NORTH CAROLINA INSURANCE GUARANTY ASSOCIATION
PLAN OF OPERATION

ARTICLE 1. PLAN OF OPERATION.

This Plan of Operation (hereinafter referred to as the "Plan") of the North Carolina Insurance Guaranty Association (the "Association"), shall become effective upon written approval of the North Carolina Commissioner of Insurance (the "Commissioner") and the Association's Board of Directors.

ARTICLE 2. BOARD OF DIRECTORS.

A. There shall be a Board of Directors of the Association (the "Board") in accordance with the provisions of Section 58-48-30 of the North Carolina Insurance Guaranty Association Act (the "Guaranty Act").

1. The Board shall consist of eight (8) directors, comprised of seven (7) elected directors, each of whom are member insurers, who shall serve three year terms, or until their successors have been elected and qualified, and one (1) non-voting appointed director who shall be a property and casualty insurance producer authorized to write insurance for a member insurer and who is appointed by the Commissioner to serve for a three year term at the pleasure of the Commissioner. Any director shall be eligible for re-election or re-appointment.
2. The elected directors of the Board shall be elected by member insurers at a triennial meeting of the members of the Association, subject to the approval of the Commissioner, and shall be fairly representative of the Association's member insurers. The elected directors shall be elected by a plurality vote of the member insurers, each member insurer being entitled to one vote. At least one of the elected directors shall be a domestic insurance company. Upon the election of the elected directors, the Association shall notify the Commissioner and request the Commissioner's written approval of the elected directors. If, within ten (10) days following such notification and request, the Commissioner does not order a new election, the elected directors shall be deemed approved.
3. Vacancies on the Board in the interim between triennial meetings of the members of the Association shall be filled by a member insurer as selected by a majority of the Board. Upon the selection of an interim director, the Association shall notify the Commissioner and request the Commissioner's written approval of the interim director. If, within ten (10) days following such notification and request, the Commissioner does not order a new selection, the interim director shall be deemed approved. A Board member may change its representative on the Board by Notice to the Chair and the Chief Executive Officer.
4. Member insurers belonging to affiliated groups or under common ownership or control shall not hold more than one directorship on the Board.

5. The elected directors of the Board shall vote to elect a Chair and such other officers as may be necessary from among themselves, each to serve for a period of one year.

B. At any meeting of the Board, each elected director shall have one vote, and a majority of the elected directors shall constitute a quorum for the transaction of business. The acts of a majority of the elected directors present at a meeting at which a quorum is present shall be the acts of the Board; except that an affirmative vote of a majority of all of the elected directors is required to:

1. Approve a contract with a servicing facility;
2. Levy an assessment or provide for a refund;
3. Borrow money;
4. Approve issuance of bonds;
5. Review and approve investment policies and guidelines;
6. Review and approve audited financial statements of the Association;
7. Elect officers to the Board; and
8. Approve amendments to the Plan.

C. An annual meeting of the Board shall be held each year in the month of October following the conclusion of the Association's fiscal year as of August 31. At each annual meeting the Board shall:

1. Review the Plan and submit proposed amendments, if any, to the Commissioner for approval or rejection.
2. Review each outstanding contract with servicing facilities and make any necessary corrections, improvements or additions.
3. Review operating expenses and covered claims costs and determine if an assessment, or a refund of a prior assessment, and the amount of either, is necessary for the proper administration of the Association. If such assessment or refund is determined to be necessary, the Board shall levy such assessment or make such refund in accordance with Section 58-48-35(a)(3) or Section 58-48-120(b) and Section 58-48-35(b)(6) or Section 58-48-115(a)(2) of the Guaranty Act. The Board may waive the collection from or refund to a member insurer when the amount produces an assessment or refund of less than $10.00. Refunds to member insurers approved by the Board shall be processed by the Association through electronic funds transfers.
4. Review, consider and act on other matters deemed by it to be appropriate for the administration of the Association.

