MINUTES OF THE THIRTY-FOURTH ANNUAL MEETING OF THE NORTH CAROLINA RATE BUREAU HELD AT THE GRANDOVER RESORT AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA, OCTOBER 19, 2011

MEMBERS PRESENT

Allstate Insurance Company
   Allstate Indemnity Company
   Allstate Property & Casualty Insurance Company
   Encompass Indemnity Company
   First Colonial Insurance Company
   Northbrook Indemnity Company

American Home Assurance Company
   American General Property Insurance Company
   AIU Insurance Company
   Chartis Casualty Company
   Chartis Property Casualty Company
   Commerce & Industry Insurance Company
   Granite State Insurance Company
   Insurance Company of the State of Pennsylvania
   National Union Fire Insurance Company of Pittsburg Pennsylvania
   New Hampshire Insurance Company

Atlantic Casualty Insurance Company
   Coastal Casualty Insurance Company

Auto Owners Insurance Company
   Owners Insurance Company
   Builders Mutual Insurance Company
   Builders Premier Insurance Company

Cincinnati Insurance Company
   Cincinnati Casualty Company
   Cincinnati Indemnity Company

Berkley Insurance Company
   Acadia Insurance Company
   Admiral Indemnity Company
   American Mining Insurance Company, Inc.
   Berkley National Insurance Company
   Berkley Regional Insurance Company
   Carolina Casualty Insurance Company
   Continental Western Insurance Company

REPRESENTED BY

Theresa Reece
Wavel Howell
Mark Caughron
Drew Klasing
Scott Palmer
Jerry Visintine
Jim Gron
Tammy Rosati
Firemens Insurance Company of Washington District of Columbia
Great Divide Insurance Company
Key Risk Insurance Company
Midwest Employers Casualty Company
Riverport Insurance Company
StarNet Insurance Company
Tri-State Insurance Company of Minnesota
Union Insurance Company
Dairyland Insurance Company
Middlesex Insurance Company
Peak Property & Casualty Insurance Corporation
Sentry Casualty Company
Sentry Insurance A Mutual Company
Sentry Select Insurance Company
Dairyland Insurance Company
Middlesex Insurance Company
Peak Property & Casualty Insurance Corporation
Sentry Casualty Company
Sentry Insurance A Mutual Company
Sentry Select Insurance Company
Farmers Insurance Exchange
21st Century Advantage Insurance Company
21st Century Assurance Company
21st Century Casualty Company
21st Century Centennial Insurance Company
21st Century Insurance Company
21st Century North America Insurance Company
21st Century Premier Insurance Company
American Guarantee & Liability Insurance Company
American Zurich Insurance Company
Assurance Company of America
Centre Insurance Company
Colonial American Casualty & Surety Company
Empire Fire & Marine Insurance Company
Fidelity & Deposit Company of Maryland
Foremost Insurance Company Grand Rapids MI
Foremost Property & Casualty Insurance Company
Foremost Signature Insurance Company
Maryland Casualty Company
Mid Century Insurance Company
Northern Insurance Company of New York
Truck Insurance Exchange
Universal Underwriters Insurance Company
Zurich American Insurance Company
Zurich American Insurance Company of Illinois
Wesco Insurance Company
Greenville Casualty Insurance Company
GEICO Indemnity Company
American Centennial Insurance Company
Atlanta International Insurance Company
Berkshire Hathaway Homestate Insurance Company

Peter Sampson
Brenda Marsch
Bill Tibbens
Dean Krueger
Joe Jordan
David Nelson
Rusty Ward
California Insurance Company
Central States Indemnity Company of Omaha
Commercial Casualty Insurance Company
Continental Indemnity Company
Fairfield Insurance Company
GEICO Casualty Company
GEICO General Insurance Company
General Reinsurance Corporation
General Star National Insurance Company
Genesis Insurance Company
Government Employees Insurance Company
National Indemnity Company
National Liability & Fire Insurance Company
National Reinsurance Corporation
Stonewall Insurance Company
United States Liability Insurance Company

Hartford Fire Insurance Company  Mike Apanowitch
    Hartford Accident & Indemnity Company
    Hartford Casualty Insurance Company
    Hartford Insurance Company of the Midwest
    Hartford Underwriters Insurance Company
    New England Insurance Company
    Property & Casualty Insurance Company of Hartford
    Sentinel Insurance Company Ltd
    Trumbull Insurance Company
    Twin City Fire Insurance Company

Horace Mann Insurance Company  Reid McClintock
    Horace Mann Property & Casualty Insurance Company
    Teachers Insurance Company

Integon Indemnity Corporation  Art Lyon
    Integon Casualty Insurance Company
    Integon General Insurance Corporation
    Integon National Insurance Company
    Integon Preferred Insurance Company
    Maiden Reinsurance Company
    Maiden Specialty Insurance Company
    MIC General Insurance Corporation
    National General Assurance Company
    National General Insurance Company
    New South Insurance Company
    Technology Insurance Company
    Wesco Insurance Company

