

Renewal pricing—what you can expect

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The National Catholic Risk Retention Group, Inc. (TNCRRG), has always identified and recognized financial stability as a critical component of its operational strategy and operational practices. This fact is clearly and unequivocally reflected in TNCRRG's mission statement, which stipulates that TNCRRG's mission is "To provide financially stable and cost-effective excess liability programs..." for the Church. The question then becomes, how do we maintain "financially stable and cost-effective" operations?

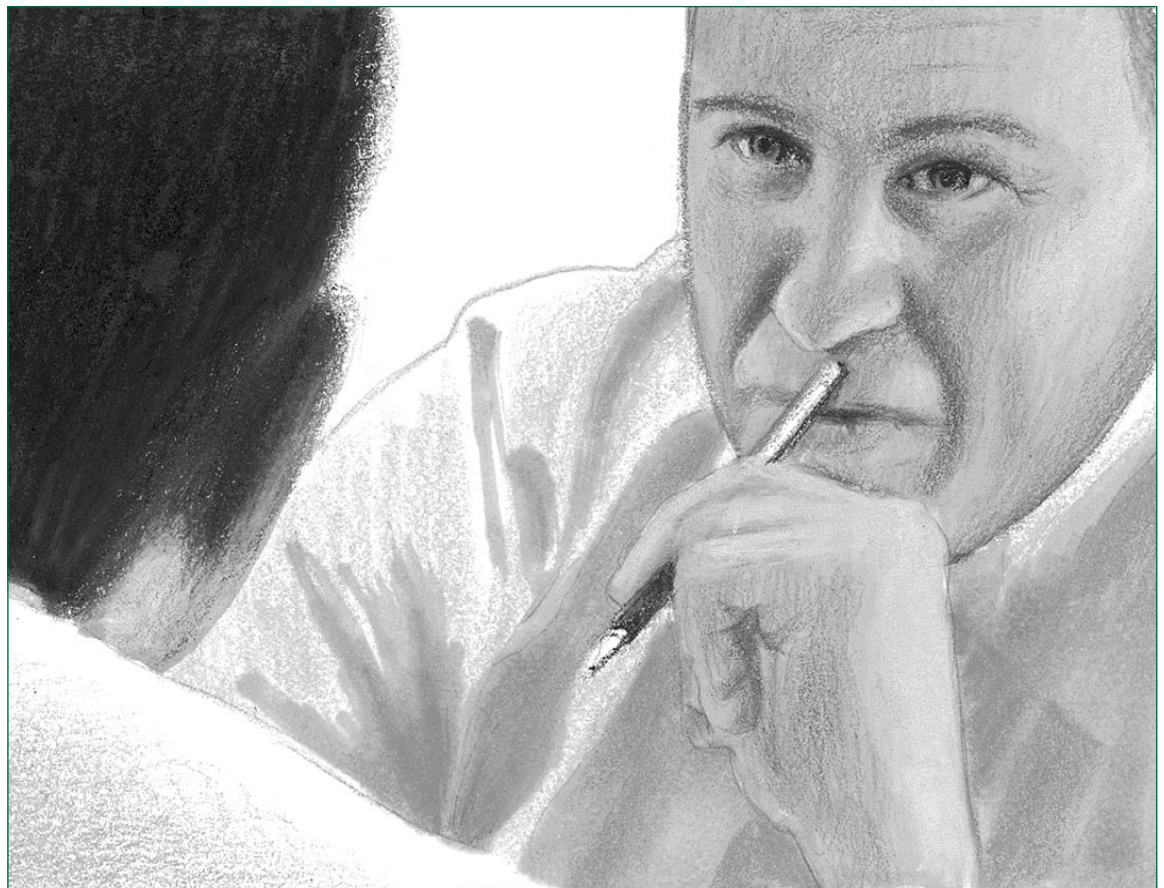
The answer gets displayed in how TNCRRG develops (or "promulgates" in insurance industry jargon) and employs its rates. So, let's briefly look at that process.

