



NORTH CAROLINA **INSURANCE GUARANTY ASSOCIATION**

2014 ANNUAL REPORT



INSURANCE GUARANTY ASSOCIATION

TABLE OF CONTENTS

Message from the Chairman 2

Board of Directors 2

Subcommittee 2

Managing Secretary’s Report 3

Report of NCIGA Counsel 4

Chief Operating Officer’s Report 5

Balance Sheet & Income Statement 6

Claims Paid Detail 7-8

Claims Reserved Detail 7-8

Shared Services 9-10

GENERAL ORGANIZATIONAL INFORMATION

NCIGA Main Phone Number 919-783-9813

Facsimile 919-783-5262

Toll Free. 800-456-5086

Website Address. www.ncrb.org/nciga/

Physical Address 2910 Sumner Blvd.
Raleigh, NC 27616

MANAGEMENT CONTACTS

Ray Evans Managing Secretary
919-582-1001 rfe@ncrb.org

R. Mike Newton Chief Operating Officer, IGA
919-582-1018 rmn@ncrb.org

Donna Kallianos Manager, Claims
919-582-1046 dpk@ncrb.org

Tammy Choboy Manager
Technical and Administrative
919-582-1044 trc@ncrb.org

Vicki Godbold Chief Administrative Officer
919-645-3170 veg@ncrb.org

Shelley Chandler Chief Information Officer
919-582-1057 src@ncrb.org

David Sink Chief Financial Officer
919-582-1012 des@ncrb.org

MESSAGE FROM THE CHAIRMAN



Allen Houck
CHAIRMAN

Coming off of a busy 2013, we were hoping for a quieter 2014. While this was not the case, we are fortunate to have an experienced and talented management team and staff to manage the events of the year. Of note:

- The Association refunded \$5.6 million to member companies. Assessments totaling \$8.6 million were made during the year. \$8.45 million of the assessments related to workers' compensation claims.
- The Association has been activated for three new insolvencies for fiscal year 2014: Gramercy Insurance Co., CAGC Insurance Company and Realm National.
- Staff continues to remain heavily engaged at the national level of the guaranty fund system. This involvement helps protect the interests of our own Association as decisions made nationally have a direct impact on what ultimately transpires in North Carolina.

Perhaps most significantly, Staff and Counsel have spent significant time on a matter related to the very purpose for which the Association was statutorily created. The Board has charged Staff and Counsel to ensure that the Association continues to fulfill its statutory obligations to the citizens of North Carolina and to the members of the Association. While this seems like an obvious mandate, it became necessary due to efforts by outside parties to obligate the Association for liabilities that fall outside of our statutory requirements, and for which a separate payment mechanism has already been established by law.

We have strongly objected to these efforts in a bench trial in Wake County Superior Court, and the Court, in its ruling of January 06, 2014, agreed with our position. The Superior Court decision is currently under appeal with the NC Court of Appeals. The case has significant bearing at the state level and potentially on a national scale. This particular matter has proven to be quite complex, but Staff and Counsel are doing an outstanding job in managing the matter at hand.

On the financial management side, due to the litigation above combined with significant IT efforts to position the Association for long-term technological stability, expenses came in just over 9% over budget for calendar year 2013. Management has kept the Board well apprised of its expenditures during the year, and they have a long history of being excellent stewards of the funds contributed by the members of the Association. Both the Board and management understand their roles as fiduciaries to the citizens of North Carolina and to the member companies of the Association. Additionally, the Association has an outstanding system of internal controls, and management is always looking for ways to improve such controls and reduce expenses. The Board appreciates these efforts.