Liberty Mutual Insurance Company  Mike Grove
    American Economy Insurance Company
    American Fire & Casualty Company
American States Insurance Company
American States Preferred Insurance Company
Bridgefield Casualty Insurance Company
Bridgefield Employers Insurance Company
Colorado Casualty Insurance Company
Employers Insurance Company of Wausau
Excelsior Insurance Company
First Liberty Insurance Corporation
First National Insurance Company of America
General Insurance Company of America
Liberty Insurance Corporation
Liberty Insurance Underwriters Inc
Liberty Mutual Fire Insurance Company
Liberty Mutual Mid-Atlantic Insurance Company
LM General Insurance Company
LM Insurance Corporation
LM Property & Casualty Insurance Company
Midwestern Indemnity Company
Montgomery Mutual Insurance Company
Netherlands Insurance Company
Ohio Casualty Insurance Company
Ohio Security Insurance Company
Peerless Indemnity Insurance Company
Peerless Insurance Company
SAFECO Insurance Company of America
SAFECO Insurance Company of Indiana
Wausau Business Insurance Company
Wausau Underwriters Insurance Company
West American Insurance Company
Nationwide Mutual Insurance Company
Allied Property & Casualty Insurance Company
AMCO Insurance Company
Depositors Insurance Company
Farmland Mutual Insurance Company
Freedom Specialty Insurance Company
National Casualty Company
Nationwide Affinity Insurance Company of America
Nationwide Agribusiness Insurance Company
Nationwide Insurance Company of America
Nationwide Mutual Fire Insurance Company
Nationwide Property & Casualty Insurance Company
Scottsdale Indemnity Company
Titan Indemnity Company
Victoria Fire & Casualty Company
North Carolina Farm Bureau Mutual Insurance Company

Amy Powell
Joe Buck
Sara Behrend

Roger Batdorff
Farm Bureau Insurance Company of North Carolina

Progressive Casualty Insurance Company
National Continental Insurance Company
Progressive Advanced Insurance Company
Progressive American Insurance Company
Progressive Direct Insurance Company
Progressive Max Insurance Company
Progressive Northern Insurance Company
Progressive Northwestern Insurance Company
Progressive Preferred Insurance Company
Progressive Premier Insurance Company of Illinois
Progressive Southeastern Insurance Company
Progressive Universal Insurance Company
United Financial Casualty Company

State Farm Mutual Automobile Insurance Company
State Farm Fire & Casualty Company
State Farm General Insurance Company

Stonestwood Insurance Company

Travelers Indemnity Company
Athena Assurance Company
Automobile Insurance Company of Hartford
Charter Oak Fire Insurance Company
Commercial Guaranty Insurance Company
Discover Property & Casualty Insurance Company
Farmington Casualty Company
Fidelity & Guaranty Insurance Company
Fidelity & Guaranty Insurance Underwriters Inc
Northland Casualty Company
Northland Insurance Company
Phoenix Insurance Company
Select Insurance Company
St Paul Fire & Marine Insurance Company
St Paul Guardian Insurance Company
St Paul Medical Liability Insurance Company
St Paul Mercury Insurance Company
St Paul Protective Insurance Company
Standard Fire Insurance Company
Travco Insurance Company
Travelers Casualty & Surety Company
Travelers Casualty & Surety Company of America
Travelers Casualty Company of Connecticut
Travelers Casualty Insurance Company of America
Travelers Commercial Casualty Company
Travelers Commercial Insurance Company
Travelers Home & Marine Insurance Company

Kevin McGee

Alan Bentley

Tee Stephenson

Kriss Barronton
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Personal Insurance Company
Travelers Personal Security Insurance Company
Travelers Property Casualty Company of America
Travelers Property Casualty Insurance Company
United States Fidelity & Guaranty Company

United Services Automobile Association    Dan Pickens
    Garrison Property & Casualty Insurance Company
    USAA Casualty Insurance Company
    USAA General Indemnity Company

United Wisconsin Insurance Company      Mike McKeon
    Accident Fund General Insurance Company
    Accident Fund Insurance Company of America
    Accident Fund National Insurance Company
    CompWest Insurance Company

Unitrin Auto & Home Insurance Company    Donna Emery
    Alpha Property & Casualty Insurance Company
    Kemper Independence Insurance Company
    Merastar Insurance Company
    Response Insurance Company
    Response Worldwide Insurance Company
    United Casualty Insurance Company of America
    Unitrin Direct Property & Casualty Company
    Unitrin Safeguard Insurance Company

Universal Insurance Company             Greg Spray

OTHERS PRESENT                          REPRESENTED BY

Young, Moore and Henderson      Glenn Raynor
                                Mickey Spivey
                                Mike Strickland
                                Bill Trott

Insurance Services Office        Patrick Woods

Staff                           David Walker
    Edith Davis
    Ray Evans
    Vicki Godbold
    Fred Hoerl
    Tim Lucas
    Lois Murphey
    David Sink
    Sue Taylor
    Rebecca Williams
175 other companies voted by proxy.