D. The Board, at the discretion of the Chair, may be called to an emergency meeting promptly after receiving notice of the insolvency of any member insurer. At least 48 hours oral or written notice shall be given each Board member. At such meeting or a subsequent meeting, the Board shall:

1. Consider and decide whether or not an insurer has, in fact, become an insolvent insurer within the meaning of the Guaranty Act.
2. Consider and decide what method or methods, as permitted under Section 58-48-35 of the Guaranty Act, shall be adopted to pay and discharge covered claims of the insolvent insurer for each of the three kinds of insurance as identified in Section 58-48-25 of the Guaranty Act, but in no event shall an insolvent insurer be appointed as a servicing facility without the conditional designation of the Board and the subsequent written approval of the Commissioner.
3. Consider and decide what immediate action, if any, should be taken to assure the proper retention of the records of the insolvent insurer necessary for the prompt handling by the Association of covered claims. In this effort, the Board or a designated servicing facility shall work closely with the receiver, liquidator or statutory successor of the insolvent insurer and seek approval of having the Association, or a designated servicing facility, take direct physical control of that portion of the insolvent insurer's records deemed by the Board to be necessary for the discharge of the Association's duties imposed by law.
4. Consider and decide what persons, if any, should be hired by the Association to implement and carry out broad directives of the Board made pursuant to its statutorily imposed duties.
5. Consider and decide to what extent and in what manner the Association shall review and contest settlements and releases or judgments, orders, decisions, verdicts and findings to which the insolvent insurer or its insureds were parties in accordance with Sections 58-48-35(a)(4) and 58-48-85 of the Guaranty Act.
6. Consider and decide what assessment, if any, should be levied on member insurers. If such assessment is determined to be necessary, the Board shall levy such assessment in accordance with Sections 58-48-35(a)(3), 58-48-115(a)(3), or 58-48-120(b) of the Guaranty Act. Notice of assessment shall be in sufficient detail to enable member insurers to understand the action taken by the Board. The Board may waive the collection from a member insurer when the amount produces an assessment of less than ten dollars ($10.00).
7. Take any legal steps deemed necessary to protect the Associations' rights against the estate of the insolvent insurer and discharge the Association's covered claim obligations arising from the insolvent insurer.
8. Consider and decide any other matter deemed to be appropriate for the proper administration of the Association.

If the Association activates for an insurer insolvency without a meeting of the Board, the Board shall nonetheless be notified of the insurer's insolvency and the activation of the Association.

E. The Board may determine a schedule of such other regular meetings as it may deem appropriate. Special meetings of the Board may be called by the Chair and shall be called at the request of any two elected directors. Not less than five (5) days written notice shall be given to each Board member of the time and place and purpose or purposes of any special meeting. Any elected director not present at any meeting may consent in writing to any specific action taken by the Board. Any action approved by the required number of elected directors at any meeting, including those consenting in writing, shall be as valid a Board action as though such consenting members were present and voting. At any special meeting the Board may consider and decide only such matters as are designated in the written notice of the meeting, except that the Board may also consider and decide administrative matters whether or not specifically designated in said notice.

F. Members of the Board shall serve without compensation, but they may be reimbursed for necessary travel expenses incurred in attendance at Board meetings. Such expenses shall be submitted to the Board for approval and subsequent payment.

ARTICLE 3. OPERATIONS.

A. The official address of the Association shall be the address of the Chief Executive Officer of the Association, currently 4140 Parklake Avenue, Suite 320, Raleigh, North Carolina 27612.

B. The Board may employ such persons, firms or corporations to perform such administrative functions as are necessary for the Board's performance of the duties imposed on the Association. Such persons, firms or corporations shall keep such records of their activities as may be required by the Board. Such persons may include a Chief Executive Officer who, under the supervision of the Board, shall have general supervision and control of all affairs of the Association and of all employees of the Association and shall:

1. Be responsible for all property of the Association; for the collection of all fees, dues, assessments and other monies due the Association; for the disbursement of funds of the Association only in the payment of necessary expenses within the authority or obligations of the Association; and for accounting to the Board for all property, funds and disbursements of the Association;
2. Have the authority to hire and supervise the staff and personnel of the Association and maintain the office space and office equipment necessary to the effective and efficient operation of the Association;
3. Have the authority to sign and endorse, in the name and on behalf of the Association in the transaction of its affairs, contracts, leases, other agreements, checks, drafts, notes and other bills of exchange, subject to such limitations and counter-signature as the Board may determine; and
4. Perform such other duties as the Board may determine.