Allen Houck

Sincerely,
Allen Houck

BOARD OF DIRECTORS

The Plan of Operation provides that the Board of Directors consists of eight directors: 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 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	Fernando Neil
Integon Indemnity Corporation	Art Lyon
Liberty Mutual Insurance Company	Andrew Larson
Nationwide Mutual Insurance Company	Jeanie Seidelmann
NC Farm Bureau Mutual Insurance Company	Allen Houck *
State Farm Mutual Auto Insurance Company	David Stoller **
Travelers Indemnity Company	Kathy Muedder

Non-voting Member	
Property & Casualty Agent	Delaine Bradsher

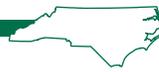
SUBCOMMITTEE

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

Members	Representative
NC Farm Bureau Mutual Insurance Company	Allen Houck *
Liberty Mutual Insurance Company	Andrew Larson
Nationwide Mutual Insurance Company	Jeanie Seidelmann

* Chairman

** Secretary-treasurer



MANAGING SECRETARY'S REPORT



Ray Evans
MANAGING
SECRETARY, IGA

This past year was going to be a “catch-up” year with no expected insolvencies on the horizon, where we could engage in housekeeping activity so that when we were again needed, we would be ready. A big part of this housekeeping was to examine our operations from an enterprise risk management (ERM) perspective to respond to current industry activity, particularly cyber related, and continue to position our operations for the future. The ERM effort involves assessing oversight, security, succession planning, business continuity, internal controls, a process environment and quality and making changes based on forecasts of future activity, and, most importantly, mesh this effort with our continuing strategy of maintaining a strong workforce, maintaining a robust electronic platform, being fiscally sound and being prepared for the next insolvency.

In a nutshell, rather than the catch-up time anticipated, the year has been another series of tests. But, as the main character’s final line in each episode of an old action TV series goes, “I love it when a plan comes together.” As a carryover from late 2013, the ULLICO insolvency has been difficult in that initially the claims information was not complete, so more work than usual was expended so that we could “...avoid excessive delay in payment, and to avoid financial loss to claimants or policyholders....” Just as we gained control over the ULLICO business, another perhaps ultimately larger and just as messy insolvency, Freestone Insurance Company,

occurred in August of this year. Freestone, another mostly workers’ compensation carrier, increased our open claim files count by about one-third but came with very little initial file data. However, with the “practice” from ULLICO and having an experienced workforce, we have been able to respond effectively. The “plan” or continuing strategy supported by the Board does work. Unfortunately, due to the unusual requirements of the domiciliary state of Freestone, there was no special deposit available, so an early member carrier assessment was necessary.

Another important test resulted from the retirement of Bill Delbridge. It is difficult to lose a very experienced adjuster and all-around good guy, and sometimes it even takes two folks. However, with Donna Kallianos managing claims and Tammy Choboy managing the technical and administrative side, other than missing Bill, we will do just fine.

Another test, still ongoing, was as a result of litigation stemming from the Carolinas Association of General Contractors (CAGC) insolvency. This is the insolvency of a carrier, which was the successor to a self-insured group, and the core question is which entity or entities should pay which set of claims, some of which go back to the 1980s prior to the creation of CAGC. With great work by counsel, we won a decisive decision in the Wake County Superior Court; however, that decision has been challenged and is now at the Appeals Court with oral arguments set for hearing in late September of 2014.

Then there was an effort to negate the Court’s CAGC decision by a legislative “fix” which would have changed the Guaranty’s statute definition of “covered claim.” Fortunately, in our opinion, the trade industry and a number of member carriers responded quickly and were able to address the issue, with the end result being no change in our statute as of this report. Regardless of the ultimate outcome, the interests of the Guaranty Association have been professionally and ably defended, and we believe the policyholders of NC have been protected.

As a final note, preparations for acquiring a replacement for the current aging operating system are moving along pretty much on schedule, with a goal of going live early in 2016. This will be a leap forward in having and maintaining a robust electronic environment.

A big thank you is in order to the Board for listening to us, counseling us and providing us with the tools to accomplish our mission and fulfill our responsibilities. Also, a big thank you to our associates, direct and shared, and our outside counsel, all of whom understand the tasks that we have to do and enable us to get the job done. As a last quote from a popular singer named Sinatra, “It was a very good year.”

