

implementation

2008 ANNUAL REPORT
North Carolina Insurance Guaranty Association

core values

commitment

Faithfully and diligently fulfill the obligations of our Organizations as set forth in the statutes.

integrity

Perform each task as efficiently as possible with absolute honesty and integrity.

respect

Treat your fellow associates and those you serve on behalf of the Organizations with dignity and respect.

talents

Continually strive to improve the Organizations through the use of every associate's talents and creativity.

ownership

Encourage participation and a sense of ownership from the members of our Organizations.

consistency

Demonstrate fairness and consistency among all associates and encourage personal development.



Insurance Guaranty Association

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general organizational information

| | |
|-------------------------------|--|
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| Toll Free | 800-456-5086 |
| Website Address | www.ncrb.org |
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| | |
|----------------------------|---|
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message from the chairman

It has been my privilege to serve as Chairman of the North Carolina Insurance Guaranty Association for the past seventeen years, beginning in November 1991. At that time, the Association had just completed the first year of handling the insolvency of Interstate Casualty Insurance Company, which is still the largest NC domestic insolvency on record. Then ten years later, the Association was faced with dealing with the largest insolvency on record—Reliance Insurance Company out of Pennsylvania.

The Association succeeded in its role of being the safety network for the insurance-buying public as defined by General Statute in both instances. The Reliance insolvency presented much more of a challenge due to the increased volume of claims, monetary exposure, policy makeup, and composition of submitted claims. As a result, the new millennium version of the Association upgraded its operational methodology and infrastructure to meet the challenge.

This upgrade took the vision of many parties, and then that vision had to be implemented. I would like to thank some of those individuals, beginning with my fellow members of the Board, Staff, and Legal Counsel. In particular, the Association owes a profound “thank you” to retiring Board Members Ron Medeiros and Benjy Seagle for their efforts and contributions over the years to the success of the Association.

Sincerely,

Thomas M. Huels

Chairman

board of directors

The Plan of Operation provides that the Board of Directors consists of eight directors, comprised of seven elected directors, all of whom are member insurers, who shall serve three-year terms, or until their successors have been elected and qualified, and one non-voting director who shall be a property and a casualty insurance agent authorized to write insurance for a member company and who is appointed by the Commissioner of Insurance to serve for a three-year term at the pleasure of the Commissioner.

members

representative

Allstate Insurance Company Nancy Lemke
Integon Indemnity Corporation Art Lyon
Liberty Mutual Insurance Company Jack McNulty
Nationwide Mut. Insurance Company Kurt Rundle
NC Farm Bureau Mut. Insurance Company Allen Houck **
State Farm Mut. Auto Insurance Company Tom Huels *
Travelers Indemnity Company Ken Surian

non-voting member

Property & Casualty Agent Delaine Bradsher
*chairman
**secretary-treasurer

subcommittee

The Audit Committee oversees the financial activities of the Association and formulates recommendations for presentation to the Board of Directors.

members

representative

Nationwide Mut. Insurance Company Kurt Rundle
NCFB Mutual Insurance Company Allen Houck *
Liberty Mutual Insurance Company Jack McNulty
*chairman



Raymond F. Evans, Jr., CPCU
Managing Secretary



managing secretary's report

Yogi Berra's quote "déjà vue all over again" comes to mind when reflecting on the past year's activities, as on the surface, little appears to have changed from the previous year. However, this is not the case.

In large part, we are simply continuing to pursue strategies that were outlined to you several years ago. These include:

- A commitment to excellence in fulfilling our duties
- Matching workload with work force
- Being better prepared for the next inevitable round of insolvencies

At ground level, the story is different. The tangibles of this effort include two fewer associates in the past year, nine ancillary receiverships closed, and, as will be described later, a significant number of closed claims. In addition, we continue to devote a great deal of attention to our systems and procedures, as these are the engine for doing the work in the future.

On a little different note, we also are more engaged in the efforts of the Guaranty Community as a whole. Our primary task is to execute the provisions of the enabling statutes, and in performing this, we do not lobby leaving the "big picture" discussion to others. Recently, I have noted a troubling development in the growing debate about Federal vs. State regulation. As the debate has grown more heated and more "experts" join in the fray, we are struck by the lack of knowledge of the Guaranty system, especially by academics.