The meeting convened as scheduled, Mrs. Powell of Nationwide Mutual Insurance Company, Chair of the Governing Committee, presiding.

Attention was directed to the Rate Bureau’s Antitrust, Conflict of Interest, Code of Ethics and Standards of Conduct Statements.

Mrs. Taylor announced that there was a quorum.

1. **Annual Report**

   Mr. Evans reviewed and commented on the 2011 Annual Report, a copy of which is attached hereto. The Annual Report was approved by the members.

2. **Staff Recap of 2011**

   Mr. Sink discussed specifics of the financial and budgeting segments of the Rate Bureau. Mrs. Taylor discussed the highlights of the year and the goals for 2012 for Insurance Operations.

3. **Governing Committee Election**

   Mr. Evans reported that the Nominating Committee (comprised of Cincinnati Insurance, Integon Indemnity, Nationwide Mutual, NC Farm Bureau Mutual and State Farm Mutual) recommended the following slate of companies for election to the Governing Committee: Integon Indemnity Corporation and Progressive Casualty Insurance Company for the two stock positions and Liberty Mutual Insurance Company and Builders Mutual Insurance Company for the two non-stock positions. The floor was opened for additional nominations, and there were none. Following motions to close the nominations and to elect the recommended slate, the companies recommended by the Nominating Committee were elected to three-year positions on the Governing Committee. Mr. Evans thanked Cincinnati Insurance and United Services Automobile Association for their service on the Governing Committee.

4. **Comments from the Chair**

   Ms. Powell thanked staff, counsel and the committees for their work during the past year.

5. **Adjournment**

   There was no further business, and the meeting was adjourned.

Respectfully submitted,

RFE:dms
3/20/12
G-12-3

Raymond F. Evans, Jr. CPCU
General Manager
North Carolina Rate Bureau

Table of Contents
General Manager’s Report ...........................................3
Message from the Chair of the Governing Committee........3
Committee Members ......................................................4
Insurance Operations ......................................................5
Shared Services ............................................................8
Management Staff ........................................................10
Balance Sheet & Income Statement ................................11

General Organizational Information
NCRB Main Phone Number ............... 919-783-9790
Website Address .............................. www.ncrb.org
Physical Address .............................. 5401 Six Forks Road
                                          Raleigh, NC 27609

Management Contacts
NCRB Staff
Ray Evans ........................................... General Manager
919-783-9790 ................................................... rfe@ncrb.org
Sue Taylor ......................................... Director, Insurance Operations
919-582-1050 ................................................... smt@ncrb.org
Karen Byrd .................................. Manager, Workers Compensation Underwriting Services
919-582-1075 ................................................... khb@ncrb.org
Delisa Fairley ................................ Manager, Insurance Data Operations
919-582-1060 ................................................... ddf@ncrb.org
Betty Hurst ................................ Manager, Workers Compensation
919-582-1070 ................................................... bgh@ncrb.org
Tim Lucas ................................ Manager, Personal Lines
919-582-1021 ................................................... ftl@ncrb.org
Lynne Mays ................................ Supervisor, Workers Compensation Data Quality
919-582-1080 ................................................... lwm@ncrb.org
Rebecca Williams ........................ Manager, Data Analysis
919-582-1055 ................................................... rrw@ncrb.org

Organizational Shared Resources Staff
Shelley Chandler ........................ Director, Information Services
919-582-1057 ................................................... src@ncrb.org
Vicki Godbold .......................... Director, Human Resources & Administrative Services
919-645-3170 ................................................... vcg@ncrb.org
David Sink ................................ Director, Finance
919-582-1012 ................................................... des@ncrb.org
General Manager’s Report

While it doesn’t seem possible to me, a year has passed since our last annual report. From my point of view, it has been a good one.

On the easy-to-identify-and-enumerate side, there were big changes in workers compensation assigned risk. We made timely filings for most lines, and there were many rule and manual changes. Overall, we continued to fulfill our statutory responsibilities and at the same time become more effective and efficient.

Even though workers compensation assigned risk activity is down, ultimately we believe, as the economy recovers, the level of activity will rebound; as a result, we continue to fine-tune the systems and skills necessary to operate smoothly. One result of diminished activity, however, is that we have reduced the number of servicing carriers to two rather than the four in former years. While a difficult decision, so far it is working well.

The Rate Bureau has been refining the rate promulgation processes for some time. Thanks to help from many sources, the result has been a review only of private passenger auto and workers compensation. The exception is residential property, where litigation over the past several years has slowed our efforts.