C. The Board or Chief Executive Officer may open one or more bank accounts for use in Association business. Reasonable delegation of deposit and withdrawal authority to such accounts for Association business may be made consistent with prudent fiscal policy. Any person to whom such authority has been delegated shall be bonded in such amount as may be required by the Board.

1. The Board may borrow money from any person or organization including a member insurer, from the separate reserve accounts created under Section 58-48-115 and Section 58-48- 120, or from an appointed servicing facility as the Board in its judgment deems advantageous for the Association and the public.
2. The Board may procure bonds and insurance covering directors, officers, employees, and agents of the Association as it determines to be in the best interests of the Association and the Member insurers.
3. The Association shall have the authority to utilize assessment funds collected under Section 58-48-35(a)(3) or Section 58-48-120(b) and Section 58-48-35(b)(6) or Section 58-48-115(a)(2) of the Guaranty Act, any other available funds of the Association, and any advances or dividends received from the liquidators of insolvent insurers, to service any debt obligations incurred by the Association, including payment of principal, interest, and related costs.
4. With Board approval, and pursuant to Section 58-48-35(b)(2) of the Guaranty Act, the Association shall have the authority to issue notes, bonds, or debentures, or establish a special purpose trust or other entity, solely for the purpose of facilitating any debt incurred by the Association.
5. With Board approval, and pursuant to Section 58-48-35(b)(2) of the Guaranty Act, the Association shall have the power to secure any and all indebtedness of the Association by pledging or granting liens or mortgages on, or by otherwise encumbering, any or all of the Association's real or personal property including, but not limited to, member assessments
6. With Board Approval, and pursuant to Section 58-48-35(b)(2) of the Guaranty Act, the Association shall have the authority to enter into contracts or agreements with banks, insurers, or other financial institutions or parties that it determines are necessary or desirable to effectuate the borrowing authority described in this subsection.

D. The Board may levy a non-pro-rata assessment not to exceed $25 in any calendar year against each member insurer to cover reasonable administrative and other general expenses of the Association not related to a particular insolvent insurer.

E. The Board may contract with one or more persons, firms or corporations to serve as servicing facilities should the Board receive notice from the Commissioner of an insolvency of a member insurer. Such contract terms shall comply with the Guaranty Act and be subject to the approval of the Commissioner. Such contract terms may include:

1. Terms of payment to the servicing facility;
2. Extent of authority delegated to the servicing facility;

3. Procedures for giving the receiver, liquidator or statutory successor timely notice, sufficient to protect the Association's right of subrogation against him/her, of each and every covered claim not otherwise reported to him/her;

4. Procedures contemplated for the handling of covered claims as defined in the Guaranty Act;

5. Procedures for the printing or preparation of forms necessary for the proper handling of covered claims; and

6. Requirement of bond for faithful performance.

F. To aid in the detection and prevention of insurer insolvencies, the Board of Directors may, upon majority vote, request that the Commissioner order an examination of any member insurer which the Board in good faith believes may be in a financial condition hazardous to the policyholders or the public. No such request shall be considered a public document.

G. To reduce expenses and lessen the burden on member assessments, and pursuant to Section 59-48-35(b)(7) of the Guaranty Act, the Association may contract as a servicing facility with insurance departments, receivers or liquidators, guaranty associations, or a similar association in other states provided that any such arrangement is approved by the Board and the Commissioner, and the Board has determined that the arrangement will not diminish the Association's ability to fulfill its statutory obligations.

ARTICLE 4. RECORDS AND REPORTS.

A. A written record of the proceedings of each Board meeting shall be made. The original of this record shall be retained by the Chair, or if the Board so directs by the Chief Executive Officer, with copies being furnished to each Board member, and, upon written request, to the Commissioner and to any member insurer.

B. The Board shall make an annual report to the Commissioner and, upon written request, any member insurer. Such report shall include a review of the Association's activities and an accounting of its income and disbursements for the prior fiscal year.

C. The Board shall maintain an Audit Committee consisting of three (3) members of the Board and shall authorize an independent audit of the Association’s books and records each year completed before April 30. The audit report shall be delivered to both the Board and the Chief Executive Officer. The audit report shall be provided to the Commissioner. The audit report shall be available, upon written request, to any member insurers.