REPORT OF NCIGA COUNSEL

In the past year, the Association activated in connection with three new insurer insolvencies—Gramercy Insurance Company, a Texas insurer; Realm National Insurance Company, a New York insurer, and CAGC Insurance Company, a North Carolina domestic insurer (“CAGC”). The outstanding claims against these insolvent insurers are predominately workers’ compensation claims, and the Association is actively administering the claims. To this point, none of the claims have involved direct claims against the Association, and counsel and the Association staff will continue to monitor any developments that could lead to litigation involving the Association.

In connection with CAGC, the Association had been actively involved in proceedings pending in the Superior Court for Wake County prior to CAGC’s liquidation on January 6, 2014. In those proceedings, commenced while CAGC was in rehabilitation, the Association intervened and sought a declaratory ruling from the Superior Court for Wake County that, upon entry of a liquidation order, the Association would have no obligation for certain claims arising prior to July 1, 2008, because those claims arose as self-insured claims against a group self-insurer, CompTrustAGC of North Carolina, prior to a merger between that group self-insurer and CAGC. A bench trial was conducted in November 2013. On January 6, 2014, the trial court entered an order and a judgment which declared (1) that the Association was obligated only for claims arising on and after July 1, 2008, under policies of workers’ compensation liability insurance issued by CAGC; and (2) that the North Carolina Self Insurance Security Association was obligated for the self-insured claims against CompTrustAGC of North Carolina that were incurred and arose prior to the July 1, 2008 merger. The North Carolina Self Insurance Security Association has appealed the trial court’s order and judgment to the North Carolina Court of Appeals. We expect that an opinion

from the North Carolina Court of Appeals is likely in the early part of 2015. While the appeal is pending, the North Carolina Self Insurance Security Association is administering and paying all of the self-insured claims against CompTrustAGC of North Carolina that were incurred and arose prior to the July 1, 2008, merger.

In the 2014 session of the North Carolina General Assembly, the Association and counsel have closely monitored an effort to amend provisions of Chapter 97 relating to self-insured groups and provisions of the North Carolina Insurance Guaranty Association Act so that the Association would become obligated for self-insured claims upon the merger of a self-insured group into a licensed insurer. If this effort were successful, it could result in a reversal of the trial court’s order and judgment in the CAGC proceedings, even before an appeal to the North Carolina Court of Appeals could be completed.

The Association has continued to focus on legal issues arising from insolvent insurer estates, working with domiciliary receivers on expense and reinsurance claim audits, large deductible recoveries and early access payments. In Virginia, the receiver of Reciprocal of America continues to consider a transaction that will transfer any remaining liabilities of that insolvent insurer to an assuming insurer, which will have the effect of terminating the Association’s liabilities for any remaining claims. As the receivers of various estates make claim priority determinations for different categories of claims in those estates, the Association will defend its interests, as necessary, to ensure that the Association receives the maximum recovery on its claims against each of these insolvent insurer estates.

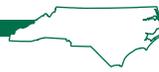
The Association and counsel remain proactive in monitoring events and developments that may impact the Association.



Christopher J. Blake
PARTNER,
NELSON MULLINS RILEY &
SCARBOROUGH LLP



Joseph W. Eason
PARTNER,
NELSON MULLINS RILEY &
SCARBOROUGH LLP



CHIEF OPERATING OFFICER'S REPORT

As I write this report, the North Carolina Insurance Guaranty Association (NCIGA) is preparing to activate for the August 15, 2014, insolvency of Freestone Insurance Company, which involves at least 100 workers' compensation claims with an estimated liability exposure of \$1.5 million to \$5 million. How do you adequately staff for an event involving such descriptive terms as "at least" and "estimated" in order to comply with your mission statement?

To comply with our Mission Statement, we need to meet our statutory-created duties which include payment of covered claims as defined by the Guaranty Act, avoiding excessive delays in those payments, avoiding financial loss to claimants and policy holders because of the insolvency of an insurer, and providing an association to assess the cost of such protection among insurers.