This was the year of the “long session” of the North Carolina Legislature. While we do not lobby and do not take sides, there were some two dozen bills impacting property casualty insurance. Therefore, a good deal of time was devoted to explanations, requests for data and examining the wording and effects of bills — all in the background, and again, all without taking sides.

Finally, I have been pleased during the past several years that many of our folks are recognized by industry groups for their knowledge, leadership and skill. A current example is Sue Taylor, the chair of a WC industry data communications group, CDX. This program provides a forum for exchanging data and is at a critical point in determining if, when and how a fundamental piece of the operating system is to be replaced.

As we move forward in our efforts to be more effective in our responsibilities, we give our thanks once again to those of you participating on the Governing Committee and other committees and task forces for your help, support and knowledge.

Message from the Chair of the Governing Committee

As I stop and take the time to look back at my first year as chair of the Governing Committee, it seems to have passed very quickly. I am sure that is because of how busy we were. In 2011, the Governing Committee had discussions on all of the lines of insurance that the Bureau oversees. Numerous rate and forms filings were made during the year to ensure that we provide the necessary service to the policyholders in North Carolina as well as to the insurance industry. Thanks to the Automobile, Property and Workers Compensation committees and all of the subcommittees for their efforts to get this work done accurately and timely.

Our focus this year was to continue to work toward annual rate reviews in each of the products. We were able to complete work on a dwelling filing which resulted in a property rate hearing with the Department of Insurance. Staff and counsel did an excellent job preparing for this hearing and presented our concerns well. Thanks to them for their efforts on our behalf.

This year also presented an active legislative session with numerous insurance issues under review. Staff kept the Governing Committee informed of each of the bills under review and provided data when requested to assist with these discussions. This was no easy task, given the large number of bills under review during the session.

Keeping up with all of these items required many meetings for the Governing Committee. Time is a precious resource, and I do appreciate the time each member of the committee has extended to the Rate Bureau to assist with each of these important decisions. I deeply appreciate the support of the committee, staff, and counsel during this very busy year.

Sincerely,

Amy Powell, Nationwide Mutual Insurance Company
Chair, NCRB Governing Committee

Ray Evans
General Manager

North Carolina Rate Bureau
## Committee Members

### Governing Committee

<table>
<thead>
<tr>
<th>Members</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Allstate Insurance Company</td>
<td>Bill Payne</td>
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<tr>
<td>American Home Assurance Co</td>
<td>Ira Feuerlicht</td>
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<tr>
<td>Auto Owners Insurance Company</td>
<td>Drew Klassing</td>
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<td>Cincinnati Insurance Company</td>
<td>Jim Gron</td>
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<td>Hartford Fire Insurance Company</td>
<td>Rajiv Iyer</td>
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<td>Integon Indemnity Corp</td>
<td>Art Lyon</td>
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<td>Liberty Mutual Insurance Co</td>
<td>Michael Ma</td>
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<tr>
<td>Nationwide Mutual Ins Company</td>
<td>Amy Powell</td>
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<tr>
<td>NC Farm Bureau Mutual Ins Company</td>
<td>Roger Batdorff</td>
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<tr>
<td>State Farm Mutual Automobile Ins Co</td>
<td>Alan Bentley</td>
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<tr>
<td>Travelers Indemnity Company</td>
<td>Kristina Barrington</td>
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<tr>
<td>United Services Automobile Assoc</td>
<td>Dan Pickens</td>
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### Non-voting Members

<table>
<thead>
<tr>
<th>Public Member</th>
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<tbody>
<tr>
<td>Max Offerman</td>
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<td>John Wei</td>
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### Property Committee

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<tbody>
<tr>
<td>Allstate Insurance Company</td>
<td>Shantelle Thomas</td>
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<tr>
<td>Amica Insurance Company</td>
<td>Tom Goodale</td>
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<td>Erie Insurance Exchange</td>
<td>Kristopher Marrion</td>
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<td>Nationwide Mutual Ins Co</td>
<td>Kathy Southern</td>
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<td>Penn National Insurance Company</td>
<td>Chuck Uckele, Pat Lovell</td>
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<td>Unitrin Auto and Home Ins Co</td>
<td>Kimberly Burns</td>
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<table>
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<td>NC Farm Bureau Mutual Ins Co</td>
<td>Roger Batdorff</td>
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<td>Alan Bentley</td>
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### Workers Compensation Committee

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<tr>
<td>American Home Assurance Co</td>
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<td>Amerisure Insurance Co</td>
<td>Brent Otto</td>
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<td>Builders Mutual Insurance Co*</td>
<td>Jerry Vlantine</td>
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<tr>
<td>Companion Property &amp; Casualty Co</td>
<td>Tom Walsh</td>
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<td>Harleysville Mutual Insurance Co</td>
<td>John Zukuta</td>
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<td>Melinda Thompson</td>
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<td>Jeff Jensen</td>
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<td>PA National Mutual Casualty Co</td>
<td>Alan Stowe</td>
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<td>Travelers Indemnity Company</td>
<td>Jeffrey Schmidt</td>
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### Workers Compensation Forms Subcommittee

