

2008
TELCOM
ANNUAL
REPORT



Guarding Your Telecommunications
Company Against Today's Risks





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HIGHLIGHTS

Financial

- Year-end Assets totaled more than \$21.6 million
- Gross Written Premium over \$11 million
- Loss Reserves total more than \$5.6 million
- Shareholder’s Equity (GAAP) is \$6.1 million
- Net Asset Value per share is \$4,128.44

Operating

- Total P&C and D&O family members (policyholder count) is 242
- Total states with policyholders is 41
- Stay Connected Handset Replacement Program continues to grow
- 2nd most successful year in our 25 year history
- Risk Management and Loss Prevention services offered to all policyholders

MISSION STATEMENT

THE TELCOM INSURANCE GROUP is dedicated to providing every NTCA member system with the best possible property and casualty coverage program at a fair price. We will support NTCA, our sponsor, through our participation in, and promotion of, Association programs.

We will strive to exemplify the highest standards of integrity, excellence in personalized customer service, and leadership in offering specialized, telecommunications-specific coverage packages. We will partner with our fellow members by providing educational programs designed to assist them in their quest to protect their corporate assets and provide stability for the corporate entity through a variety of risk management programs.

Achieving success in these areas will fulfill the mission of the NTCA originators and NTC shareholders by . . .

**“BETTERING THE WORLD OF COMMERCIAL INSURANCE FOR
RURAL TELEPHONY. . .ONE NTCA MEMBER AT A TIME.”**

Shareholders as of 12/31/2008

Shareholder	State	Shareholder	State
Cen-Ark Cellular, Inc.	AR	Pioneer Telephone Cooperative, Inc.	OK
Central Arkansas Telephone Cooperative, Inc.	AR	Pioneer Telephone Cooperative	OR
Comanche County Telephone Company, Inc.	TX	Polar Communications	ND
Craw-Kan Telephone Cooperative, Inc.	KS	Randolph Telephone Membership Corporation	NC
Etex Telephone Cooperative, Inc.	TX	Riviera Telephone Company, Inc.	TX
Farmers Telephone Cooperative, Inc.	SC	Rock Port Telephone Company	MO
Glenwood Telephone Company	GA	Santa Rosa Telephone Cooperative, Inc.	TX
Hancock Telecom	IN	Scott County Telephone Cooperative, Inc.	VA
Horry Telephone Cooperative, Inc.	SC	Skyline Telephone Membership Corporation	NC
Industry Telephone Company	TX	Southwest Arkansas Telephone Cooperative	AR
KanOkla Telephone Association, Inc.	KS	Stanton Telecom, Inc.	NE
Mid-South Telecommunications	TX	Star Telephone Membership Corporation	NC
National Telecommunications Cooperative Assn.	VA	Surry Telephone Membership Corporation	NC
Panhandle Telephone Cooperative, Inc.	OK	Taylor Telephone Cooperative, Inc.	TX
Paul Bunyan Rural Telephone Cooperative	MN	Twin Lakes Telephone Cooperative Corporation	TN
Pembroke Telephone Cooperative	VA	West Carolina Rural Telephone Cooperative, Inc.	SC
Peoples Telecommunications, LLC	KS	West Kentucky Rural Telephone Coop. Corporation	KY
Peoples Telephone Cooperative, Inc.	TX	Wiggins Telephone Association	CO
Piedmont Rural Telephone Cooperative	SC	Wilkes Telephone Membership Corporation	NC
Pioneer Telephone Association, Inc.	KS	Yadkin Valley Telephone Membership Corporation	NC

PRESIDENT & CHAIRMAN'S MANAGEMENT REPORT

Because It Is a Matter of Trust...

If your actions correspond with your promises, you build confidence and value with your customers. Another simple word for what you are developing is “trust”. By definition, there is a confidence in and reliance on your good qualities, especially with regard to fairness, truth, honor, or ability. It is a compliment for this organization to have its name regarded as synonymous with trustworthiness. It is extraordinarily important to all of the staff of the Company to protect this reputation. No business that I can think of sells trust as their “service and product” more than an insurance company. National Telcom Corporation, the captive insurance company you own, strives to conduct all business transactions with the highest level of fairness, truth, honor, and ability. It is through these actions that we earn the trust of the National Telecommunications Cooperative Association's (NTCA) members as the ultimate protector of their businesses.

The management and staff of the Telcom Insurance Group have learned lessons from our past 25 year history, strategized for present, and proactively are planning for the future. The employees of the organization follow a conservative plan set forth by the Directors and Officers, while keeping a keen sense of how to individually employ the traits of trust in the day-to-day transactions they do. This fosters a sense of stability and responsibility with our customers and promotes a program that will ethically protect the businesses, assets, and employees of the NTCA members.

This President and Chairman of the Board's Management Report will be just a piece of the overall Telcom Insurance Group Annual Report, which will chronicle the past year and provide you, the reader, with information that will allow you to continue to trust, respect, and support this Company.

The Insurance Industry in 2008...

The insurance industry in 2008 produced a combined ratio in the range of 104.7%, as reported by A.M. Best and Dowling & Partners, which has deteriorated a bit from the 95.1% ratio from 2007. This will mark the third time in the last four years that the industry has secured an underwriting profit. The prior years, from 2005-2008, produced the following combined ratio results 100.5%, 93.8%, 93.9% and an estimated 98%. Despite the results, the insurance industry is considered to be subject to volatile results in any given year and operational losses for long stretches of time. 2008 proved this, with well known companies like AIG, Hartford, and Liberty Mutual all reporting economic challenges. In 2008 in general, the industry felt an erosion of foundational capital and operating cash caused by investment losses, which are to some degree, understandable as the economy has caused financial pain for many. Additionally, the financial pain is due in part to some insurers' involvement in benefit and retirement products like annuities that have left shortages based on promised payouts and the promised returns on these investments as they come due for payment. Despite the fact that there have been profitable operating results, the industry is not attractive to investors due to the erosion of capital and surplus that decreases the value of the insurers stock. Capital is constrained if not impaired, which in turn translates into less capacity for many insurers and less ability to take risk. The blending of all these items means a stabilizing insurance marketplace, where insurers will try to maximize results by maintaining rates at current levels and Written Premium at current amounts. While this fact is not a positive for consumers, it is potentially good news to insurers who believed that adequate rates were being secured in 2003 and 2004, and that more recently they were being forced to charge less premium than the corresponding exposure to maintain an insured customer base. The sub-prime mortgage losses, the general credit crisis, the failing of the investments to generate modest returns, terrorism, asbestos, and pandemic flu are all concerns that have yet to be fully accounted or reserved for. As they play out to conclusion, we will learn what the insurance sector needs to do to maintain healthy insurers who can meet their claims obligations in future years.