There are lofty goals set forth by the North Carolina Insurance Guaranty Association Act (Guaranty Act) and our Mission Statement—but it takes people and their efforts to "breathe life" into those stated goals and make them a reality. To meet those goals, we first need to remember that those "claimants" and "policyholders" mentioned above are "people," and we are charged to help those people. Indeed, our Mission Statement emphasizes that the manner in which we carry out those stated duties will define our excellence as an organization.

We will meet the challenge and provide excellent service—it's what we do—but the reality is that the NCIGA's direct staff is already lean, being composed of eight associates currently involved with 31 open insolvencies. The questions remain—are we adequately staffed to meet this latest challenge?

The answer is found by looking beyond the direct staff numbers to the other parties that provide valuable contributions to our



operation throughout the year. The input of these other "team members" is crucial to our success, and I invite you to read their contributions to this year's Annual Report to understand the value that they add to the guaranty fund process.

The Annual Report contains a message from Mr. Houck, who serves as the Chairman of the NCIGA's Board of Directors. The Board, as established by our ACT and furthered developed by the Plan of Operations, provides Staff guidance throughout the year. Some members of the Board serve on the Audit Subcommittee that oversees the financial activities of the NCIGA.

Mr. Evans, the Managing Secretary, provides overall leadership to the NCIGA, and his section of the Annual Report serves as an assessment of the year's activities and how we did when considering the goals set for the organization.

A recount of the year's legal activity is provided by Mr. Blake and Mr. Eason, who serve as the NCIGA's outside general counsel. They provide legal advice to Mr. Evans, Staff, and Board and often become involved in litigation naming or of importance to the NCIGA.

And then we come to the NCRB-NCRF-NCIGA Shared Services Group, which provides Information Services (IS), Human Resources (HR) and Financial Services (FS) to the three organizations. Ms. Chandler, Chief Information Officer, writes about the current services provided by IS which is composed of the Information Technology and Process Documentation group. Ms. Vicki Godbold, Chief Administration Officer, writes about the activities of HR and Administration Services, and of the support we give our most important resource, our associates. Mr. Sink, Chief Financial Officer, provides valuable input in his section of the Report discussing our financial position and the year's financial activities, including refunds and assessment information, portfolio activity, budget analysis and a comparison of this year's administrative payments, net claim and claim expense payments with last year's results.

I hope that the reader can now readily see that the NCIGA is a lot more than eight direct associates carrying out the dictates of the Guaranty Act. We have a host of skilled professionals providing legal, administrative, HR, IT and Financial services to our Association and supporting our Infrastructure.

So let's revisit the original staffing question. There may well be the hiring of a workers' compensation adjuster and temporary clerical person, and that will be determined when we have better information on the insolvency's impact. But our initial response is ready as the infrastructure is in place to meet the challenge. It's what we do.

R. Mike Newton

R. Mike Newton
Chief Operating Officer, IGA

INSURANCE GUARANTY ASSOCIATION

BALANCE SHEET

Year Ending	August 31, 2014 (Preliminary)	August 31, 2013
Assets		
Cash (Checking Account)	\$ 2,450,000	\$ 1,216,048
Investments	71,250,000	71,698,009
Assessments Receivable	9,500,000	-
Other Assets	-	-
Total Assets	\$ 83,200,000	\$ 72,914,057
Liabilities & Fund Equity		
Accounts Payable	\$ -	\$ -
Claims Liability	72,000,000	74,943,564
Unearned Premium Liability	-	-
Claims Expense Liability	4,300,000	3,839,860
Other Liabilities	(1,700)	(1,689)
Total Liabilities	\$ 76,298,300	\$ 78,781,735
Fund Equity	6,901,700	(5,867,678)
Total Liabilities & Fund Equity	\$ 83,200,000	\$ 72,914,057