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<tr>
<td>Companion Property &amp; Casualty Co</td>
<td>Susan Caton</td>
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<tr>
<td>Liberty Mutual Insurance Co</td>
<td>Dave Hall</td>
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<td>Maryland Casualty Co</td>
<td>John Knoebel</td>
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<td>Travelers Indemnity Company</td>
<td>Cody Giroux</td>
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<tr>
<td>Union Insurance Co*</td>
<td>John Elwonger</td>
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### Property Rating Subcommittee

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<td>Allstate Insurance Company*</td>
<td>Shantelle Thomas</td>
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<tr>
<td>American Bankers Ins Co</td>
<td>Dina Olsen</td>
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<td>American Modern Home Ins Co</td>
<td>Sally Kressin</td>
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<td>Foremost Insurance Company</td>
<td>Dave Kelly</td>
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<td>Horace Mann Ins Co</td>
<td>Reid McClintock</td>
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<td>Sara Behrend</td>
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<td>Roger Batdorff</td>
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<td>Kathy Popejoy</td>
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<td>Travelers Insurance Co</td>
<td>Soledad Mune</td>
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<tr>
<td>United Services Automobile Assoc</td>
<td>Christopher Maloy</td>
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### Property Forms Subcommittee

<table>
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<tr>
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<tr>
<td>Allstate Insurance Company</td>
<td>Christy Hradek</td>
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<tr>
<td>American Bankers Ins Co of Florida</td>
<td>Dina Olsen</td>
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<td>American Modern Home Ins Co</td>
<td>Angela Morrow, Heather White</td>
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<td>Daniel Meister</td>
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<tr>
<td>NC Farm Bureau Mutual Ins Co</td>
<td>Bob Tart</td>
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<tr>
<td>Kemper</td>
<td>Susan Fiorentino</td>
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*Chair
Insurance Operations

Core values are principles that guide an organization’s internal conduct as well as its relationships with customers. The Bureau developed six core values many years ago that are continually used as a road map for all associates. Even through the cyclicality of the insurance business, core values are used to ensure that the Bureau stays true to the course and guide the Bureau to fulfill faithfully and diligently the obligations of the Organization as set forth in the statutes.

The commitment of the committees, subcommittees and task forces during 2011 remained strong. Numerous meetings and telephone conferences were held, and input from the member companies helped the Bureau fulfill the obligations of the Organization. Discussion topics included proposed filings, legislative agendas and strategy-setting.

The continual commitment of the Bureau’s legal counsel and advisors was very evident in 2011 in the numerous filings and lawsuits and in the dwelling hearing that took place during the year.

Finally, the commitment of Bureau associates in servicing customers with whom they work on a daily basis needs to be recognized. Special appreciation is extended to all who have contributed to the success of the Rate Bureau in 2011.

The following summarizes the accomplishments over the past year.

Personal Lines

Automobile

For Private Passenger Automobile, the Rate Bureau is required to make a filing every year by February 1. This year it was decided to file only a review of the data with the Department of Insurance and not request a revision in the private passenger automobile rates. The next filing will be made on or before February 1, 2012.

On March 8, 2011, the Rate Bureau filed a revision to Rule 9 of the Personal Auto Manual. This revision amended the rule so that when endorsing a Personal Auto Policy midterm, the carrier can use the rates in effect at the time the change is made or the rates in effect at the inception of the policy. The previous rule required the specific use of only one method. This revision offers the member companies the ability to implement the change as soon as possible. The filing became effective on June 16, 2011.

On May 11, 2011, the Rate Bureau filed a revision to Rule 19.F of the Personal Auto Manual concerning classic autos. The revision provides that, when applying a symbol to a classic auto, the symbol for the base model year should be used in lieu of the model year of the vehicle. This filing was approved on May 13, 2011, and becomes effective November 1, 2011.

The Rate Bureau filed a revision to the Personal Auto Manual Rule 4.D concerning single and multi-car risks to state explicitly in the rule that if a multi-car risk is split onto multiple policies, any resulting single-car policies are not eligible for a multi-car discount. There is an exception if the company’s policy processing systems do not permit insuring all vehicles in the same policy. This revision was filed on August 10, 2011, and becomes effective the first day of the month following six months after the Commissioner's approval.

Safe Driver Insurance Plan

As required in the General Statutes, the Bureau continues to provide a mechanism for policyholders to appeal “points” that have been charged as a result of at-fault accidents. Below is a summary of the results of the appeal of those “points.”