Major Highlights of the Year for Telcom...

National Telcom Corporation monitored the events that created challenges for the insurance and telecommunications industry and worked diligently to make sure that the impact to the members of the National Telecommunications Cooperative Association (NTCA) would be minimal. As an example, we were the first to launch a Customer Proprietary Network Information (CPNI) and Red Flags Rule Insurance Management and Coverage Program. We noted the potential exposures telecommunications providers faced from fines and regulatory actions, and immediately gathered the information about the rules and developed a position from a risk management perspective on how our customers could protect themselves. Soon thereafter we launched a risk transfer mechanism for the risk as well. In the insurance industry, trust, stability, and expertise are critical operating requirements and you gain them by putting a well thought-out business plan into action. Our results for 2008, which will follow, speak volumes about what we have designed and achieved.

The claims reserve strength of the Company continues to be an area that the Company's management carefully watches and manages. In 2008, an actuary opined that management's actions on the amount of reserve to be held were sufficient to support current and future obligations. Thus, with a secure foundation in place, Telcom commenced with responsible growth

“Regard your good name as the richest jewel you can possibly be possessed of - for credit is like fire; when once you have kindled it you may easily preserve it, but if you once extinguish it, you will find it an arduous task to rekindle it again. The way to gain a good reputation is to endeavor to be what you desire to appear.”

-Socrates (469 BC - 399 BC)

PRESIDENT & CHAIRMAN'S MANAGEMENT REPORT

and development of the entire program. Due to the softening insurance market, premium volume remained at basically the same amount in 2008 as it was in 2007. The policyholder count tells of a robust and thriving business with property and casualty customers growing from 151 in 2007 to 166 in 2008 in the Captive and to 242 from 224 in the previous year for the Captive and agency combined. A strong and steady customer base with stable premiums and carefully managed expenses allowed the Company to post a solid profit for the year and a small underwriting profit. According to the *National Underwriter*, the insurance industry as a whole generated a Combined Ratio of 104.7% which means that for each dollar in premium collected, losses and expenses consumed 4.7 cents more than was collected. Based upon our industry's results, we are very pleased with the results that we have generated. These factors simply scratch the surface of the accomplishments and the plans that have situated NTC for successful operating years, both currently and in the future.

A major force in the success in the policyholder areas is based on our relationship with our fronting carrier, Great American Insurance Company. This relationship has grown and amplified the benefit that the NTCA membership receives consistently. It was renewed for another year in January of 2009. Great American Insurance Company is a well respected and financially stable insurance company that understands the values of rural America. They have been instrumental in providing loss prevention and claims service that is unrivaled. Their excellence in these areas, coupled with their understanding of the rural telecommunications industry and the Telcom Insurance Group, acting as the steward, have created a one-of-a-kind program. The Telcom staff deserves recognition for all the hard work that they endured to develop this business partnership and for helping foster an understanding of both the geographic and industry-related nuances of NTCA member systems.

The report that follows in the pages of our 2008 Annual Report will provide an in-depth analysis of the year that was. The report itself is only part of the story of the Company and how we have earned the respect and

trust of so many. One of the operation's greatest assets is the staff that guards the insureds and the members that participate in the program. The results that we report speak magnitudes of the quality of the employees, but the staff themselves can tell our story the best. Our proud history is clear. However our actions, when you interact with us, speak volumes about how we have achieved so many things. So listen and watch carefully what we do when you come in contact with National Telcom Corporation. You will experience and notice a proud history, a bright future, and an incredible story—probably not unlike your own.

We Thank You for Your Support...

Telcom appreciates our customers. As such, we give back quite a bit to the telecommunications industry and the National Telecommunications Cooperative Association. The benefits provided by the fact that the NTC program is the only nationwide program writing all lines of insurance that specializes in rural telecommunications insurance, cannot be overlooked. Protection for all members regardless of the state in which they are domiciled can be secured if they fit the underwriting model. The employees of National Telcom Corporation continue to be the leaders in insurance education and risk management for the Association and its telecommunications company members. The staff continues to show that education begins at home and safety in the field by educating at NTCA meetings, industry statewide events, and in insureds offices and job sites to assure safety is implemented properly. The benefits of this work results in direct and indirect savings to National Telcom Corporation customers and members of the Association. We are pleased to provide hands-on services and prove that true experts in safety roll up their sleeves and visit in the trenches and at the jobsite. We believe that leading and training by example is more effective than just handing out money to fund safety meetings and/or scholarship funds.



The employees of Telcom would like to thank you all, our sponsor NTCA, Shareholders, Directors, Officers and Policyholders for your loyalty, trust, and support. Without you, it would not have been possible to accomplish our goals. Our results are not by chance and your protection and trust are not either.

Peter J. Elliott, CPCU
President & Chief Executive Officer

Richard K. Veach
Chairman of the Board

THE TRADITIONS & FOUNDATIONS OF THE ORGANIZATION

“Because it has
Always Been a
Matter of Trust”

Formed in 1982 from a search committee, National Telcom Corporation (NTC) was the fourth (4th) captive and the first (1st) association captive licensed in Vermont. NTC wrote our first business in 1983 and we had 7 policyholders in that

first complete year. NTC, after initial capitalization of \$1.1 million through the purchase of stock by NTCA and individual member systems, has grown current total assets to more than \$21 million. We welcome all members of the National Telecommunications Cooperative Association including traditional rural telecommunications companies, Statewide Associations, Associate members, and Subsidiary members to join our program. NTC acts as a reinsurance company that shares a portion of the risk assumed from the primary underwriting company, which is also known as a “front”. Great American Insurance Company acts as Telcom’s captive partner and assists in providing exceptional underwriting, reinsurance, loss prevention, and claims services.

In 1989, the National Telcom Corporation program was expanded to include its own full-service brokerage facility known as the Telcom Insurance Services Corporation (TISC). Together, NTC and TISC form the Telcom Insurance Group (TIG). Telcom is the only nationwide program that specializes in property-casualty insurance for rural telecommunications companies that is fully licensed to do business in every line and in every state where NTCA members do business. Additionally, the only Directors and Officers insurance product that is endorsed by NTCA is Telcom’s program. The overall benefits are undeniable; there is absolutely no reason to go elsewhere for this coverage, as the rate and forms are superior to any other products on the market.

