ASSIGNED RISK LOSS SENSITIVE RATING PLAN ENDORSEMENT

This endorsement amends and is added to Part Five (Premium) of your Policy to explain how the mandatory assigned risk Loss Sensitive Rating Plan (LSRP) (additional/return) premium is determined.

This endorsement applies in states where the LSRP has been approved. This endorsement is attached to all assigned risk policies, including professional employer organization (PEO) and temporary arrangements that meet or exceed the LSRP eligibility requirements. A 20% LSRP contingency deposit is required.

A. LSRP Premium Elements

LSRP uses specific elements to determine premium. The elements are listed below and are determined in accordance with the North Carolina Basic Manual Rule 4-C and applicable state rating values.

1. LSRP Standard Premium
2. Basic Premium Factor
3. Loss Conversion Factor
4. Converted Losses
5. Incurred Losses
6. Loss Development Factor
7. Maximum Premium Factor
8. Minimum Premium Factor
9. Tax Multiplier

B. LSRP Formula

1. Calculating LSRP (Additional/Return) Premium Under This Plan

The first LSRP valuation to determine the (additional/return) premium is to be calculated as soon as practical based on losses valued six months after the WCIP policy(ies) expiration. The data used in the LSRP calculation must be the same data that is reported under the rules of the applicable statistical plan. In accordance with Section C-7 of this endorsement and North Carolina Basic Manual Rule 4-C, in certain cases, we may perform an early calculation of LSRP premium.

2. LSRP Formula

The LSRP formula is designed to allow for premium that is not less than the LSRP minimum premium or more than the LSRP maximum premium in accordance with the North Carolina Basic Manual Rule 4-C. The formula is:

\[ \text{LSRP (Additional/Return) Premium} = \left[ (\text{SP} \times \text{BPF}) + (\text{ICL} \times \text{LCF}) + (\text{SP} \times \text{LDF} \times \text{LCF}) \right] \times \text{TM} - \text{SP} \]

<table>
<thead>
<tr>
<th>Where …</th>
<th>Equals …</th>
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<tbody>
<tr>
<td>SP</td>
<td>LSRP Standard Premium</td>
</tr>
<tr>
<td>BPF</td>
<td>Basic Premium Factor</td>
</tr>
<tr>
<td>ICL</td>
<td>Incurred Losses</td>
</tr>
<tr>
<td>LCF</td>
<td>Loss Conversion Factor</td>
</tr>
<tr>
<td>LDF</td>
<td>Loss Development Factor</td>
</tr>
<tr>
<td>TM</td>
<td>Tax Multiplier</td>
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3. LSRP Minimum and Maximum Premium

You will not pay less than the LSRP minimum premium or more than the LSRP maximum premium. The LSRP minimum premium is determined by multiplying the LSRP standard premium by the applicable minimum premium factor. The LSRP maximum premium is determined by multiplying LSRP standard premium by the applicable maximum premium factor. The minimum premium factor and the maximum premium factor are shown in the Schedule. If this policy is combinable with another LSRP policy, the LSRP minimum and maximum premiums are based on the combined LSRP standard premium for all combinable policies.

C. Premium Calculation and Payments

1. You will pay a premium in accordance with the approved Workers Compensation Insurance Plan (WCIP) rules, rates, and rating values.
2. You will pay an LSRP contingency deposit that will equal 20% of the LSRP standard premium.
3. Your LSRP (additional/return) premium is determined after the policy period ends.
4. The first valuation of LSRP premium is determined using all loss information valued as of six months after
   policy expiration or as soon as practical. Three additional annual premium adjustment calculations shall be
   made based on losses valued at 30, 42, and 54 months after the month in which the policy became effective.
5. We must valuate the policy annually after the first valuation and subsequent valuations as needed (up to four
   valuations). We will not need to do subsequent valuations if there are no open losses.
6. If we are notified that the employer has declared bankruptcy, we must file for Proof of Claim.
7. We may make a special adjustment for the purpose of calculating LSRP premium to determine if additional or
   return premium is due when the policy is cancelled and/or you:
   • Are in noncompliance with policy terms and conditions
   • Have declared bankruptcy
   • Have defaulted on your premium
   • Are involved in any liquidation, reorganization, or receivership
   • Disposed of all, or substantially all, of your assets
   You or the bankruptcy estate, if applicable, is responsible for any additional premium due as a result of any
   special valuations or other applicable remaining valuations.
8. After each valuation, you will pay to us the amount due within 30 days. If you fail to pay all LSRP premium
   due, your current policy will be cancelled in accordance with the WCIP rules, state law, or NCCI’s Assigned
   Carrier Performance Standards, whichever is more restrictive. You will no longer be in good faith eligible for
   coverage under the applicable WCIP.

D. Evasion of LSRP
1. If you take actions for the purpose of avoiding the application of LSRP, or for otherwise legitimate business
   reasons that nonetheless result in the improper calculation and/or application of LSRP, regardless of intent,
   any action that results in the miscalculation and/or misapplication of LSRP determined in accordance with the
   LSRP rules is prohibited. These actions include, but are not limited to:
   • Misrepresentation and/or miscalculation of payroll at application, audit, or renewal
   • Failure to report changes in ownership or ownership information according to the WCIP and NCCI’s
     Experience Rating Plan Manual
   • Violation of any of the terms and conditions under the policy(ies) for which the WCIP policy(ies) was
     issued
   • Failure to allow us and/or the Plan Administrator and/or rating organization reasonable access to your
     facilities or files and records for audit or inspection
   • Failure to disclose to us and/or the Plan Administrator and/or rating organization the full nature and scope
     of your exposure or business operations
2. In such circumstances, we and/or the Plan Administrator and/or rating organization may obtain any
   information that indicates evasion or improper calculation or application of LSRP due to actions including, but
   not limited to, those listed above. We and/or the Plan Administrator and/or rating organization will act to
   ensure the proper calculation and application of LSRP to inception of all current and preceding WCIP policies
   impacted by these actions.

E. Cancellation
1. If your policy is cancelled, LSRP is applied in accordance with Part Five (Premium), E. of your workers
   compensation and employers liability insurance policy.
2. Cancellation of LSRP policies are subject to pro rata or short rate calculation of LSRP standard premium in
   accordance with LSRP rules located in the North Carolina Basic Manual.
3. We must report noncompliance and any subsequent compliance to the Plan Administrator.
4. Cancelled LSRP policies are subject to all LSRP rules, as applicable.
5. If your LSRP policy is cancelled by you or us, you are responsible for any LSRP additional premium due for reasons including, but not limited to:
   a. Premium endorsements
   b. Audits
   c. An ownership change or change in combinability status in accordance with NCCI’s *Experience Rating Plan Manual*
   d. Your retirement from business
   e. Any applicable and/or remaining LSRP valuations

Schedule

1. Basic Premium Factor
2. Loss Conversion Factor
3. Tax Multiplier
4. Minimum Premium Factor
5. Maximum Premium Factor
6. Loss Development Factor:
   1st Adjustment
   2nd Adjustment
   3rd Adjustment
   Subsequent Adjustments

This endorsement changes the policy to which it is attached and is effective on the date issued unless otherwise stated.

(The information below is required only when this endorsement is issued subsequent to preparation of the policy.)

<table>
<thead>
<tr>
<th>Endorsement Effective Insured</th>
<th>Policy No.</th>
<th>Endorsement No. Premium $</th>
</tr>
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<tbody>
<tr>
<td>Insurance Company</td>
<td>Countersigned by</td>
<td>__________________________</td>
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