<table>
<thead>
<tr>
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<th>2011</th>
<th>2010</th>
<th>2009</th>
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<td>In Favor of Insured</td>
<td>1</td>
<td>5</td>
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<tr>
<td>In Favor of Company</td>
<td>3</td>
<td>11</td>
<td>7</td>
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Property

Shortly after the consent order was signed in the Homeowners rate filing in December 2008, a group of counties, municipalities and citizens from the 20 coastal counties filed multiple actions seeking review of the Commissioner’s ordered rate increases. The plaintiffs petitioned the Commissioner, appealed the consent order to the Wake County Superior Court and appealed directly to the North Carolina Court of Appeals. The appeal to the Court of Appeals was dismissed. The petition to the Commissioner and the appeal to the Superior Court were likewise dismissed. Plaintiffs’ appealed the Superior Court dismissal to the Court of Appeals, and the Court of Appeals affirmed the dismissal by the Superior Court. Plaintiffs’ unsuccessfully sought review of both Court of Appeals’ opinions in the Supreme Court. The ultimate result was that the consent order between the Commissioner and the Rate Bureau was upheld.

On January 4, 2011, the Rate Bureau submitted a rate filing proposing revised rate levels for the Dwelling Policy Program. The filing proposed an overall rate level change of -7.3% for fire and +36.1% for extended coverage. In addition, the filing proposed a revision to the windstorm and hail exclusion credits as well as revised territory definitions that will track the territory definitions in the Homeowners Policy Program. The Commissioner of Insurance did not approve the proposed rate level change and called for a public hearing which began on July 25, 2011. Following conclusion of the public hearing, the Commissioner has 45 days to issue an order. This item remains pending as of the writing of this report.

On February 17, 2011, the Rate Bureau filed optional higher-deductible factors for homeowners with the Department of Insurance. After the submission of several data requests, the Rate Bureau and Department of Insurance reached a settlement as to the appropriate factors to be implemented. This filing was approved and became effective on August 11, 2011.

House Bill 1305 required the Bureau to file hurricane mitigation credits for dwellings under the Bureau’s jurisdiction. These credits were filed and approved for use beginning May 1, 2011. Throughout the year, Rate Bureau staff has conducted training sessions on the implementation of the Hurricane Mitigation Program. These training sessions included a series of three webinars and a series of “in person” training sessions held in Cary, Wilmington, Greenville and Kitty Hawk which provided two hours of continuing education for agents.

The Rate Bureau filed a Homeowners Excess Policy Program on August 12, 2011, with the Department of Insurance. The purpose of this program is to provide a mechanism for companies to write homeowners coverage above the $750,000 maximum that the North Carolina Insurance Underwriting Association can write. This Program remains pending before the Department of Insurance as of the writing of this report.

Workers Compensation

In the North Carolina General Assembly, Workers Compensation was a big topic in 2011, with a new reform bill passed into law. There are several new provisions of the law, including allowing communication between the doctor and the insurance company, increasing benefits for death claims, reducing the number of commissioners at the North Carolina Industrial Commission, defining “suitable employment” and limiting temporary total disability to a maximum 500 weeks, in most cases.

Assigned Risk

The end of 2010 brought to a conclusion the Bureau’s three-year contracts with the assigned risk carriers that provide services to member companies of the National Pool. After a request for proposal and evaluation by Bureau staff, a decision was made that, effective January 1, 2011, the number of servicing carriers for North Carolina would be reduced from four to two.

The current servicing carriers are:
- Riverport Insurance Company
- Travelers Property & Casualty Company of America

In addition, eight carriers receive assignments on a direct basis. The direct assignment carriers include:
- ACE American Insurance Company
- American Interstate Insurance Company
- American Zurich Insurance Company
- Auto Owners Insurance Company
- Cincinnati Insurance Company
- Continental Casualty Company
- Granite State Insurance Company
- Hartford Underwriters Insurance Company

North Carolina’s Assigned Risk Market continues to depopulate through 2011. Through June, the number of policies is below 2010 by 18.9%, and the total premium volume is below 2010 by 14.7%.
Assigned Risk continued to see an increase in the utilization of the electronic application system (ManageAR) over the past year. The agent utilization is currently at 89%, an increase in usage of seven percentage points over the past 12 months. The snapshot below shows the frequency with which agents have utilized the ManageAR system over the past 12 months.

The electronic funds transfer (EFT) feature of the ManageAR system is used for electronic submission of the deposit premium. On June 30, 2011, agent utilization of EFT was at 67%. This is an increase in usage of three percentage points over last year. To encourage agents to use EFT as their method for payment of deposit premium, enhancements to the system have been made. These enhancements are expected to make the system more secure and user friendly, thereby encouraging agents to use the EFT process more frequently.

Classification and Ownership
Over the past 12 months, the Classification and Ownership unit processed 3,499 ownership work items. This resulted in 2,458 ownership rulings. They also responded to 2,435 classification code inquiries.