As your businesses have evolved over the years, so has the Telcom program. As it stands today, Telcom is an industry leader in providing the coverages for all of the exposures of a modern telecommunications

company—even as your endeavors continue to grow and develop. Furthermore, Telcom utilizes specialty line brokers as well as other carriers, such as The Hartford, Travelers, AIG, Philadelphia Insurance Companies, One Beacon, Markel, CNA, Texas Mutual, as well as several bond markets to provide additional coverages to meet your needs.

For Telcom, the focus has always been on education. Through the use of insurance and risk management education, training, and various other loss prevention services, Telcom continues practical hands-on training for the members of NTCA to help mitigate your losses. You know the quality first-hand, if you have attended one of our sessions at the NTCA Annual Meeting, Fall Conference, Regionals, HRNet, OSHA Telecommunications Regulation seminars, various Statewide Association meetings, or at our Annual Risk Management Conference.

Telcom’s proud history has helped us get to where we are today. As of the end of 2008, there were thirty-nine NTCA member systems, as well as the Association that are Shareholders/Owners of NTC who have no different benefits from the other policyholders and who receive no dividends. There were 166 insured telecommunications companies within the Captive and 242 members for which Telcom provides an insurance product as of the end of 2008. Clearly, you’ve put your trust in us, and we appreciate it.

While the membership’s property and casualty, specialty lines, and risk management needs evolve, so do the programs and coverages provided by Telcom. As such, the traditions and foundation of our history provide a benchmark for planning and implementation of these future goals. It’s an exciting time for the Company as the organization only continues to improve and to earn the trust of more of the members.

Your Captive—Proudly Owned
by the Members of

NTCA 
The Voice of Rural Telecommunications

2008 ANNUAL NTC BOARD MEETING

2008 Annual NTC Board Meeting
Stowe, VT
October 6, 2008

Members present from left to right: (front row) William I. Nexsen, III.; Richard C. Parker; Mary C. Mongold; Charles H. Creason, Jr.; Loren L. Duerksen; Edgar L. Olson; (back row) Peter J. Elliott; Raymond P. Henagan; Richard K. Veach; Curley P. Huggins; Robbie L. Allen; and George W. Nostrand

Board Members not pictured: Leroy H. Lage; Lonnie D. Pedersen; and David E. Schultz

Officers of the Corporation:

Chairman of the Board
Richard K. Veach

Vice Chairman of the Board
Richard C. Parker

President
Peter J. Elliott

Treasurer/Executive Vice President
Michael A. Huffman

Secretary/Vice President
Marilyn A. Blake

Assistant Secretary/General Counsel
George W. Nostrand



“Those who trust to chance, must abide by the results of chance.”

—Calvin Coolidge (1872–1933)

National Telcom Corporation (NTC) and Telcom Insurance Services Corporation (TISC) provide insurance protection for the members of the National Telecommunications Cooperative Association (NTCA). The Companies operate as a captive insurer and an independent insurance agent/broker. This organizational structure allows us to serve the needs of all members regardless of their geographic location or insurance coverage needs. Protecting our customers' businesses, which includes property and assets, employees, and revenue, is our main focus. Securing peace of mind and stability which earns the trust of our customers is the reward of successfully completing the mission.

In 2008, our fronting insurance carrier, Great American Insurance Company, renewed its contract to support the NTC program. The goal of the underwriting department is to build upon this relationship and to further develop, not only the program, but also the relationships between the front, the Captive, and our valued customers—all three parties. The staff of NTC and TISC closely monitors the insurance and telecommunications industries news for exposure, legal, and regulatory changes that might impact the NTCA member. When an item with insurance implications is determined, the three-party relationship pays dividends as Great American and our Staff engage telecommunication company leaders to determine a complete solution to the issue with both insurance and risk management techniques. This approach is unrivaled by any other provider of coverage for telecommunications companies in the insurance industry.

Exceptional timely responsive service continues to be the cornerstone of the operation. There are many insurance products available to telecommunications providers, but none that come with the service standards Telcom aspires to uphold. Better yet, none that are offered by individuals who care as much as we do about the well being of those we serve. *The service that is provided comes from a seasoned professional staff that believes that each insured is a member of the family.* In 2008, we reaffirmed our pledge of providing excellence in service. This is a continuation of our written contract with our customers that was introduced in 2003.

Underwriting Update

In 2008, the insurance marketplace was classified as “soft” with respect to availability and affordability of insurance coverage for consumers. The average decrease in premium rates for all commercial consumers in the United States was approximately 11%. Significant claim activity developed in 2008 from Hurricane Gustav with damage being felt as far as the Midwest after the storm lost its status as a hurricane but not its standing as a deadly weather event. The market is driven by economic conditions in the country, but it also can be swayed by large natural and man-made catastrophes. Even in the best economy, events like 9/11 or Hurricanes Katrina and/or Rita will impact the cost of insurance for all consumers—not just those in the areas hit by the loss. In order to keep capital in this sector of the economy, there is a need for the insurance industry and insurance companies, in particular, to offer an acceptable rate-of-return to investors. The return to investors is affected by expenses of the operation and the charges to cover both the known and unknown losses/claims. Only when adequate premium is collected will the rate-of-return be acceptable to investors. The insurance industry as a whole reported a 104.7% Combined Ratio for 2008;

break-even is 100%. This means the 2008 was not a good year for the insurance industry as a whole.

By maintaining a conservative approach to managing operations and the understood exposure of rural telecommunications providers, National Telcom Corporation's operation avoided the industry rate roller coaster in many lines of insured business. This approach includes: charging the proper rate despite the insurance market conditions; controlling expenses; conservatively utilizing the benefits of investment income; providing adequate loss reserves; and managing the assumption of higher hazard risk to provide a stable market for all NTCA members to access. In order to avoid the peaks and valleys of the premium rate cycle, the Company has concentrated on management of expenses and loss trend analysis. We are carefully watching expenses without sacrificing service excellence. We also watch loss trends and implement pro-active loss prevention methods to assist in keeping the cost of insurance for our customers stable. Total Operating Expenses increased approximately 2.1% in 2008 from 2007. This is significant when one considers that this was supported by no increase in the Captive's Written Premium and a 30% increase in Other Commission Income for all specialty insurance products sold outside of the Captive. In addition to expense management, the conservative investments of NTC, which yielded \$584,056 of income, enhanced a modest underwriting profit for the year to produce favorable overall results. Loss trends continue to be addressed, and the Company has excellent loss prevention programs for ergonomic stress and strain issues, lightning and electrical grounding, OSHA compliance, and jobsite safety—including bucket truck operation, tower maintenance, and automobile usage. All of these programs have a positive impact on the loss experience for our insureds. Even with all of the work that we have done in maintaining stable expenses and

watching for loss trends, Telcom's success will be improved upon, if the NTCA membership recognizes the positive aspect of aggregating insurance with one market and one company. NTC was created for exactly this purpose and with this in mind. We are still the only national provider of insurance with all lines of insurance written directly. We want the members of the Association to embrace the "power of unity" and of being "one". Clearly, remaining an open market for the insurance needs of the NTCA membership in all states and lines of insurance requires a conservative and unified approach.