Whether the system should be changed or not is way beyond our pay grade. However, we believe we have done a good job in protecting residents of North Carolina from financial loss due to insolvent insurance companies. These statutory-imposed duties were carried out in a cost-effective and responsible manner for the carriers that foot the bill.

Thanks to our associates for embracing change and adapting to a different environment and to the Board and Committees for their leadership and support.

According to economists from the Insurance Information Institute and ISO, trends and cycles suggest the next round of insolvencies will begin in 2010. We will be ready.



Ray Evans,
Managing Secretary, IGA

R. Mike Newton
Director, IGA

R. Mike Newton



management report & analysis

Our Mission is to fulfill statutorily created duties, which are to provide a mechanism for the payment of covered claims as defined by the Guaranty Act, to avoid excessive delay in those payments, to avoid financial loss to claimants or policyholders because of the insolvency of an insurer, to assist in the detection and prevention of insurer insolvencies, and to provide an association to assess the cost of such protection among insurers. The manner in which our associates carry out those duties will define our excellence as an organization.

Reflections on legislation forming the Association and defining its role and guidance

ARTICLE 48. - Post-assessment Insurance Guaranty Association.

- **58-48-5. Purpose of Article.**

States the purpose of Article 48 and is incorporated into our Mission Statement

- **58-48-25. Creation of the Association.**

Creates the Guaranty Association

- **58-48-30. Board of directors.**

Establishes a Board through which the Association exercises its powers

- **58-48-35. Powers and duties of the Association.**

Sets forth powers and duties

- **58-48-40. Plan of operation.**

Establishes a plan to assure the fair, reasonable, and equitable administration of the Association.

observations

"Implementation" is defined as the carrying out, execution, or practice of a plan, a method, or any design for doing something. As such, implementation is the action that must follow any preliminary thinking in order for something actually to happen. It certainly is a great theme for this year's annual report as it is the implementation of the Post Assessment Insurance Guaranty Association Act that allows the NC Insurance Guaranty Association to fulfill its statutorily created duty of being the safety net for North Carolina's insurance-buying public.

The Mission Statement of the Association is a noble cause and one met with pride by the Association. But it was merely a concept until a plan and methodology to achieve that concept were derived and implemented. The first steps to meet the charge of the General Legislature were the election of a Board of Directors, hiring of a Managing Secretary, and creation of a Plan of Operation. Implementation of the Plan of Operation was made possible by the continued forward vision and efforts of many parties, including the Board of Directors, Senior Management, Staff, and Outside Counsel.

With the insolvency of Reliance Insurance Company in October of 2001, the Association, which was composed of five employees and backed by internal shared services, was told to expect 2,000 plus claims with a monetary exposure well in excess of a \$100 million. A plan to meet this tremendous challenge was devised by the Board of Directors, Management, Staff, and Counsel and then, most importantly— implemented. Further refinements were made to operations and implemented to handle the insolvency of Legion Insurance Company, with its 1,600 claims and \$65 million that occurred nine months later.

Even in this time of relative calm, the Association continues to review and refine its processes. The implementation of those enhancements improves our infrastructure and operating efficiencies so that we can better respond to the next round of insolvencies. Recently we completed the documentation of key processes, which aids with training manuals, process review, and business-interruption recovery. Another effort is the recent electronic interface with our medical bill review and prescription vendors, which will reduce labor costs and improve accuracy by reducing manual keying in of check payments and scanning of documents. We will continue in our efforts to create and implement similar cost-saving efforts.

operations report

During the report year, the Association received 42 new claim files and closed 128 files, leaving 446 files open as of August 31, 2008. The Association issued 20,116 checks during the process of paying out nearly \$13.7 million in indemnity claims, unearned premium claims, and allocated claim expenses during the report year, which netted to \$12.5 million after consideration of recoveries.