TNCRRG utilizes the services of a certified actuary to both quarterly, and also annually analyze the results of company operations. Working with our actuary, we assess how losses and company

expenses are affecting the company's ability to operate profitably. When we do this successfully, TNCRRG generates operational profits, which have historically been used by the company to return capital to our shareholders, to pay dividends to our shareholders, and to improve TNCRRG coverages and services for our shareholders.

Our history (thank God) reflects a great deal of consistent success, because TNCRRG has only increased its rates twice in its 14 years of operation (in every other year rates were reduced or remained stable), all while returning capital, paying dividends, and improving coverages and services. In mid 2000, and again a year later in mid 2001, the Board of Directors authorized company management to engage our actuaries to perform additional analysis of TNCRRG operations, because of concerns regarding declining company results.

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Policy Form Clarification and Expansions

The National Catholic Risk Retention Group, Inc. (TNCRRG), recently completed a series of coverage form revisions. In each and every instance, these revisions represent either coverage clarifications intended to address and resolve interpretation issues raised by our shareholders, or coverage expansions, intended to enhance the policy forms we provide to our insureds. In no instance was TNCRRG coverage diminished. Further, all coverage enhancements are being provided to our insureds with no associated premium charge.

A summary of revisions/expansions follows. Please contact the company for additional information. Please also note that the actual policy forms themselves, and not this summary description, control what coverage is available in the event of a claim/loss.

Sexual Misconduct Limited Coverage Endorsement

This endorsement was revised in two areas with the purpose of clarifying both actual coverage, and also, the operation of certain coverage conditions. More specifically, a definition of sexual misconduct was added to the form, and a specific delineation of what constitutes knowledge/when knowledge has been received, was added to the form.

Innocent Person Defense Costs Reimbursement Coverage

This is a brand new coverage provision, attached by endorsement, which enhances our current forms. Coverage is provided

to the shareholder Participant, to reimburse the Participant for reasonable defense costs incurred, in the defense of an innocent person alleged to be a perpetrator of sexual misconduct.

Importantly, this coverage expands upon that currently offered in the marketplace by other carriers, in that it covers defense costs related not only to the defense of bishops, priests and deacons, but rather any person, including the aforementioned individuals, and also religious brothers and sisters, employees of the Participant, and potentially, volunteers of the Participant (if defended by the Participant).

Fungal Pathogen Coverage

This coverage expands/enhances our current forms, by providing coverage for what is often referenced as “toxic mold” claims. The coverage is broadly defined to include coverage for losses caused by organisms that are not technically classified as molds. It should be noted that this exposure is being almost universally excluded by virtually all carriers in the insurance marketplace. Please also note that this coverage will be provided by TNCRRG in its underlying policy layer only. It will be excluded from the excess layer, due to lack of reinsurance support.

Other Revisions

Several changes have been made to the Declarations page and Declarations Supplement, to make it easier to contact the company, and also, easier to identify available limits of coverage and required underlying coverage limits or SIR’s.

VIRTUS® Videos Receive Prestigious Recognition



Two sexual abuse prevention videos produced as a part of The National Catholic Risk Retention Group, Inc. (National Catholic), VIRTUS® Program have received four prestigious awards for excellence in video production. The honors include the Bronze Omni Award, the Aegis Award of Excellence, the Communicator Award of Distinction, and the Telly Award.

The award-winning productions include an awareness video about child sexual abuse and a training video on recognizing and responding to such abuse. They are components of the PROTECTING GOD’S CHILDREN™ program, a series of child sexual abuse awareness and prevention tools developed by National Catholic as a part of its VIRTUS® Program, a comprehensive risk management program designed to strengthen communities through awareness, education, and training.

The videos—*A Time to Protect God’s Children* and *A Plan to Protect God’s Children*—were judged by members of the media and chosen from an international field of competitors. Both videos were recognized for outstanding production standards and the high quality of the message. The videos were

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To Our Shareholders

National Catholic's 2001 overall operating results frankly epitomize the proverbial "mixed bag." Our marketing, underwriting, claims management and risk control activities and accomplishments were all legitimately excellent.

