$.....	0.000 %	
13.	Amounts and percentages of admitted assets held in the ten largest equity interests:			
13.01	Are assets held in equity interest 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.			
		1	2	3
	<u>Name of Issuer</u>			
13.02	.....	\$.....	0.000 %	
13.03	.....	\$.....	0.000 %	
13.04	.....	\$.....	0.000 %	
13.05	.....	\$.....	0.000 %	
13.06	.....	\$.....	0.000 %	
13.07	.....	\$.....	0.000 %	
13.08	.....	\$.....	0.000 %	
13.09	.....	\$.....	0.000 %	
13.10	.....	\$.....	0.000 %	
13.11	.....	\$.....	0.000 %	
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 the remainder of Interrogatory 14.			
		1	2	3
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities.....	\$.....	0.000 %	
	Largest three investments held in nonaffiliated, privately placed equities:			
14.03	.....	\$.....	0.000 %	
14.04	.....	\$.....	0.000 %	
14.05	.....	\$.....	0.000 %	

(Continued)

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.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests.....	\$.....		0.000 %
Largest three investments in general partnership interests:			
15.03	\$.....		0.000 %
15.04	\$.....		0.000 %
15.05	\$.....		0.000 %

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
<u>Type (Residential, Commercial, Agricultural)</u>			
16.02	\$.....		0.000 %
16.03	\$.....		0.000 %
16.04	\$.....		0.000 %
16.05	\$.....		0.000 %
16.06	\$.....		0.000 %
16.07	\$.....		0.000 %
16.08	\$.....		0.000 %
16.09	\$.....		0.000 %
16.10	\$.....		0.000 %
16.11	\$.....		0.000 %

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

	<u>Loans</u>
16.12 Construction loans.....	\$..... 0.000 %
16.13 Mortgage loans over 90 days past due.....	\$..... 0.000 %
16.14 Mortgage loans in the process of foreclosure.....	\$..... 0.000 %
16.15 Mortgage loans foreclosed.....	\$..... 0.000 %
16.16 Restructured mortgage loans.....	\$..... 0.000 %

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

<u>Loan-to-Value</u>	<u>Residential</u>		<u>Commercial</u>		<u>Agricultural</u>	
	1	2	3	4	5	6
17.01 above 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.02 91% to 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.03 81% to 90%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.04 71% to 80%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.05 below 70%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %

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:

	2	3
18.02	\$.....	0.000 %
18.03	\$.....	0.000 %
18.04	\$.....	0.000 %
18.05	\$.....	0.000 %
18.06	\$.....	0.000 %

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 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	\$.....		0.000 %
Largest three investments held in mezzanine real estate loans:			
19.03	\$.....		0.000 %
19.04	\$.....		0.000 %
19.05	\$.....		0.000 %

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

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....

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

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....	0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....	0.000 %	\$.....	0.000 %

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

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
22.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

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

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
23.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

See accompanying independent auditor's report.

North Carolina Insurance Underwriting Association

**Supplemental Schedule of Reinsurance Interrogatories
December 31, 2016**

- 7.1. Has the reporting entity reinsured any risk with any other entity under a quota share reinsurance contract that includes a provision that would limit the reinsurer's losses below the stated quota share percentage (e.g., a deductible, a loss ratio corridor, a loss cap, an aggregate limit or any similar provisions)?

Yes [] No [X]

- 8.1. Has this reporting entity reinsured any risk with any other entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured?

Yes [] No [X]

- 9.1 Has the reporting entity ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates) for which during the period covered by the statement: (i) it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; (ii) it accounted for that contract as reinsurance and not as a deposit; and (iii) the contract(s) contain one or more of the following features or other features that would have similar results:

- a. A contract term longer than two years and the contract is noncancellable by the reporting entity during the contract term;
- b. A limited or conditional cancellation provision under which cancellation triggers an obligation by the reporting entity, or an affiliate of the reporting entity, to enter into a new reinsurance contract with the reinsurer, or an affiliate of the reinsurer;
- c. Aggregate stop loss reinsurance coverage;
- d. A unilateral right by either party (or both parties) to commute the reinsurance contract, whether conditional or not, except for such provisions which are only triggered by a decline in the credit status of the other party;
- e. A provision permitting reporting of losses, or payment of losses, less frequently than on a quarterly basis (unless there is no activity during the period); or
- f. Payment schedule, accumulating retentions from multiple years or any features inherently designed to delay timing of the reimbursement to the ceding entity.

Yes [] No [X]

(Continued)

North Carolina Insurance Underwriting Association

Supplemental Schedule of Reinsurance Interrogatories (Continued)
December 31, 2016

- 9.2. Has the reporting entity during the period covered by the statement ceded any risk under any reinsurance contract (or under multiple contracts with the same reinsurer or its affiliates), for which, during the period covered by the statement, it recorded a positive or negative underwriting result greater than 5% of prior year-end surplus as regards policyholders or it reported calendar year written premium ceded or year-end loss and loss expense reserves ceded greater than 5% of prior year-end surplus as regards policyholders; excluding cessions to approved pooling arrangements or to captive insurance companies that are directly or indirectly controlling, controlled by, or under common control with (i) one or more unaffiliated policyholders of the reporting entity, or (ii) an association of which one or more unaffiliated policyholders of the reporting entity is a member where:
- a. The written premium ceded to the reinsurer by the reporting entity or its affiliates represents fifty percent (50%) or more of the entire direct and assumed premium written by the reinsurer based on its most recently available financial statement; or
 - b. Twenty-five percent (25%) or more of the written premium ceded to the reinsurer has been retroceded back to the reporting entity or its affiliates in a separate reinsurance contract.

Yes [] No [X]

- 9.4. Except for transactions meeting the requirements of paragraph 31 of SSAP No. 62R, *Property and Casualty Reinsurance*, has the reporting entity ceded any risk under any reinsurance contract (or multiple contracts with the same reinsurer or its affiliates) during the period covered by the financial statement, and either:
- a. Accounted for that contract as reinsurance (either prospective or retroactive) under statutory accounting principles (SAP) and as a deposit under generally accepted accounting principles (GAAP); or
 - b. Accounted for that contract as reinsurance under GAAP and as a deposit under SAP?

Yes [] No [X]

See accompanying independent auditor's report.