Through the efforts of Staff and Legal Counsel, we continued to pursue aggressively net worth, subrogation, and large deductible recoveries, utilizing the Guaranty Act's various provisions to recoup over \$1.5 million, an 11 percent recovery rate of funds spent during the report year.

Workers Compensation claims continued to be the focus of claims-adjustment activity, with 99 percent of the indemnity and claims expense net payments (\$12.3 million) paid during the report year and 99 percent of current reserves (\$65 million) as of the report period's ending being related to workers compensation.

Casualty claim files numbered 31 open and were reserved for \$964,000. These cases involve commercial exposures, with most being subject to litigation and posing interesting questions under the policy coverage and the provisions of the Guaranty Act. The \$240,000 gross indemnity and claims expense payments were reduced to a net of \$151,000 by the recovery of \$88,000 in recoveries during the year.

With the closure of several older estates, as detailed in counsel's report, the maturing of the record-breaking insolvencies of Reliance Insurance Company and Legion Insurance Company, and the fewest number of new claims received since fiscal year 2001, the open-claim count of 446 represents the smallest number in six years. As insolvencies seem to run in cycles, it appears we may have weathered the recent flurry of insolvencies and are in a relative lull in insolvency activity.

During this respite, we must continue to handle claims in a fair and prompt manner and ensure that we are operating efficiently. We reduced staff by two associates during the year and currently have one permanent part-time associate handling the casualty claims adjusting and net worth recoveries for the entire department. We continue to refine our processes and develop the infrastructure so that we are prepared to provide the promised safety net to our State's insurance-buying public.

R. Mike Newton

R. Mike Newton
Director, IGA

claims paid detail

| | WC | | | auto | | |
|------------------------|---------------------|--------------------|---------------------|-----------------|-----------------|-----------------|
| | Indemnity Paid | Expense Paid | Total Paid | Indemnity Paid | Expense Paid | Total Paid |
| Casualty Reciprocal | \$892,977 | \$141,980 | \$1,034,957 | | | - |
| Commercial Casualty | | | - | | | - |
| Credit General | \$246,728 | \$47,074 | \$293,802 | | | - |
| Employers Casualty | \$32,841 | \$25,425 | \$58,266 | | | - |
| Fremont Indemnity Co | \$30,392 | \$2,766 | \$33,158 | | | - |
| Home Insurance | \$467,106 | \$75,772 | \$542,878 | | | - |
| Legion Insurance Co | \$1,883,097 | \$250,627 | \$2,133,724 | | | - |
| Shelby Insurance Co | \$60,671 | \$30,996 | \$91,667 | | | - |
| South Carolina Ins Co | \$56,074 | \$37,254 | \$93,328 | | \$21,847 | \$21,847 |
| PHICO Insurance | \$183,990 | \$6,546 | \$190,536 | | | - |
| Reliance Insurance Co | \$5,254,611 | \$617,080 | \$5,871,691 | \$42,762 | \$11,124 | \$53,886 |
| ROA Insurance Co | \$238,793 | \$35,019 | \$273,812 | | | - |
| State Capital | | | - | | | - |
| Villanova Insurance Co | \$811,042 | \$72,277 | \$883,319 | | | - |
| 888 Mutual Trust | \$699,599 | \$87,651 | \$787,250 | | | - |
| 999 Stock Trust | \$49,516 | \$5,738 | \$55,254 | | | - |
| Total | \$10,907,437 | \$1,436,205 | \$12,343,642 | \$42,762 | \$32,971 | \$75,733 |