Meanwhile, our financial results were poor, generating the third loss in The National Catholic Risk Retention Group, Inc. (TNCRRG) operating history. My preference always is to convey bad news "upfront," so let's examine the causes of our financial downturn next.

We posted a year-end loss of \$531,519. This loss is by far the smallest of TNCRRG's three historical losses (the two prior loss years each well exceeded a \$1.9M loss), but that's not much consolation. So what factors produced this result? Firstly, and primarily, a very large increase in our Underwriting Expenses (losses, premium taxes, regulatory fees and commissions) generated an Underwriting Loss of \$483,159. Most of this underwriting loss itself (89.44%) was the result of increases in our loss payments and loss reserves, year-over-year. Note that this accelerated loss activity from 2000 to 2001 is not anomalous, and is well within the range of historical TNCRRG loss results. Recall that we underwrite a highly volatile coverage layer, and we expect occasional significant variance from one year to the next. 2001 happened to be "one of those" years. Secondly, our investment results "took a hit," partly due to market circumstances, but primarily because we didn't experience a huge realized capital gain in 2001, like we had in 2000 (when we switched equity investment managers and equity investment vehicles). Finally, our General and Administrative Expenses increased significantly, but the vast majority of this increase (87.74%) was due to purposefully (Board approved) budget overruns on our VIRTUS® programs. The Board felt that it was critical to TNCRRG strategic goals, and also the needs of the Church, that we complete several VIRTUS® products/services on an accelerated timeframe. Note here that our VIRTUS® programs have already served well as a marketing device for TNCRRG, and also, we will be in position to use VIRTUS® programs to both reduce claim costs and generate revenue, early in 2002. Let's move now to the truly substantial good news about 2001.

To begin, we had excellent marketing results, adding two new shareholders. The Diocese of Madison joined TNCRRG on January 1, 2001, and the Diocese of Brooklyn joined us on August 31, 2001. Meanwhile, we were able to establish favorable relationships with three archdioceses that we had not previously quoted. While our initial quotes were not successful (it is highly unusual to write new business on the "first try"), they were very well received, and TNCRRG has already been invited to re-quote in 2002.

In our underwriting and claims management operations, we accomplished a great deal. TNCRRG's underwriting department vastly improved its automation capabilities (promoting improved and accelerated service in the process), and also,

worked diligently with our actuaries, Milliman USA, Inc. on two special projects (a segregated rate analysis and a retention study), both of which were designed to help ensure TNCRRG's financial stability and viability "over the long haul."

Simultaneously, our claims management department engaged in expanded training for our shareholders on TNCRRG's excellent litigation planning and management program. Further, our Director of Claims Management, Douglas Grund, was also invited to speak at the annual meeting of the National Diocesan Attorneys Association.

Last, but certainly not least, we made great strides in the development, refinement, and implementation of our VIRTUS® programs (the foundation and superstructure of our risk control efforts). Let me assure you that 2002 will unequivocally demonstrate the value and importance of VIRTUS® programs to TNCRRG and the Church.

In closing, I want to thank all of our shareholders and friends for your support, confidence, and encouragement. Be assured that we will always do our very best to serve you and our Church.

Michael J. Bemis
President and CEO

National Catholic Report

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Contact us with comments, questions or other feedback:

Phone (toll-free): 1-877-486-2774

Email: virtus@nationalcatholicsvcs.org

Fax: 1-630-725-1374

To learn more about National Catholic, view our annual report or see our latest financials, visit our company website:

www.nationalcatholic.org

To learn more about child sex abuse prevention programs and other risk control programs, visit the VIRTUS® program website:

www.virtus.org

Consolidated Balance Sheets

	Year Ended December 31, 2001 (Audited)	Year Ended December 31, 2000 (Audited)
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 3,899,691	\$ 1,780,713
Equity investment, at market value	16,016,747	7,567,986
Fixed maturity securities, at market value	25,085,363	34,240,218
Premiums receivable	193,080	71,575
Reinsurance receivable	12,482,932	11,427,002
Prepaid reinsurance premiums	2,108,855	1,286,345
Accrued interest	442,497	597,315
Deferred policy acquisition costs	125,986	102,958
Other assets	136,453	181,057
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 60,491,604	\$ 57,255,169
	<u> </u>	<u> </u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Losses and loss adjustment expenses	\$ 23,302,910	\$ 20,947,204
Unearned premiums	4,157,592	3,403,623
Reinsurance balances payable	1,613,529	545,273
Policyholder dividend payable	—	557,239
Premium taxes payable	172,500	147,618
Unearned ceding commissions	189,901	116,135
Other liabilities	203,521	117,384
	<u> </u>	<u> </u>
TOTAL LIABILITIES	\$ 29,639,953	\$ 25,834,476
	<u> </u>	<u> </u>
SHAREHOLDERS' EQUITY		
Capital stock:		
Class A (\$20 par value, 200 shares authorized, 58 and 56 shares issued and outstanding)	\$ 1,160	\$ 1,120
Class B (\$40 par value 30,000 shares authorized, 7,449.88 and 7,438.536 shares issued and outstanding)	297,997	297,544
Additional paid-in capital – original requirements	392,987	345,615
Additional paid-in capital – policyholder dividend	8,879,437	8,879,437
Accumulated other comprehensive income	(123,150)	(37,762)
Retained earnings	21,403,220	21,934,739
	<u> </u>	<u> </u>
TOTAL SHAREHOLDERS' EQUITY	\$ 30,851,651	\$ 31,420,693
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 60,491,604	\$ 57,255,169
	<u> </u>	<u> </u>

Consolidated Statements of Operations and Comprehensive Income

	Year Ended December 31, 2001 (Audited)	Year Ended December 31, 2000 (Audited)
REVENUES		
Premiums earned	\$ 4,043,618	\$ 3,948,341
Net investment income	2,074,959	2,205,049
Net realized gains on sales of investments	358,320	5,444,951
Ceding commission income (loss)	17,033	(9,376)
	<u> </u>	<u> </u>
TOTAL REVENUES	\$ 6,493,930	\$11,588,965
 EXPENSES		
Losses and loss adjustment expenses	\$ 4,049,125	\$ 1,776,221
Amortization of policy acquisition costs	216,600	202,745
VIRTUS® expenses	1,094,827	471,570
Management fees	107,070	116,830
Professional fees	210,430	201,443
Other expenses	1,347,397	1,341,453
	<u> </u>	<u> </u>
TOTAL EXPENSES	\$ 7,025,449	\$ 4,110,262
 INCOME (LOSS) BEFORE DISTRIBUTION OF POLICYHOLDER DIVIDEND		
Policyholder Dividend	\$ (531,519)	\$ 7,478,703
	—	557,239
	<u> </u>	<u> </u>
NET [INCOME LOSS]	(531,519)	6,921,464
 OTHER COMPREHENSIVE INCOME		
Net unrealized holding gains arising during the period	\$ 272,932	\$ 157,648
Less: reclassification adjustment for gains included in net (loss) income	(358,320)	(5,444,951)
	<u> </u>	<u> </u>
OTHER COMPREHENSIVE INCOME (LOSS)	\$ (85,388)	\$(5,287,303)
	<u> </u>	<u> </u>
COMPREHENSIVE INCOME (LOSS)	\$ (446,131)	\$ 1,634,161
	<u> </u>	<u> </u>

VIRTUS® Videos Receive Recognition (continued from page 2)

produced for National Catholic by Texas-based Alvid Productions, Inc., under the direction of Praesidium, Inc., a partner with National Catholic in the VIRTUS® Program.

“We are very pleased with this international recognition,” said Michael J. Bemi, National Catholic’s president and chief executive officer. “However, winning awards is not our objective, but we believe this recognition speaks volumes about the quality of materials we’re creating to help support our shareholders and further the mission of the Catholic Church in the community.”