Underwriting premium in 2008 was flat, but the insured base still grew which is a direct result of the soft pricing of the insurance marketplace. Written Premium at year-end in the Captive was \$11,079,448. New business written continued to develop with 24 new P&C and 15 new D&O customers/members seeking their insurance protection from the Telcom Insurance Group. New premium written was offset by the rate reductions that are occurring in the insurance industry. Retention of customers was recorded at 94% in 2008 which is a testament to the fact that we are meeting the needs of those we serve for all lines of business in all states. This retention rate far outshines the industry averages.

The underwriting department of National Telcom Corporation and Telcom Insurance Services Corporation is proud to have successfully managed the challenges that 2008 offered. The employees of the operation stand ready to build upon the year and improve this department for the future. All business will be conducted with an "eye on" offering the best security and stability to the members of the National Telecommunications Cooperative Association.

Field Services Update

Telecommunication operations continue developing and new services are being offered all the time. It is only with a thorough understanding of telecommunications operations that we can determine the appropriate insurance coverage needs of the membership. Every visit to your facilities for our staff is a learning experience. The field staff blends education, fact finding, and social interaction into their visits with NTCA members. The result is an unparalleled approach of using insurance and risk management solutions to meet the needs of the NTCA membership. In 2008, many of our customers asked for our assistance in managing the risk of Customer Proprietary Network Information (CPNI) and Red Flags Rules and our staff provided both a risk management and an insurance solution. This is a perfect example of how and why a captive insurance company is different than most insurance operations that specialize in insuring or managing risk...but usually not both.

Even with increased use of electronic means of communication, nothing can take the place of a personal visit and interacting face-to-face. Regardless of the manner, we earn your trust in many ways, and we are grateful for the opportunity to do so.

Thank You

National Telcom Corporation is in the risk taking business. We, however, value our relationship with our customers too much to leave risk and their protection to chance. With your help and our well planned conservative management, NTC will continue to be the best and the only nationwide telecommunications program offering all lines of insurance to the members of the NTCA. Our accomplishments would not be possible if we did not have the support of our loyal Association member Owners, Directors, Officers, Policyholders, and support vendors.

Telcom has a target: an adequate Reserve for Losses and Loss Adjustment Expenses. As an insurance company, it is our “reason for being” – to indemnify policyholders for covered losses, and it is of paramount concern to management. Telcom’s aim is to hit the target and in doing so enhance the Shareholders’ Equity.

Each year, Telcom submits its premium and claims data to an independent consulting actuary who opines on our Loss Reserve. The actuary analyzes the data, applies statistical and mathematical assumptions to it, and presents management with three numbers: a point estimate, also known as the ideal reserve balance amount; a low-end of the tolerable range; and a high-end of the range. The point estimate is the bull’s eye, but the upper-end of the tolerable range is management’s desired target.

The Reserve for Losses and Loss Adjustment Expenses has three components: known, which is case reserves; the estimated cost to adjust or service claims; and unknown, which is Incurred But Not Reported claims. The Loss Reserve is a balance sheet account, a liability; and it is generally decreased through loss payments and increased through Incurred Losses and Loss Adjustment Expenses debited on the Income Statement. Management determines incurred losses as a ratio of Earned Premium. So, for example, if \$4,711,921 is earned during the year and the Incurred Loss Ratio (ILR) is 57.25%, Telcom would “salt away” \$2,699,364 as an addition to the Loss Reserve.

Adjustments to the Loss Reserve balance are made in the current year by modifying the ILR. This year our actuary’s calculations yielded an upper-end number that was lower than the initial reserve balance management had recorded. Based on that, management dropped the ILR from the 63.00% rate used in 2007 to the current rate of 57.25% of Earned Premium. This results in a Reserve for Losses and Loss Adjustment Expenses of \$5,682,434. Even with the reduced ILR, this is the largest year-end Loss Reserve in Telcom’s history.

Hitting the target means nothing if there is not enough force behind the arrow to make it stick. Telcom has that force – our Reserve is supported by a strong investment portfolio. At the end of 2008, Cash-on-Deposit with Great American Insurance Company, our fronting partner and the entity through whom we pay most of our claims, is \$9,885,226. Marketable securities held at UBS and M&T Bank total \$3,442,276. The quality of our marketable securities is attested to by the \$95,859 unrealized gain in 2008. These investments are 61.59% of all assets at December 31, 2008; a 4.66% increase over 2007. These investments also yielded \$673,750 of income gross of the \$116,613 of Subordinated Capital Note interest expense and net of the \$26,920 money market account interest for Net Investment Income of \$584,056. This is an 8.35% increase over the 2007 results.

Aim High. That was the recruiting slogan of the U.S. Air Force during the late Seventies. Like an archer who aims high to hit a distant target, Telcom hits its Loss Reserve goal. But “Aim High” is also a call to excellence and a call to strive to be the best. Telcom Insurance Group has long aimed to be the property and casualty insurance solution for the National Telecommunications Cooperative Association membership. Through the Captive, we offer and assume risk on the five main P&C lines; through the Agency we offer Directors’ & Officers’ coverage, Excess Liability or Umbrella coverage, and access to the traditional insurance market.

More than any other year, 2008 shows the results of our efforts to be NTCA’s “one-stop-shop” Property & Casualty solutions provider. Other Commission Income is up \$97,237 from the 2007 benchmark of \$882,918 to the 2008 result of \$980,155. Much of this growth is from changes in commission rates paid by the traditional insurance companies, but we would not have realized that growth if we did not have business to place with them. We also benefitted from a service fee paid to Telcom by Great American in recognition of the work that we do on their behalf. That amount increased by \$246,558 over the 2007 benchmark of \$259,850 to the 2008 result of \$506,408. Although Gross Written Premium declined

“He should behave like those archers who ... aim a good deal higher than their objective, not in order to shoot so high but so that by aiming high they can reach the target.”

–Niccolo Machiavelli (1469-1527)

from 2007 to 2008 by \$172,782, because of changes in the reinsurance treaty and the timing of policies, 2008 Net Written Premium and Earned Premium were very close to the 2007 amounts. Telcom held its own with 2008 Operating Expenses by coming in on budget.