claims reserved detail

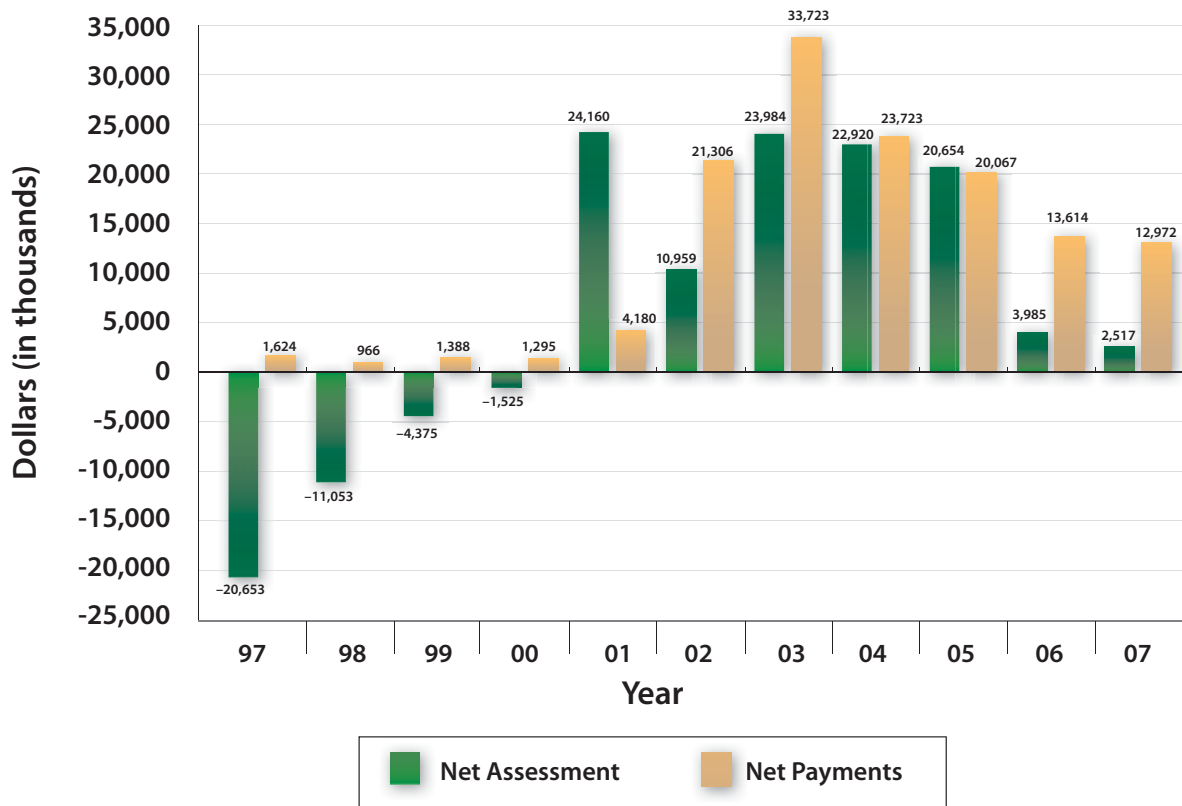
| | WC | | | | auto | | | |
|------------------------|---------------------|--------------------|---------------------|---------------|-------------------|-----------------|------------------|---------------|
| | Indemnity Reserve | Expense Reserve | Total Reserve | Files Pending | Indemnity Reserve | Expense Reserve | Total Reserve | Files Pending |
| Credit General | \$1,519,370 | \$35,438 | \$1,554,808 | 4 | | | - | |
| Employers Casualty | \$258,067 | \$31,976 | \$290,043 | 5 | | | - | |
| Fremont Indemnity Co | \$1,415,280 | \$22,348 | \$1,437,628 | 2 | | | - | |
| Home Insurance | \$3,000,705 | \$200,210 | \$3,200,915 | 49 | | | - | |
| Legion Insurance Co | \$9,992,904 | \$405,189 | \$10,398,093 | 54 | \$20,000 | \$27,156 | \$47,156 | 2 |
| PHICO Insurance | \$270,248 | \$19,045 | \$289,293 | 4 | | | - | |
| South Carolina Ins | \$1,564,474 | \$658,011 | \$2,222,485 | 5 | \$86,418 | \$3,314 | \$89,732 | 4 |
| Reliance Insurance Co | \$23,294,642 | \$901,329 | \$24,195,971 | 121 | \$540,719 | \$17,061 | \$557,780 | 3 |
| ROA Insurance Co | \$3,481,645 | \$204,521 | \$3,686,166 | 21 | | | - | |
| LMI Insurance Co | \$2 | \$1 | \$3 | 1 | | | - | |
| Shelby Insurance Co | \$746,726 | \$34,323 | \$781,049 | 6 | \$29,000 | \$7,275 | \$36,275 | 2 |
| Casualty Reciprocal | \$3,199,107 | \$152,606 | \$3,351,713 | 21 | | | - | |
| Villanova Insurance Co | \$807,883 | \$72,546 | \$880,429 | 10 | | | - | |
| 888 Mutual Trust | \$10,061,353 | \$454,274 | \$10,515,627 | 110 | | | - | |
| 999 Stock Trust | \$1,182,584 | \$33,837 | \$1,216,421 | 3 | | | - | |
| Total | \$60,794,990 | \$3,225,654 | \$64,020,644 | 416 | \$676,137 | \$54,806 | \$730,943 | 11 |