“They’re extraordinary and they are informative,” said the Most Reverend Gregory Aymond, Bishop of the Diocese of Austin, Texas, referring to the two National Catholic videos. “They are very direct in talking about the minds and hearts of perpetrators and in calling us to recognize—at a deeper level—the minds and hearts of the victims.” The Diocese of Austin is a National Catholic Shareholder and uses both videos to train clergy, religious, employees and volunteers on how to recognize and respond to reports of child sexual abuse.

The Omni Awards were created to recognize the accomplishments of outstanding media productions in a variety of fields. Other Omni Award winners have included DreamWorks SKG, Discovery Channel, Animal Planet, The Learning Channel, MTV, Warner Brothers, and other well-known public and private organizations.

The Aegis Awards were founded nearly a decade ago by

an independent group of directors and producers that had grown skeptical of other award competitions that seemed to be judged by people who have no actual experience doing the creative work that they’re judging. Hence, Aegis Awards are selected by a handful of judges carefully selected from the ranks of previous Aegis winners.

Communications professionals founded the Communicator Awards to recognize excellence in communications. The Communicator Awards provide an equal chance of winning to all entrants, regardless of an organization’s size and budget. Entries are judged against a high standard of excellence rather than against each other.

The Telly Awards competition was founded in 1980 to showcase and give recognition to outstanding non-network and cable commercials. The competition was expanded several years ago to include film and video productions. The Telly has become one of the most sought-after awards in the TV, commercial and video industry. Entries do not compete against each other; rather, they are judged against a high standard of excellence.

The PROTECTING GOD’S CHILDREN™ videos are now available in English- and Spanish-language versions. If your religious organization would like a preview of these award-winning videos, contact: Jack McCalmon, Director of Virtus Programs and Services, toll-free at 888-847-8870, or send an email message to jmccalmon@virtus.org.

Renewal pricing—what you can expect (continued from page 1)

Their first analysis (in mid 2000) recommended that company management increase rates, because they had identified increasing loss trends that they felt might eventually impair TNCRRG’s financial stability. The Board, demonstrating its commitment to consistent and stable operations on behalf of our shareholders, decided not to increase rates in 2001. Instead, the Board directed company management to closely monitor the situation, and further, authorized our actuaries to repeat their rate study in mid 2001. The results of that study definitively indicated that rates did indeed need to be increased, and the Board approved an “across-the-board” rate increase of 7.8 percent, effective January 1, 2002, on all new and renewal business.

So, what is the likely effect on your renewal premium? Note that a 7.8 percent “across-the-board” rate increase is not the same as saying you can expect a 7.8 percent premium increase. Why? First, the rate increase is an average, with some rates increasing by less than the average, and other rates by more than the average. Since TNCRRG employs unit rates (meaning specific rates applied to specific exposure areas, such as per auto, per nursing home bed, per parishioner, etc.), your premium will be affected both by whether your exposures increased or decreased, and also, by which ones increased or decreased.

Next, you should note that TNCRRG utilizes additional rating methodologies to account for (among other factors) things like your account’s distinct loss experience and your account’s SIR (self-insured retention). Consequently, your renewal premium may reflect an increase somewhat greater than 7.8 percent, but it also could be less than 7.8 percent.

It is critical that you note that the foregoing guidance regarding rates applies only to TNCRRG’s underlying coverage layer, for which we promulgate our own rates. By contrast, our reinsurer promulgates the rates utilized in the excess layer, and while we indeed can and do influence the rates/premiums quoted in this excess layer, we have far less control than we exert in the underlying coverage layer. Also, other rating methodologies similar or identical to those described above, are employed on excess layer quotes, with similar effects on premium. The net result is that you should expect an excess layer rate increase of 20 percent, with premium increases being somewhat more, or less, than this magnitude.

We are confident that you will find TNCRRG’s renewal premiums to be what they have always been—very competitive in the marketplace and a very good value for the money.