D. The Association shall establish procedures for records to be kept of all financial transactions of the Association, its agents, and the board of directors.

ARTICLE 5. MEMBERSHIP.

A. Insurers admitted to transact the kinds of insurance covered by the Guaranty Act in the State of North Carolina shall automatically become members of the Association upon admission. An insurer becoming a member insurer shall pay to the Association upon demand a nonrefundable initial membership fee of $50.00. Such initial membership fee shall be in lieu of any non-pro-rata assessment levied by the Board during the calendar year in which the insurer becomes a member insurer. An insurer which ceases to be licensed to operate in North Carolina shall automatically cease to be a member effective on the day following the termination or expiration of its license to transact the kinds of insurance covered by the Guaranty Act; provided such insurer shall remain liable for any assessments based on insolvencies occurring prior to termination of its license.

B. Any member insurer aggrieved by an action or decision of the Association shall appeal to the Board in writing before appealing to the Commissioner. If such member insurer is aggrieved by the final action or decision of the Board or if the Board does not act on such complaint within 30 days, the member insurer may appeal to the Commissioner in writing within 30 days after the action or decision of the Board or the expiration of the 30 days.

ARTICLE 6. INDEMNIFICATION.

A. All persons described in Section 58-48-80 of the Act (except the Commissioner and the Commissioner's representatives) shall be indemnified by the Association against (1) amounts paid in satisfaction of settlements, judgments, decrees, fines or penaltiesand (2) amounts actually and necessarily incurred in the defense of any action, suit or proceedings, whether civil, criminal, administrative or investigative, including all appeals, brought against such person, such person's testator or intestate on account of any action taken or not taken by such person in the performance of such person's powers and duties under the Guaranty Act. Notwithstanding the foregoing, the Association shall have no obligation to indemnify such person for amounts paid in satisfaction of settlements, judgments, decrees, fines or penalties if such person has been finally adjudged to have committed a breach of duty involving gross negligence, bad faith, dishonesty, willful misfeasance or reckless disregard of the responsibilities of such person's office or position. In the event of settlement before final adjudication, with or without court approval, such indemnity shall be provided only if the Association is advised by independent legal counsel that such person did not, in counsel's opinion, commit such a breach of duty.

B. The expense of such indemnification shall be paid for by the member companies in such manner as the Board may determine.

C. This article is intended to operate as a supplement and additional safeguard to, and not in place of, the immunity granted by Section 58-48-80 of the Act.

D. Any indemnification shall be made by the Association only as authorized in the specific case upon a determination that indemnification of the person is proper in the

circumstances because he has met the applicable standard of conduct. Such determination shall be made (i) by the Board by a majority vote of a quorum consisting of Directors who are not or were not parties to or threatened with such action, suit or proceeding, or any other action, suit or proceeding arising from the same or similar operative facts, or (ii) if such a quorum is not obtainable with due diligence, (a) by the Board by majority vote upon the opinion in writing of independent legal counsel (compensated by the Association) that indemnification is proper in the circumstances, or (b) by vote in person or by proxy of a majority of the member companies.

E. The expenses of each person indemnified hereunder incurred in defending any action, suit, or proceeding (including all appeals) may be paid by the Association in advance of the final disposition of such action, suit, or proceeding if authorized under Paragraph D., upon receipt of an undertaking by or on behalf of such person to repay such expenses unless it shall ultimately be determined that such person is not entitled to be indemnified by the Association.

F. The indemnification provided by this Article 6 shall not be deemed exclusive of or in any way to limit any other rights to which any person indemnified may be or may otherwise become entitled and shall continue as to a person who has ceased to be a person entitled to indemnification under this Article 6 and shall inure to the benefit of the heirs, executors and administrators of such a person.

G. The Association may, as the Board may direct, purchase and maintain insurance to indemnify the Association for any obligation which it incurs as the result ofindemnification under this Article 6 and to indemnify the persons covered by this Article 6 in instances in which they may be indemnified under this Article 6 or in instances in which they may not otherwise be indemnified by the Association under this Article 6 to the extent permitted by law.

ARTICLE 7. CONFORMITY TO STATUTE.

Article 48 of Chapter 58 of the General Statutes of North Carolina, as written, and as may be amended, is incorporated as part of this plan.

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