| | all other | | | total |
|------------------------|-----------------|-----------------|-----------------|---------------------|
| | Indemnity Paid | Expense Paid | Total Paid | |
| Casualty Reciprocal | | | - | \$1,034,956 |
| Commercial Casualty | | (\$71) | (\$71) | (\$71) |
| Credit General | | | - | \$293,802 |
| Employers Casualty | | | - | \$58,266 |
| Fremont Indemnity Co | | | - | \$33,158 |
| Home Insurance | | \$558 | \$558 | \$543,436 |
| Legion Insurance Co | | \$464 | \$464 | \$2,134,188 |
| Shelby Insurance Co | \$30,000 | \$25,145 | \$55,145 | \$146,812 |
| South Carolina Ins Co | | \$4,103 | \$4,103 | \$119,278 |
| PHICO Insurance | (\$29,117) | (\$10,595) | (\$39,712) | \$150,824 |
| Reliance Insurance Co | \$47,625 | \$44 | \$47,669 | \$5,973,246 |
| ROA Insurance Co | | (\$1,368) | (\$1,368) | \$272,444 |
| State Capital | | \$8,932 | \$8,932 | \$8,932 |
| Villanova Insurance Co | | | - | \$883,319 |
| 888 Mutual Trust | | | - | \$787,250 |
| 999 Stock Trust | | | - | \$55,254 |
| Total | \$48,508 | \$27,212 | \$75,720 | \$12,495,094 |

| | |
|-------------------------|--------------|
| Unearned Premium | \$51,705 |
| Net Total | \$12,546,799 |
| Recoveries | \$1,198,764 |
| Gross Total Expenditure | \$13,745,563 |

| | all other | | | | total | |
|------------------------|-------------------|-----------------|------------------|---------------|-------------------|---------------|
| | Indemnity Reserve | Expense Reserve | Total Reserve | Files Pending | Total Reserves | Files Pending |
| Credit General | | | - | | \$1,554,808 | 4 |
| Employers Casualty | | | - | | \$290,043 | 5 |
| Fremont Indemnity Co | | | - | | \$1,437,628 | 2 |
| Home Insurance | \$120 | \$500 | \$620 | 2 | \$3,201,535 | 51 |
| Legion Insurance Co | \$100,000 | \$7,963 | \$107,963 | 1 | \$10,553,212 | 57 |
| PHICO Insurance | \$5,000 | \$5,020 | \$10,020 | 1 | \$299,313 | 5 |
| South Carolina Ins | \$15,000 | \$8,550 | \$23,550 | 1 | \$2,335,767 | 10 |
| Reliance Insurance Co | \$877 | \$22,634 | \$23,511 | 9 | \$24,777,262 | 133 |
| ROA Insurance Co | | | - | | \$3,686,166 | 21 |
| LMI Insurance Co | | | - | | \$3 | 1 |
| Shelby Insurance Co | \$16,600 | \$50,378 | \$66,978 | 5 | \$884,302 | 13 |
| Casualty Reciprocal | | | - | | \$3,351,713 | 21 |
| Villanova Insurance Co | | | - | | \$880,429 | 10 |
| 888 Mutual Trust | | | - | | \$10,515,627 | 110 |
| 999 Stock Trust | | | - | | \$1,216,421 | 3 |
| Total | \$137,597 | \$95,045 | \$232,642 | 19 | 64,984,229 | 446 |

NCIGA Analysis Chart



This chart reflects the Net Assessment (assessments less refunds) to the member companies, as well as the net payments (indemnity, claim expenses, and unearned premium claims) made by the IGA during the time period from 1997 to 2007. During the year of 1997, nearly \$20.7 million was returned to the members while the IGA net payments amounted to \$1.6 million, whereas by 2003, the activity of insolvencies required a nearly \$24 million assessment, with the IGA issuing net payments of over \$33.7 million.