INCOME STATEMENT

Year Ending	August 31, 2014 (Preliminary)	August 31, 2013
Income		
Membership Fees	\$ 1,000	\$ 850
Interest Income	1,405,000	877,984
Assessments Income	18,100,000	430,003
Miscellaneous Income	10,502,000	14,296,427
Total Income	\$ 30,008,000	\$ 15,605,264
Expenses		
Refund to Commissioner/Liquidators	\$ 142,600	\$ -
Refund to Member Insurers	5,950,000	12,749,950
Operating Expenses	2,390,000	2,117,479
Claims Paid (Net)	10,300,000	5,377,477
Claim Expenses	1,250,000	542,966
Premium Refunds	-	-
Total Expenses	\$ 20,032,600	\$ 20,787,872
Net Income (Loss)	\$ 9,975,400	\$ (5,182,608)



CLAIMS PAID
DETAIL

	WC			Auto		
	Indemnity Paid	Expense Paid	Total Paid	Indemnity Paid	Expense Paid	Total Paid
Atlantic Mutual Ins. Co.	\$523,121	\$49,881	\$573,002			
CAGC Insurance Co.	\$251,436	\$23,520	\$274,956			
Casualty Reciprocal	\$172,308	\$12,373	\$184,681			
Centennial Ins. Co.	\$89,354	\$2,424	\$91,778			
Credit General	\$268,552	\$34,381	\$302,933			
Employers Casualty	\$49,092	\$3,756	\$52,848			
Fremont Indemnity Co.	\$96,308	\$7,077	\$103,385			
Freestone Insurance Co.			\$0			
Frontier Ins. Co.	\$376	\$45	\$421			
Gramercy Ins. Co.				\$2,854	\$4,707	\$7,561
Home Insurance Co.	\$151,918	\$37,355	\$189,273			
Imperial Casualty	\$150,047	\$27,036	\$177,082			
INSCORP Ins.	\$128,312	\$5,736	\$134,049			
Legion Insurance Co.	\$653,501	\$89,902	\$743,403			
Lumberman Mut. Group	\$1,765,561	\$91,686	\$1,857,248			
Park Ave P&C	\$19,218	\$5,490	\$24,708			
PHICO Insurance Co.	\$10,869	\$86	\$10,955			
Realm Nat. Ins. Co.	\$0	\$7,448	\$7,448			
Reliance Insurance Co.	\$1,852,512	\$141,980	\$1,994,492			
ROA Insurance Co.	\$90,565	\$13,527	\$104,093			
Shelby Insurance Co.	\$16,188	\$47	\$16,235			
South Carolina Ins. Co.	\$910,943	\$50,304	\$961,247			
ULLICO Cas. Ins. Co.	\$2,411,254	\$516,720	\$2,927,974			
Villanova Insurance Co.	\$857	\$9	\$867			
888 WC Mutual Trust	\$411,175	\$84,753	\$495,928			
999 WC Stock Trust	\$61,822	\$4,182	\$66,004			