Disputes
The volume of workers compensation disputes received in the first half of 2011 show the number declining. Issues involving incorrect classification codes, use of uninsured subcontractors and non-compliance with information being requested at audit have been the top three categories for disputes during this period.

Over the past 12 months, there has been a shift in how disputes are being submitted to the Bureau. In prior years, most disputes were filed directly with the Bureau by employers or agents on behalf of the employer. Over the past year, the majority of disputes have come by way of attorney representation.

Take-out Credits
For 2010, there were 110 participating carriers in the Take-Out Credit (TOC) Program and a total of $4,154,932 in Take-Out Credits allowed. Even with the increase in number of participating carriers for the 2010 TOC program, the credits were down from the prior year.

Web Applications
In January of 2011, ManagePolicy Phase II was released to NCRB’s member companies. Since implementation, 7,261 transactions have been entered, and 532 distinct users have accessed the ManagePolicy system. Carriers are provided next-day access to all policy transactions and are able to see the status of data submissions within 24 hours. This new application has eliminated the need for the Bureau to mail hard-copy rejections and policy processing reports to carriers.

The Bureau website has a number of web applications available for member company use. These include Experience Mod Lookup, ManageAR, ManageUSR and WC Ratings.
Data Operations

Data Quality

The Data Quality Unit is responsible for the reconciliation of carrier data as well as the promulgation of experience modifications. This unit was also previously responsible for the entry of hard-copy policy data. The shift to electronic reporting has allowed the unit to provide a greater focus on the actual quality of the data being reported.

The Bureau issued 37,811 workers compensation experience modifications last year. Additionally, the Bureau collected 528,152 transactions during 2010, including new and renewal policies, cancellations, reinstatements and endorsements.

Data Collection and Data Analysis

The Bureau collects workers compensation and personal lines data primarily for use in rate filings. Annually, the Bureau collects data from the statutory Property and Casualty Annual Statement and Insurance Expense Exhibits. The Bureau also collects Private Passenger Automobile, Homeowners, Dwelling and Mobile Homeowners Expense Experience and Installment Payment data. The use of this data is for the preparation of rate filings, apportionment of expenses and determination of expense allowances and assessments. Over the last several years, Bureau staff has engaged in a more detailed analysis of the data submitted. Bureau staff spends a considerable amount of time in the review of the data for accuracy. In 2011, process improvements were made to the data-review process.

Information Services

The Information Services department (IS) is responsible for Communications/Customer Service, Process Documentation/Process Improvement, Systems Availability and Systems Development.

The customer service area handles approximately 4,000 support calls and emails per month from external customers via the Information Center, and the Service Desk handles an additional 250 calls and emails from internal associates. In 2011, the Information Center implemented multiple improvements to its existing processes, including call monitoring and quality auditing. Efforts are underway to revamp the customer survey and implement scorecard metrics.

Technology has become an increasingly important tool in enabling customers to interact with the Bureau more efficiently. In 2011, this area focused on re-designing the infrastructure to deploy a multi-layered security strategy. In addition to infrastructure changes, several core systems underwent a security audit to assess potential risk exposure in these custom applications. Enhancements are already underway for these applications to increase the Bureau's security posture.

The Process Documentation Services Team is tasked with the responsibility of promoting a process-driven environment supported by processes that are identified, documented, measured, managed and improved. Process documentation is the precursor to superior customer satisfaction, overall reduction in errors and lower costs. In 2010, this team completed documentation of all critical processes for Insurance Operations. In 2011, Insurance Operations has used this documentation as a resource to evaluate and implement process improvements.

Shared Services

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Shared Services

Human Resources

Human Resources (HR) is the strategic and comprehensive approach to managing the Organization's most valued assets — the people. HR responsibilities include administering HR policies, programs and practices; providing a safe work environment; professional development opportunities and work-life balance for our associates. A main project in HR this year includes the implementation of eAppraisal and eSuccession, strategic talent management software for all associates. eAppraisal will incorporate goal alignment and management, associate appraisals, associate journals, competency management, development planning and talent profiles for associates. eSuccession will offer succession and career planning.

On-site training this year consisted of 12 wellness classes through our partnership with WakeMed Hospital, three Microsoft Office classes and seven professional development classes.

The Bureau has a strong wellness initiative that includes:

- WeightWatchers at Work
- Partnership with the NC Prevention Partners
- Annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10,000 steps a day
- Wellness screenings held on-site each July
- Flu shots provided for associates on-site
- Certification in First Aid, CPR and AED for a third of the workforce through the American Red Cross
Community service involvement by associates this year included the Susan G. Komen Race for the Cure. Forty associates were participants on the team for the race/walk. Various fundraisers occurred in the first half of the year, and the fundraising goal was exceeded. In addition, support of the United Way will continue with various events during the fall campaign.