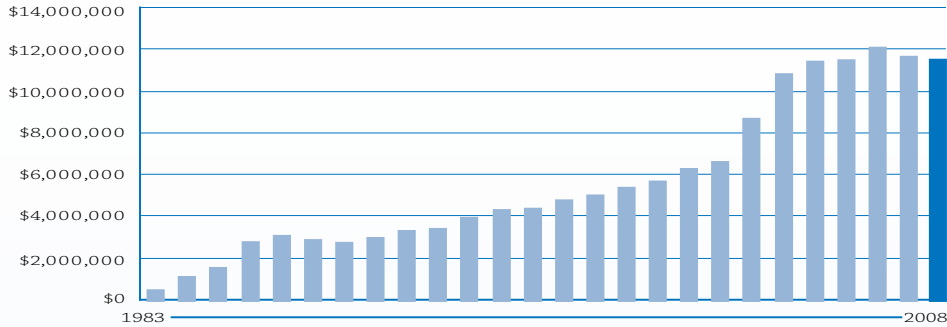
Net Income for 2008 is \$404,995. This is one of the best results in Telcom’s history, and it is our highest GAAP-basis net income. The statutory net income is \$325,651, which is the third highest SAP-basis net income in our history. The reasons for this phenomenal year are three-fold: the near doubling of Great American’s service fee to us; the increase in Other Commission Income; and the reduction in the Incurred Loss Ratio to bring the Reserve for Losses and Loss Adjustment Expenses closer to the actuary’s target.

Aiming high has enabled Telcom Insurance Group to soundly hit its mark. It is a Captive insurance company with a robust Loss Reserve backed by quality assets on a strong Balance Sheet, and it is a versatile wholly-owned subsidiary Agency that ably provides solutions to the members of NTCA while generating commission revenue. For our Shareholders, the net asset value per share increased 8.4% from \$3,808 to \$4,128.

We will continue to aim high and satisfy the Mission of the Company.