CLAIMS RESERVED
DETAIL

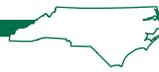
	WC				Auto			
	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending	Indemnity Reserve	Expense Reserve	Total Reserve	Files Pending
Atlantic Mutual Ins. Co.	\$4,707,052	\$129,808	\$4,836,860	10				
CAGC Insurance Co.	\$1,838,234	\$148,332	\$1,986,566	9				
Casualty Reciprocal	\$1,238,004	\$54,810	\$1,292,814	6				
Centennial Ins. Co.	\$343,767	\$21,767	\$365,534	3				
Credit General	\$2,119,391	\$66,917	\$2,186,308	4				
Employers Casualty	\$361,873	\$31,932	\$393,805	4				
Fremont Indemnity Co.	\$1,669,886	\$23,470	\$1,693,356	2				
Freestone Ins. Co.	\$1,890,500	\$22,500	\$1,913,000	69				
Frontier Ins. Co.	\$13,442	\$955	\$14,397	1				
Gramercy Ins. Co.					\$62,846	\$10,413	\$73,259	3
Home Insurance Co.	\$2,656,100	\$222,634	\$2,878,734	22				
Imperial Casualty	\$479,682	\$832	\$480,514	1				
INSCORP Ins.	\$585,027	\$30,636	\$615,663	1				
Legion Insurance Co.	\$6,637,320	\$200,349	\$6,837,669	23				
Lumberman Mut. Group	\$12,770,346	\$321,863	\$13,092,209	49	\$195,711	\$80	\$195,791	3
Park Ave P&C	\$1,939,705	\$26,161	\$1,965,866	1				
PHICO Insurance Co.	\$111,598	\$1,914	\$113,512	1				
Realm Nat. Ins. Co.	\$15,000	\$7,552	\$22,552	1				
Reliance Insurance Co.	\$18,150,762	\$1,093,203	\$19,243,965	57				
ROA Insurance Co.	\$1,725,777	\$69,368	\$1,795,145	9				
Shelby Insurance Co.	\$271,909	\$23,352	\$295,261	3	\$29,000	\$7,275	\$36,275	2
South Carolina Ins.	\$2,973,620	\$52,607	\$3,026,227	6	\$48,918	\$14,222	\$63,140	2
ULLICO Cas. Ins. Co.	\$1,846,741	\$185,745	\$2,032,486	15				
Villanova Insurance Co.	\$179,608	\$6,424	\$186,032	2				
888 WC Mutual Trust	\$4,755,124	\$280,309	\$5,035,433	40				
999 WC Stock Trust	\$1,078,377	\$30,766	\$1,109,143	3				
TOTAL			\$73,413,051				\$368,465	

	All Other			Total
	Indemnity Paid	Expense Paid	Total Paid	
Atlantic Mutual Ins. Co.				\$573,002
CAGC Insurance Co.				\$274,956
Casualty Reciprocal				\$184,681
Centennial Ins. Co.				\$91,778
Credit General				\$302,933
Employers Casualty				\$52,848
Fremont Indemnity Co.				\$103,385
Freestone Insurance Co.				\$0
Frontier Ins. Co.	\$0	\$5,075	\$5,075	\$5,496
Gramercy Ins. Co.				\$7,561
Home Insurance Co.				\$189,273
Imperial Casualty				\$177,082
INSCORP Ins.				\$134,049
Legion Insurance Co.				\$743,403
Lumberman Mut. Group				\$1,857,248
Park Ave P&C				\$24,708
PHICO Insurance Co.				\$10,955
Realm Nat. Ins. Co.				\$7,448
Reliance Insurance Co.				\$1,994,492
ROA Insurance Co.				\$104,093
Shelby Insurance Co.				\$16,235
South Carolina Ins. Co.				\$961,247
ULLICO Cas. Ins. Co.				\$2,927,974
Villanova Insurance Co.				\$867
888 WC Mutual Trust				\$495,928
999 WC Stock Trust				\$66,004
				Unearned Premium
				Net Total
				Recoveries
				Gross Total Expenditure
				\$11,307,644
				579,950
				\$11,887,604

CLAIMS
PAID
DETAIL

	All Other				Files Pending	Total	
	Indemnity Reserve	Expense Reserve	Total Reserve	Total Reserve		Total Pending	
Atlantic Mutual Ins. Co.	\$60,002	\$86,382	\$146,384	3	\$4,983,244	13	
CAGC Insurance Co.					\$1,986,566	9	
Casualty Reciprocal					\$1,292,814	6	
Centennial Ins. Co.					\$365,534	3	
Credit General					2,186,308	4	
Employers Casualty					\$393,805	4	
Fremont Indemnity Co.					\$1,693,356	2	
Freestone Ins. Co.					\$1,913,000	69	
Frontier Ins. Co.	\$100,000	\$14,925	\$114,925	1	\$129,322	2	
Gramercy Ins. Co.					\$73,259	3	
Home Insurance Co.					\$2,878,734	22	
Imperial Casualty					\$480,514	1	
INSCORP Ins.					\$615,663	1	
Legion Insurance Co.					\$6,837,669	23	
Lumberman Mut. Group	\$47,037		\$47,037	6	\$13,335,037	58	
Park Ave P&C					\$1,965,866	1	
PHICO Insurance Co.	\$600,000	\$200,000	\$800,000	2	\$913,512	3	
Realm Nat. Ins. Co.					\$22,552	1	
Reliance Insurance Co.	\$602	\$200	\$802	8	19,244,767	65	
ROA Insurance Co.					\$1,795,145	9	
Shelby Insurance Co.					\$331,536	5	
South Carolina Ins.					\$3,089,367	8	
ULLICO Cas. Ins. Co.					\$2,032,486	15	
Villanova Insurance Co.					\$186,032	2	
888 WC Mutual Trust					\$5,035,433	40	
999 WC Stock Trust					\$1,109,143	3	
TOTAL			\$1,109,148		\$74,890,664	372	