Unprecedented activity beginning 2001 and continuing through 2005 resulted in \$109 million net assessments and \$102 million net payments. This was a result of thirteen insolvencies, and among them were the two largest insolvencies on record: Reliance Insurance Company and Legion Insurance Company. By 2006, the activity was returning to more normal levels as claims were maturing and additional insolvencies did not occur.

NCIGA Management Staff



William Delbridge
Manager, Claims



Rowena Ball
*Supervisor, Workers
Compensation Claims*



Donna Kallianos
*Supervisor,
Casualty Claims*

Organization Shared Resources



Vicki Godbold
*Director,
Human Resources and
Administrative Services*



David Sink
Director, Finance



Jim Auman
*Manager,
IT Services*



Shelley Chandler
*Manager,
Software Development*



Tammy Choboy
*Manager,
Quality Assurance*



Amy Tart
*Manager,
Organizational
Administration*

report of NCIGA counsel

In the past year, the major legal issues and outstanding litigation the Association has faced involve the following issues:

1. litigation over guaranty act's bar date provision

The most significant legal issue for the Association that is currently in litigation remains the enforcement of the Guaranty Act's "bar date" provision in industrial disease claims that are filed before the North Carolina Industrial Commission. As reported in last year's Annual Report, the Association has litigated before the Industrial Commission the issue of whether industrial disease claims (primarily asbestos claims) first filed with the Association after the bar date for filing claims against the insolvent insurer constitute "covered claims." In a closely watched case, the Full Industrial Commission on August 1, 2008, affirmed a decision of a Deputy Commissioner and unanimously concluded that such industrial disease claims were not "covered claims" because of the application of the Guaranty Act's "bar date" provision. Although this decision is being appealed by the plaintiff to the North Carolina Court of Appeals, this recent decision by the Full Industrial Commission is applicable to all other "bar date" cases being defended by the Association. The Association will continue to vigorously assert the "bar date" provision of the Guaranty Act in all proceedings before the Industrial Commission where it is applicable.

2. ancillary receivership proceedings

By orders entered by the Wake County Superior Court on August 4, 2008, long-pending ancillary receivership proceedings for the following insolvent insurers were closed at the request of the North Carolina Department of Insurance: (a) American Universal Insurance Company, (b) Ideal Mutual Insurance Company, (c) Integrity Insurance Company, (d) Midland Insurance Company, (e) Mission Insurance Company, (f) Mission National Insurance Company, (g) United Community Insurance Company, and (h) Credit General Insurance Company. As part of the closing of these ancillary estates, some remaining funds held by the North Carolina Department of Insurance were returned to the Association.

3. domiciliary receivership proceedings

The Association continues to monitor legal issues arising from existing insolvent insurer estates. In the domiciliary receivership proceedings in Pennsylvania for Reliance Insurance Company and Legion Insurance Company, the Association continues to work with the domiciliary receivers on expense and reinsurance claim audits, large deductible recoveries, and early access payments. The Association continues to wait on the outcome of its final claim in the Massachusetts receivership proceeding involving American Mutual Liability Insurance Company ("AMLICO") and is awaiting final distribution from the AMLICO receiver.



David Sink
Director, Finance

David E. Sink



finance director's report

The financials of the North Carolina Insurance Guaranty Association reflect activity, progress, and stability over the twelve months ending August 31, 2008. The Association's cash and investments decreased approximately 8.1%, from \$84.3 million to \$77.4 million during the past year as claim payment activity continued – albeit at a slightly lower volume than the prior year. Likewise, the liabilities associated with the Association's claim and expense obligations decreased 11.9% over the last twelve months, from \$73.7 million to approximately \$65 million.