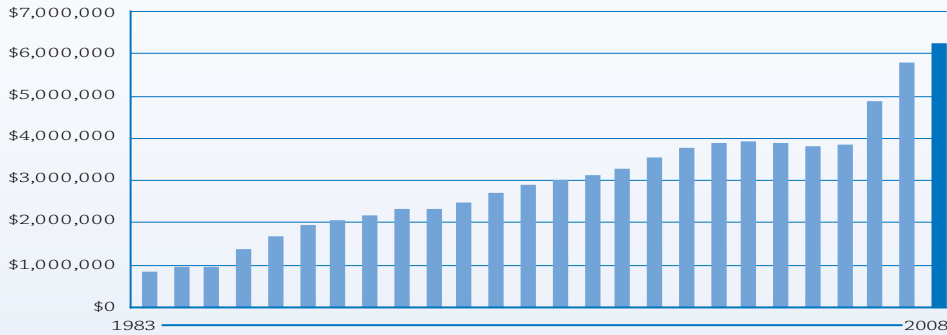
Written Premium

Experienced Ethical Underwriting Practices and Policyholder Retention



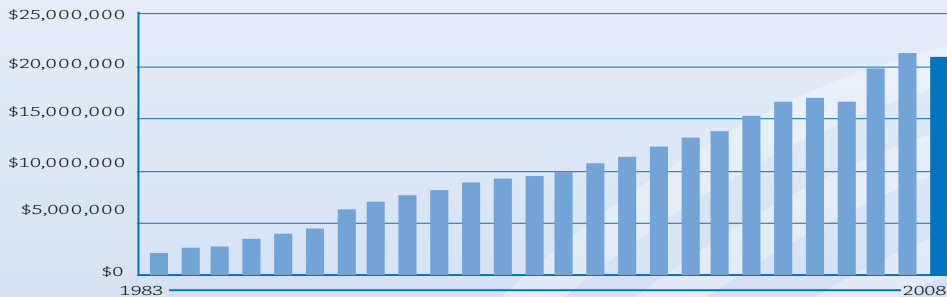
Shareholders Equity

Steady Growth through Operations & Impressive Results of Recent Stock Offering



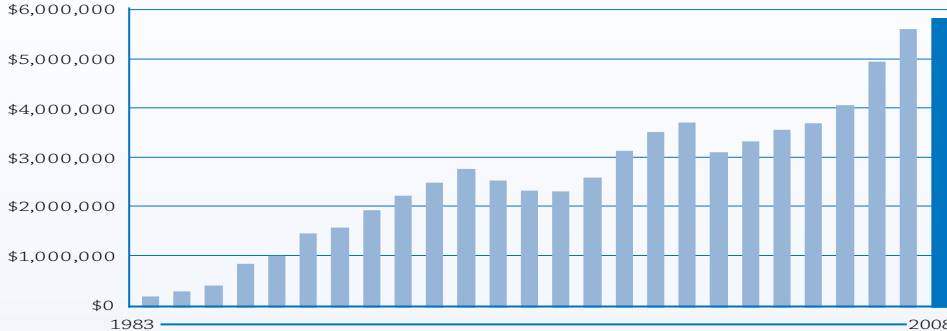
Total Assets

Steady Growth Combined with New Resources from the Recent Stock Offering

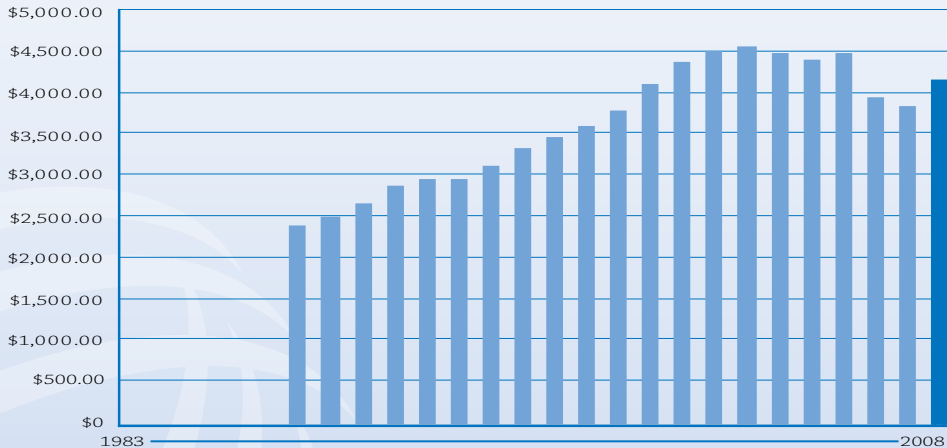


Reserves for Losses

Security in Ample Reserves for Paying Claims



Net Asset Value



CONSOLIDATED BALANCE SHEETS NATIONAL TELCOM CORPORATION & SUBSIDIARY

	AT DECEMBER 31,	
	2008	2007
Assets		
Fixed maturity securities, available for sale	\$ 3,442,276	\$ 3,201,547
Cash and cash equivalents	1,107,397	2,029,455
Funds held by insurance companies	9,885,226	9,380,713
Agency billings receivable from insureds	6,126,502	6,627,388
Assumed reinsurance premiums receivable, net of allowance of \$35,730 for both 2008 and 2007	290,262	147,854
Deferred policy acquisition costs	249,756	261,339
Net deferred tax asset	304,333	246,000
Deposits	46,022	46,022
Other assets	187,834	159,246
Total assets	\$ 21,639,608	\$ 22,099,564
Liabilities and shareholders' equity		
Liabilities:		
Reserve for losses and loss adjustment expenses	\$ 5,682,434	\$ 5,512,284
Unearned premiums	1,395,067	1,416,948
Premiums and commissions billed or collected in advance	196,566	25,556
Accounts payable and accrued expenses	452,235	344,829
Agency billings payable to insurance carriers	6,153,118	7,149,381
Federal income taxes payable	119,575	122,621
Subordinated capital notes and accrued interest	1,464,464	1,831,104
Total liabilities	15,463,459	16,402,723
Shareholders' equity:		
Common stock: Class B - \$1,000 par value; 5,000 shares authorized; 1,496 shares issued and outstanding	1,496,000	1,496,000
Additional paid-in capital	1,819,678	1,808,632
Retained earnings	2,888,609	2,483,614
Accumulated other comprehensive loss	(28,138)	(91,405)
Total shareholders' equity	6,176,149	5,696,841
Total liabilities and shareholders' equity	\$ 21,639,608	\$ 22,099,564

CONSOLIDATED STATEMENTS OF INCOME & COMPREHENSIVE INCOME

	YEARS ENDED DECEMBER 31,	
	2008	2007
Revenues		
Premiums earned, net	\$ 4,711,921	\$ 4,713,217
Commission income	1,486,563	1,142,768
Investment income	700,669	677,304
Realized gains on investments, net	56	-
Other income	27,455	20,704
	<u>6,926,664</u>	<u>6,553,993</u>
Expenses		
Losses and loss adjustment expenses	2,699,364	2,967,062
Salaries and employee benefits	1,395,057	1,196,559
Amortization of policy acquisition costs	933,745	884,351
Other operating expenses	1,144,861	999,020
Interest expense	116,613	138,261
	<u>6,289,640</u>	<u>6,185,253</u>
Income before federal income taxes	637,024	368,740
Federal income tax expense	232,029	150,326
	<u>\$ 404,995</u>	<u>\$ 218,414</u>
Comprehensive Income		
Net income	\$ 404,995	\$ 218,414
Other comprehensive income:		
Net unrealized holdings gains (losses) arising during the period	95,915	(37,731)
Less: reclassification adjustment for realized gains included in net income	(56)	-
	<u>95,859</u>	<u>(37,731)</u>
Income tax benefit related to items	(32,592)	12,828
Total other comprehensive (loss)	<u>63,267</u>	<u>(24,903)</u>
Comprehensive income	<u>\$ 468,262</u>	<u>\$ 193,511</u>

Note: Johnson Lambert & Co. LLP has audited the consolidated financial statements of National Telcom Corporation and subsidiary as of and for the years ended December 31, 2008 and 2007, prepared in conformity with accounting principles generally accepted in the United States, and issued an unqualified opinion on such financial statements in their report dated March 11, 2009.

These consolidated balance sheets and consolidated statements of income and comprehensive income of National Telcom Corporation for the years ended December 31, 2008 and 2007 were derived from the audited financial statements. The complete audited financial statements may be obtained from National Telcom Corporation at 6301 Ivy Lane, Suite 506, Greenbelt, MD 20770.

An active risk management program includes fewer accidents, provides adequate asset protection for the entity, and increases the ability to plan and budget better for retained losses. As it has done for the last 25 years, Telcom Risk Management continues to strengthen its value to the Association by offering these services to the membership.

During 2008, the main emphasis of Telcom's Risk Management department continued to be the importance of contributing to the community through safety and loss prevention techniques on a local level at the individual telecommunications company. In reality, when the company's assets, both human and financial, are protected through a complete insurance and risk management program, your community is a better place.

Risk Management

We ascribe to the philosophy that education is the key component to a comprehensive risk management program and that learning is what we do as working adults to continue to better ourselves and our organizations. Through various educational endeavors or learning objectives, the goal is to teach the members about the importance and value of safety and loss prevention and allow them to facilitate the principles in their own companies...Safety first is safety always! Telcom incorporated several techniques to promote education throughout the year, some of which included: quarterly newsletters and safety promotional item mailings to all members of NTCA; seminars at all Regionals, HRNet, and the Fall Conference; a two-day OSHA 10-Hour General Industry Certification program for NTCA with 43 participants; participation in the HRNet; authoring three articles in the *Rural Telecommunications Journal*; monthly safety video/training materials to more than 50 NTCA member systems; the *Telcom Watch* which announced current happenings; 2 community art contests—stop smoking and fire safety; as well as our annual Risk Management Conference in San Francisco, CA.

The Risk Management Conference was held June 1-3 in San Francisco. The theme was "Telcom: Guarding Your Telecommunications Company Against Today's

Risks!" The two day seminar was attended by 22 NTCA member systems, all of our major insurance partners and brokers, and the entire Telcom staff. The speakers were described as excellent and the sessions, location, activities, and networking opportunities were well received as practical and useful at the telco level.

Using the electronic medium of email, we promoted a more complete understanding of D&O, EPLI, and Fiduciary coverages and Stay Connected updates through quarterly e-letters to all members of NTCA. We also had a second letter endorsed and mailed by NTCA to promote our D&O program, Stay Connected, and the CPNI/Red Flag exposures and coverage options.

Public Relations took on several projects. Early in February, we sponsored the registration bags at NTCA's Annual Meeting. At the Fall Conference, we sponsored hotel key cards that promoted our 25th Anniversary. We also added the leather portfolios for the Finance and Accounting Conference to the \$35,000+ that we use to sponsor NTCA and FRS throughout the year.

TRM was charged to start a modest for-profit department in 2008. From this department, we conducted the OSHA Certification Class for NTCA. The plan is to continue to develop this department to help supplement the needs of the members.

In late 2008, we developed a template for CPNI/Red Flag exposures to help our insureds be prepared for the original November 1st deadline. We will continue to promote this type of risk management with the policyholders. We also developed template to help telecommunication companies understand and meet the regulations of the SAFETEA-LU regarding high-visibility vests for working near federal-aid highways.