CLAIMS
RESERVED
DETAIL



SHARED SERVICES



Shelley Chandler
CHIEF INFORMATION OFFICER

The Information Services (IS) Department is responsible for Information Technology (IT) as well as Process Documentation. We strive to provide quality software solutions to our customers and provide safe, secure, efficient technology solutions for our internal staff.

The Software Development group has played an integral role in the NCIGA's efforts to evaluate the options to modernize its technology suite. The NCIGA is working collaboratively with other IGAs across the nation in this effort, and North Carolina continues to play an integral part in this effort due to our extensive experience evaluating, building and implementing software solutions. This effort will continue into 2015 and will provide significant opportunities for improvement by the NCIGA once implemented.

As part of our risk management effort, we are continuing to implement ongoing Internal Controls to provide protection and regularly evaluate and audit areas such as segregation of duties, rights access and other control areas to ensure we are doing everything we can to prevent opportunities for fraud. It should be noted that the effort underway to implement a new processing system by the NCIGA will greatly enhance the ability to implement better risk mitigation strategies, including security improvements and Internal Control standardization.

In the first half of 2014, we focused our efforts on revisiting our Business Impact Analysis, which is an effort to re-evaluate the business needs surrounding how long processes and systems can be interrupted during a business interruption or disaster as well as how much data can be lost. The second half of the year and into 2015 will focus on re-defining solutions for recovery of technology (Disaster Recovery) and physical space as well as ensuring workaround processes are in place until standard operations are back up and running.

Much of 2014 has been focused on ensuring that our technology is current and appropriate. In addition to the more obvious risk management areas covered by security, internal controls and business continuity planning, the IT department has focused on more direct technical upgrades to ensure we remain current and modern. We continually upgrade the hardware in our infrastructure as well as our operating systems. Due to Microsoft

support timelines, we must upgrade our server operating system and databases to a newer version. Unfortunately, a clean upgrade path is not available, so we must rebuild every one of our servers and their applications to move to this new operating system. This is a very complex, time-consuming undertaking.



Vicki Godbold
CHIEF ADMINISTRATIVE OFFICER

“Teamwork is the ability to work together toward a common vision. The ability to direct individual accomplishments toward organizational objectives. It is the fuel that allows common people to attain uncommon results.” – Andrew Carnegie

Our Human Resources Department is committed to the development of our Organization's most valued asset—our people. Administrative Services provide a secure and comfortable work environment along with mail services and receptionist services.

Years of Service		
Years	# of Employees	% of Employees
0-9 Years	0	0%
10-19 Years	7	100%
20-29 Years	0	0%
30-39 Years	0	0%
40+ Years	0	0%
Total	7	100%

Our Wellness Program consists of

- WeightWatchers at Work,
- a partnership with WakeMed Hospital,
- a partnership with the Performance Athletic Center,
- a partnership with the NC Prevention Partners,
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10k steps a day,
- flu shots provided for associates on-site and
- Certification in First Aid, CPR and AED for a third of our workforce through the American Red Cross.

On-site training this year consisted of 22 fitness classes, four wellness seminars, 30 Wellness lunch-n-learns, six professional development and four financial workshops.

Community Service involvement by our associates this year included St. Jude Children's Research Hospital, the United Way and the NC Food Bank.