Distributions from some of the liquidators and administrators of the estates continued during the most recent report year, accounting for approximately \$1.9 million in miscellaneous receipts, including \$322,000 from the Reliance administrators related to large deductible recoveries. The Association's financial position was also favorably impacted by an increase in investment income during the report year. Investment income from the Association's cash management program approached \$3.8 million for the year ending August 31, 2008. Net claim and claim expense payments totaled about \$12.6 million for the year, representing a decrease of approximately \$886,000 – or 6.6% from the previous twelve months. The operating expenses of the Association decreased almost 11%, from \$2.4 million in the prior year to \$2.2 million for the twelve months ending August 31, 2008. The administrators of the Reciprocal of America insolvency revised the methodology for calculating and allocating early access distributions to the guaranty associations, which resulted in the North Carolina Insurance Guaranty Association being requested to refund \$978,054 during the report year.

The Association levied assessments in the amount of \$750,000 and \$2,500,000 for the Association and the insolvency of Casualty Reciprocal Exchange, respectively. No other assessments were necessary during the report year as most of the fund balances related to the liabilities of the individual insolvencies were substantial enough to meet the obligations of the Association. Based on our projections at this time, the assessments during the next twelve months will likely be comparable to— or even less than— those of the most recent year.

We believe the financial condition of the North Carolina Insurance Guaranty Association remains solid, and we appreciate the support and guidance we receive from our Board of Directors, Committees, and member companies as we meet our statutory obligations.

David E. Sink

David E. Sink
Director – Finance

Insurance Guaranty Association

balance sheet

| assets | year ending august 31, 2008 | year ending august 31, 2007 |
|--------------------------------------|--|--|
| Cash (Checking Account) | \$637,801 | \$226,774 |
| Investments | 76,759,027 | 84,024,560 |
| Assessments Receivable | 161,018 | 131,506 |
| Other Assets | - | - |
| total assets | \$77,557,846 | \$84,382,840 |
| liabilities & fund equity | | |
| Accounts Payable | \$- | \$2,312 |
| Claims Liability | 61,608,724 | 69,091,177 |
| Unearned Premium Liability | - | - |
| Claims Expense Liability | 3,375,505 | 4,637,334 |
| Outstanding Check Liability | - | 135,092 |
| Other Liabilities | 1,361 | (366) |
| total liabilities | \$64,985,590 | \$73,865,549 |
| fund equity | 12,572,256 | 10,517,291 |
| total liabilities & fund equity | \$77,557,846 | \$84,382,840 |

income statement

| income | year ending august 31, 2008 | year ending august 31, 2007 |
|------------------------------------|--|--|
| Membership Fees | \$1,250 | \$1,250 |
| Interest Income | 3,774,966 | 3,592,144 |
| Assessments Income | 3,246,778 | 4,067,947 |
| Miscellaneous Income | 1,976,644 | 13,501,090 |
| total income | \$8,999,638 | \$21,162,431 |
| expenses | | |
| Refund to Commissioner/Liquidators | \$978,054 | \$- |
| Refund to Member Insurers | - | - |
| Operating Expenses | 2,154,727 | 2,417,760 |
| Claims Paid (Net) | 11,003,836 | 11,416,688 |
| Claim Expenses | 1,496,654 | 1,891,710 |
| Premium Refunds | 55,685 | 134,230 |
| total expenses | \$15,688,956 | \$15,860,388 |
| net income | \$(6,689,318) | \$5,302,043 |



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Report of Independent Auditors

The Board of Directors and Members
North Carolina Insurance Guaranty Association

We have audited the accompanying statements of cash receipts and disbursements of the North Carolina Insurance Guaranty Association (the Association) for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Association's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the statements of cash receipts and disbursements present a summary of cash activity and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the statements referred to above present fairly, in all material respects, the cash receipts and disbursements of the North Carolina Insurance Guaranty Association for the years ended December 31, 2007 and 2006, and its cash and investment balances at December 31, 2007 and 2006.

Ernst & Young LLP

May 2, 2008

2008 ANNUAL REPORT

North Carolina Insurance Guaranty Association