"Safety First is Safety Always."

—Charles M. Hayes

Loss Prevention & Claims

Great American continues to conduct our on-site physical loss prevention (LP) visits. Key areas include: lightning and grounding evaluations, tower safety inspections, valuations, OSHA specific compliance, accident records as a comparison of the industry averages, and various other value-added services like defensive driving classes. Approximately 75% of all policyholders have had at least one physical and or telephonic LP visit.

Telcom Risk Management continues to act as an advocate and facilitator on behalf of our insureds to all carriers, past and present, on claims matters. We use trending reports to review claims trends for the entire book-of-business as well as for each individual system and design our educational programs to address these specific concerns.

Community Efforts

During the spring, we sponsored a Stop Smoking safety art contest for the children of our policyholders and their communities. We had about 100 entries that showed the hazards of smoking, and we gave away \$675 in prize money to the winners. We also sponsored our annual October Fire Safety art contest and gave away Halloween tattoos (for kids) and brochures to our policyholders to distribute in their community to promote fire safety both at home and at work. We had about 400 entries in the Fire Safety Contest. In addition to the money that the winners receive, we post the winning entries in our newsletter, on our webpage, and several systems post their winners in their local telco newsletters.

The Total Package Approach

By strengthening the specific services that we offer our insureds through risk management education, we strengthen our relationship with the individual policyholders. When TRM is combined with all of the other services provided by Telcom, it makes one impressive package for the policyholder and accomplishes the goals set out in Telcom's Mission Statement.

Policyholders...One Big Family

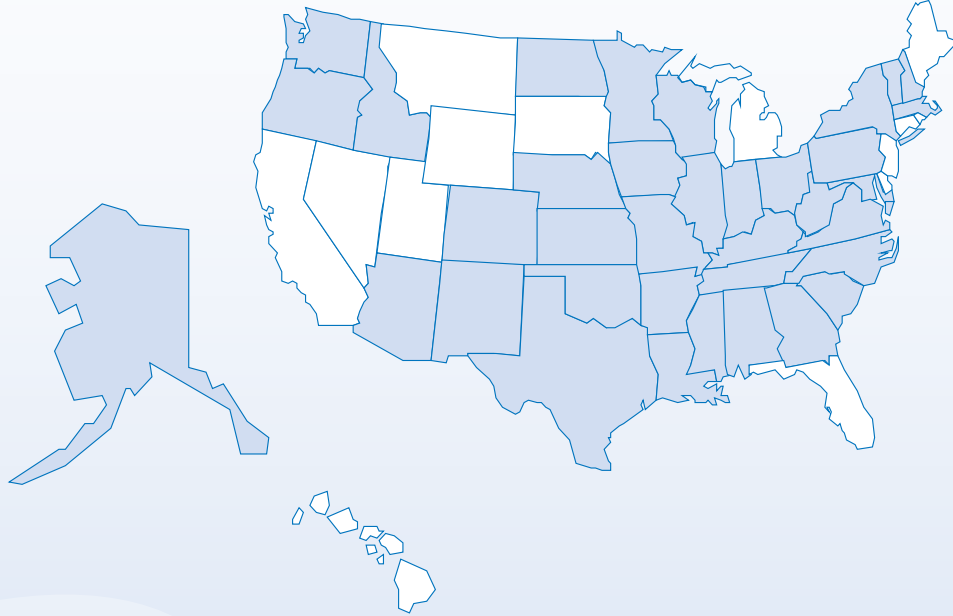
“The Telcom Insurance Group operates much like a family, and we like to think of our customers as part of our big diverse family. As of the end of 2008, our Property-Casualty customers written through the Captive are spread throughout the United States as follows:

State	Percent of Property-Casualty Written Premium by State in the Captive	State	Percent of Property-Casualty Written Premium by State in the Captive
AK	6.41%	NC	10.46%
AL	0.88%	ND	0.36%
AR	2.40%	NE	0.16%
AZ	0.02%	NH	0.01%
CO	0.18%	NM	0.03%
GA	0.27%	NY	3.30%
IA	0.18%	OH	1.57%
ID	1.15%	OK	6.90%
IL	0.39%	OR	3.29%
IN	3.89%	PA	0.39%
KS	6.51%	SC	15.62%
KY	2.18%	TN	6.37%
LA	2.00%	TX	17.23%
MA	0.11%	VA	2.65%
MD	0.56%	VT	0.82%
MN	0.83%	WA	0.60%
MO	0.87%	WI	0.34%
MS	0.05%	WV	1.06%

When you add the members who are written through the Agency, like the Directors and Officers Insurance participants, the following states must be added to our map: California, Florida, Maine, Michigan, Montana, South Dakota, and Utah.

Each year when additional states are represented by newly written insureds, we continue to strengthen the operation and add geographic diversity.

National Telcom Corporation...proud, strong, growing, and available in all states.



“Call it a clan, call it a network, call it a tribe, call it a family. Whatever you call it, whoever you are, you need one.”
-Jane Howard

MEETING MILESTONES

NTCA's 2008 Annual Meeting and Expo

February 10-13
New Orleans, LA

As we are always honored to do, Telcom also hosted our annual "Special Friends" Breakfast on Monday morning for approximately 250 policyholders. It is our way of saying thanks for putting your trust in us throughout the year. The program included a state-of-the-company and insurance industry review, an introduction of staff and insurance partners, raffle prizes, and a PowerPoint display of the 76 companies who not only had low losses, but that had actually had no losses during the previous calendar year. Good Risk Management at work!

On Tuesday, the Board of Directors met and the Expo opened. Our expo theme of the year was **Telcom: Guarding Your Telecommunications Company Against Today's Risks!** It was the kick-off to our annual Risk Management Conference (RMC), which was held in San Francisco, CA in June. At our booth at the expo, we gave away some very popular Alcatraz mints as a way to promote the host city for the RMC.

The Association always does a fabulous job and we are glad to be a part of it. We were pleased to get to see so many of our Telcom family and friends at this meeting and look forward to future meetings to do the same.

NTCA's Regionals

Network/Data Security: CPNI and Red Flag Exposures and Risk Transfer Options

As businesses increase their reliance on technology to store their data or their customers' data in every imaginable format from peripheral devices, networks, and even laptop computers, they face increased risk of computer attacks, viruses, and security breaches. Traditional insurance coverage forms fall short of covering loss associated with information breach and network security-related risks. We examined the coverages available to you for both 1st and 3rd party cyber risks as well as risk management controls for both 1st and 3rd party exposures to these network security related

issues that all technology companies have especially for CPNI and Red Flag exposures. We looked at network security policies and procedures and various security suggestions to help manage this ever-increasing risk.