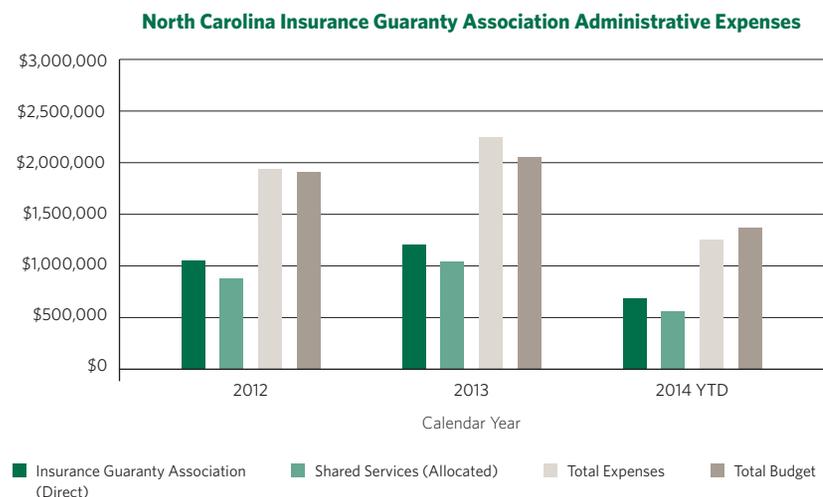
David Sink
CHIEF FINANCIAL OFFICER

The financial exhibits on page 6 reflect the North Carolina Insurance Guaranty Association's comparative balance sheets and income statements for the most recent two years ending August 31. During the past 12 months, four additional insolvencies have been activated by the Association, which obviously affected the financial activity. The Association's assets increased from \$72.9 million a year ago to \$83.2 million as of August 31, 2014, which is mostly attributable to an assessment issued near the end of the report period. Since inception, it has been the Association's accounting policy to maintain all receipts and disbursements by insolvency, which can result in assessments for certain insolvencies and refunds for others during the report year. Such was the case this past year as various receipts enabled the Association to refund just under \$6 million to its member companies for older insolvencies despite having to assess \$18.1 million for more recent ones.

Net claim and claim expense payments approximated \$11.5 million, which represents an increase of \$5.6 million and is primarily attributable to activity related to the more recent insolvencies. Claim and claim expense reserves were estimated to be about \$76.3 million at the time of this report but are likely to be revised once the claim files are received and reviewed for the recent insolvency of Freestone Insurance Company. The Association realized net investment income of just over \$1.4 million, which represents a yield of about 1.8%. Reports reflecting the portfolio activity are provided to the Audit Committee of the Board each quarter, and all transactions were in compliance with the Cash Management and Investment Guidelines at the time of purchase.

The administrative expenses increased about 13% from the previous year, which is primarily attributable to the increased activity involving Counsel due to the complexity of recent and pending insolvencies. The activity resulted in the Association being over budget for the past two years, but 2014 expenses appear to have stabilized. The total administrative expenses are comprised of the direct costs related to the specific activities of the Association as well as the allocated expenses of the departments whose services are shared with the Rate Bureau and Reinsurance Facility. The table and chart that follow reflect a summary of the direct and allocated expenses for the prior two years and the first half of 2014.

Administrative Expenses	2012	2013	Thru June 2014
Insurance Guaranty Association	\$ 1,051,833	\$ 1,205,191	\$ 686,193
Shared Services (Allocated)	876,458	1,034,810	563,920
Total Expenses	\$ 1,928,291	\$ 2,240,001	\$ 1,250,113
Total Budget	\$ 1,902,350	\$ 2,045,082	\$ 1,366,341



The Association's financial position was strengthened near the end of the report period in an effort to face the responsibilities and obligations of the recent insolvencies and to prepare for the year ahead to the extent possible. As always, we want to express our appreciation to our Board of Directors, Committees, Counsel and member companies for their assistance in fulfilling our statutory responsibilities.



NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION

2910 Sumner Blvd. Raleigh, NC 27616 www.ncrb.org/nciga