Sex Abuse Videos Presented at 2002 Winter Meeting

The 11th Annual Winter Meeting of the National Catholic Risk Retention Group, Inc. (TNCRRG), was held February 3 through 5 at the Sheraton Yankee Trader in Ft. Lauderdale, Florida. There were a record number of shareholders, exhibitors, and guests that attended the meeting this year. The Welcoming Reception on Sunday evening and the next two days provided an opportunity for shareholders to spend time with their peers, TNCRRG staff and members of the insurance community. As in the past, the first business meeting was held on Monday morning, when Michael Bemis, President & CEO spoke to the state of the company, in which he reviewed the company financials and company operations, he advised the shareholders of planned changes to policy coverage and premiums, provided an update on the VIRTUS® programs and he also reviewed the state of the insurance marketplace.

Monday afternoon the first Risk Management workshop was held, in which Monica Applewhite, Ph.D., took the attendees through the first training session of the PROTECTING GOD'S CHILDREN™ program. Following Dr. Applewhite's training of the group, Mike Lawson, of the Diocese of Austin, spoke of how well received the training was in his own diocese and the large number of people who participated in the training sessions when the program was piloted there. The Winter Meeting session on the PROTECTING GOD'S CHILDREN™ program was so well received that most attendees requested a sample preview tape to take home to their own diocese.



Following on Tuesday, two additional Risk Management workshops on timely topics were also held. Panelists, W. Elliot Horner, Ph.D. of Air Quality Sciences, Inc. and Karen K. Miles, Ph.D. addressed Toxic Mold, Indoor Air Quality and Sick Building Syndrome—Health Implications, Evaluation, Prevention and Remediation and Cole Emerson, MBChB, Chairman of the Board of DRI International, and David Maddrell, Chartered Psychologist of The Corporate Response Group, Inc., addressed Emergency Preparedness, Crisis Management, and Disaster Recovery.

Plan now to attend National Catholic's 2003 Winter Meeting

February 2 to 4, 2003, San Diego, California

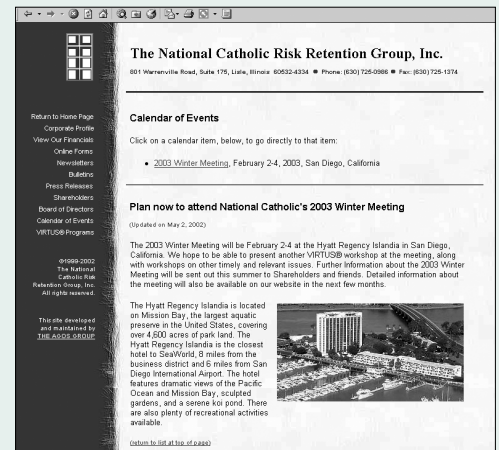
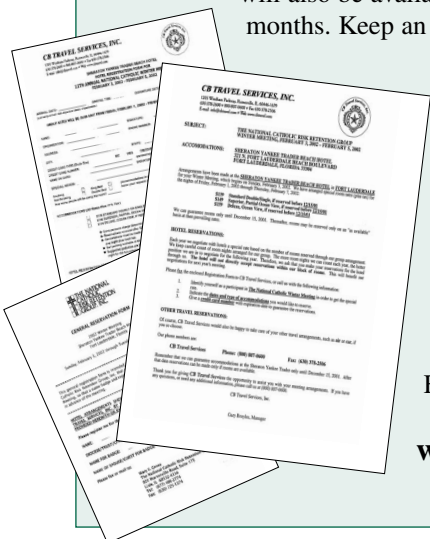
Our 2003 Winter Meeting will be February 2-4 at the Hyatt Regency Islandia in San Diego, California. We hope to be able to present another VIRTUS® workshop at the meeting, along with workshops on other timely and relevant issues. More information about the 2003 Winter Meeting will be sent out this summer to Shareholders and friends. Detailed information about the meeting will also be available on our company website in the next few months. Keep an eye on our calendar of events.

Go to: www.nationalcatholic.org

Plus, in a few weeks, you'll be able to download a hotel registration form and a general reservation form. To make your reservation, please print all the pages, then complete the two attached forms and return them by mail or fax—each according to their respective instructions. Check our calendar often for the latest information.

For details about the hotel and the San Diego area, visit the Hyatt Regency Islandia website:

www.islandia.hyatt.com/property/index.jhtml



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