2008 Risk Management Conference

San Francisco, CA
June 1-2

The annual Risk Management Conference is a time to network with other NTCA telecommunication company professionals and to gain a better understanding of property/casualty insurance and risk management specific to your company. The two-day session included the following:

The State of Rural Telecommunications: What's Important in 2008 and Forward?

Bill Hegmann, an industry expert, rural telecom industry veteran, and President/CEO of NECA addressed current issues and trends facing rural telecommunication companies today and into the upcoming future.

The State of the Insurance Industry and Telcom in 2008

In our 25th year, Telcom continues to develop new tools and services that provide you with business security and improve your bottom line, and we are bringing safety awareness to your communities. Peter Elliott, Telcom's CEO, examined the changing world of the insurance industry and shared how Telcom responds to your ever-expanding needs.

Various Insurance Topics Related to Today's Exposures in Rural America

Peter Elliott, CPCU, addressed a variety of subjects, which included: Direct Property Loss Coverage and Exposure-Coverage and Risk Analysis for Weather Prone Property; Indirect Loss Coverage and Exposure-Business Income and Extra Expense Coverage; Crime Coverage and Exposure-Electronic and Computer Type Losses; 1st and 3rd Party Liability Coverage and Exposure-Data and Security including CPNI Exposure; Automobile Coverage and Exposure-UM/UIIM and Pollution; and Executive and Employee Liability Coverage and Exposures.

INJAM (It's Not Just About Me)

Tony Crow used humor and real-life stories to share how he is living as a blind person in a sighted world. He feels blessed to be alive as he shares his message of Triumph over Tragedy. Not only did his life change after his accident, so did the lives of his family and friends. Accidents affect more than just the injured person. He shared his techniques for being an example of the importance of safety at your company, your home, your church, and your community. Tony, his wife Cheryl, and his leader dog, Rudy, brought us a true real life inspirational story and there was not a dry eye in the house!

SMC—Another NTCA Benefit

Royden Russell, SMC Field Representative, presented an update on the NTCA benefit plans including the Group Health Plan, Retirement and Security Plan, and Savings Plan that are offered by NTCA.

Best Practices for Avoiding Sexual Harassment

Think you could never have an Employment Practices Liability claim at your company? Think again—no matter what your size! Bill Colston III (Billy) from Riviera Telephone Company in Texas and Glenda Page from Horry Telephone Cooperative in South Carolina shared their vast knowledge and experience in training on preventing sexual harassment claims at rural telecommunication companies.

NTCA's Fall Conference

Palm Springs
September 21-23, 2008

In addition to sponsoring the hotel key cards, Telcom and Travelers Insurance sponsored a session on "Minimizing the Telco's Exposure to Harassment and Discrimination Claims". Cynthia Filla, attorney with Jackson Lewis LLP presented the session. The practical information led to lots of dialogue and questions from the group. We were pleased to provide this invaluable session from an employment law specialist to the membership.

The Telcom Family...Our Staff

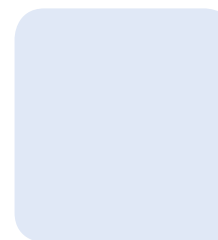
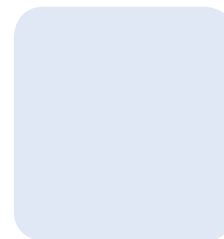
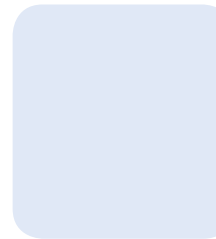
This Telcom family is just that...a family. The staff, itself, is composed of hard working, dedicated, professional individuals who work diligently everyday to provide all of the members of the NTCA with the best property casualty and insurance risk management services possible...all the while, with a positive, caring attitude. Although there is some crossover, the 2008 team is composed of 3 major departments which are: Underwriting/Field Services, Risk Management/Corporate, and Finance. Peter Elliott, as the Chief Executive Officer, directs all aspects of the Company's operations and is ultimately responsible for underwriting, risk management, financial, and corporate functions.

The Underwriting Department is composed of a Senior Underwriting Manager & Director of Specialty Lines, Sue Flanders; two Senior Underwriting/Marketing Technicians: Janice Johnson and Todd Travis; two Underwriting/Marketing Technicians: Beckie Menard and Tisa Smith; an Association Program Manager in Wisconsin, Bonnie Gauerke; and three Senior Account Executives (Field Services), Joyce Hermann in Maryland, Chris Jones in Texas, and Kim Olson in Louisiana. As a group, they handle the entire underwriting process from initial visit, to application, to proposal, to binding, and the customer service needs for each individual account after binding. This group handles all the core property casualty lines, as well as specialty lines coverages in areas such as Directors and Officers, bonds, various specialty lines, and the Network Security and Data Liability policies. They may handle various geographic regions, but they all work together for the benefit of the individual telecommunications company.

The Risk Management/Corporate department includes Marilyn Blake as the Chief Operating Officer; Cheri Condee is the day-to-day Senior Claims Specialist and Corporate Assistant; and in early 2009 we added Tina Wynter, who is the Risk Management Assistant. The risk management department, is responsible for internal human resources, claims and trending, safety and loss control education and training, meeting and seminar planning, the website, and all Telcom publications and communication pieces. The Corporate department also handles Shareholder and Board administrative needs.

The Finance department is headed by Mike Huffman who is the Chief Financial Officer. He is assisted by Kim Spear, the Finance/Accounting Assistant, in managing all financial functions of the Company. Mike and Kim S. also handle the information technology issues.

For more specific information and some pictures on each member of the family, go to the website (www.TelcomInsGrp.com) to "About Telcom" and then to "Telcom Staff". We're proud that together, the combined efforts of this family provides outstanding personalized and yet professional services to all of the members of NTCA.



THE YEAR IN PICTURES



THE YEAR IN PICTURES



25 YEARS OF APPRECIATION

TELCOM OFFERS A SPECIAL THANK YOU TO THESE ORIGINAL
POLICYHOLDERS WHO TRUSTED US FROM THE VERY BEGINNING AND
WHO ARE STILL CURRENTLY POLICYHOLDERS

National Telecommunications Cooperative Association/Services Management Corporation (VA)

Communications Supply Service Association (AR)

Peoples Telephone Cooperative (TX)

Twin Lakes Telephone Cooperative Corporation (TN)

Hardy Telecommunications (WV)

Yadkin Valley Telephone Membership Corporation (NC)



TELCOM'S 25TH ANNIVERSARY



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