Associate service milestones this year include:
- 2 associates celebrating 5 years
- 3 associates celebrating 10 years
- 1 associate celebrating 15 years
- 2 associates celebrating 25 years
- 2 associates celebrating 30 years
- 1 associate celebrating 45 years

The experience the Bureau associates provide to member companies throughout this year and each year is as follows:

<table>
<thead>
<tr>
<th>Years of Service</th>
<th># of Employees</th>
<th>% of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-9 Years</td>
<td>47</td>
<td>67%</td>
</tr>
<tr>
<td>10-19 Years</td>
<td>11</td>
<td>16%</td>
</tr>
<tr>
<td>20-29 Years</td>
<td>4</td>
<td>6%</td>
</tr>
<tr>
<td>30-39 Years</td>
<td>6</td>
<td>8%</td>
</tr>
<tr>
<td>40+ Years</td>
<td>2</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100%</td>
</tr>
</tbody>
</table>

Finance

Through a concerted and conscientious effort, the expenses of the North Carolina Rate Bureau have remained within budget for another year. Maintaining that streak will be challenging for the remainder of 2011, as we face increasing costs associated with the recent dwelling rate filing hearing, the physical facility, relocation and lease negotiations and banking services. While the final expenses for 2010 were within the approved budget for 2010, they were up approximately 4.2% compared to the prior year. Through the first six months of 2011 the Rate Bureau’s administrative expenses remain within budget and are less than 1% higher than they were over the same period last year.

Assessment income increased approximately 9% compared to the prior year as other sources of income have decreased substantially. Income from charges and fines for keying policies, delinquent USRs, late data reporting and cancellation/reinstatement activity decreased about 23% — or $133,000 — from the report period a year ago. The increase in electronic exchange of policy information has reduced or eliminated some of the aforementioned income sources while improving efficiencies.

The total expenses of the Rate Bureau include the direct costs incurred as well as the allocated costs of the departments whose expenses are shared with the Reinsurance Facility and the Insurance Guaranty Association. The table and chart on this page show a summary of the direct and allocated expenses for the previous two years and the first half of 2011. The 2009 final expenses will be adjusted by other income and miscellaneous items and reapportioned to all member companies during the 4th quarter of 2011 — similar to the process in prior years.

<table>
<thead>
<tr>
<th>Administrative Expenses</th>
<th>2009</th>
<th>2010</th>
<th>Thru June 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Operations (Direct)</td>
<td>$ 9,257,311</td>
<td>$ 9,603,428</td>
<td>$ 5,000,334</td>
</tr>
<tr>
<td>Shared Services (Allocated)</td>
<td>3,421,580</td>
<td>3,604,233</td>
<td>1,834,635</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>$ 12,678,891</td>
<td>$ 13,207,661</td>
<td>$ 6,834,969</td>
</tr>
<tr>
<td>Total Budget</td>
<td>$ 13,086,268</td>
<td>$ 13,667,394</td>
<td>$ 7,106,061</td>
</tr>
</tbody>
</table>
NCRB Management Staff

Karen Byrd
Manager
WC Underwriting Services

Betty Hurst
Manager
Workers Compensation

Delisa Fairley
Manager
Insurance Data Operations

Shelley Chandler
Director
Information Services

Vicki Godbold
Director
Human Resources and Administrative Services

David Sink
Director
Finance

Tim Lucas
Manager
Personal Lines

Lynne Mays
Supervisor
WC Data Quality

Rebecca Williams
Manager
Data Analysis
### BALANCE SHEET

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>August 31, 2011 (Preliminary)</th>
<th>August 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; Investments – Unrestricted</td>
<td>$1,640,200</td>
<td>$1,455,585</td>
</tr>
<tr>
<td>Cash &amp; Investments – Restricted</td>
<td>563,107</td>
<td>568,993</td>
</tr>
<tr>
<td>Assessments Receivable</td>
<td>30,000</td>
<td>1,685</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>50,000</td>
<td>86,881</td>
</tr>
<tr>
<td>Other Assets</td>
<td>8,982</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$2,292,289</td>
<td>$2,116,144</td>
</tr>
</tbody>
</table>

| Liabilities & Fund Equity          |                               |                |
| Refund to Carriers Payable         | $50,100                     | $50,098       |
| Retiree Insurance Payable – Restricted | 562,107   | 568,291     |
| Other Benefits Payable – Restricted | 1,000          | 702         |
| Other Liabilities                  | (18,000)                  | (17,854)     |
| **Total Liabilities**              | $595,207                   | $601,237     |

**Fund Equity**                         | 1,697,082   | 1,514,907   |

**Total Liabilities & Fund Equity**  | $2,292,289 | $2,116,144 |

### INCOME STATEMENT

<table>
<thead>
<tr>
<th>Year Ending</th>
<th>August 31, 2011 (Preliminary)</th>
<th>August 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessments Income</td>
<td>$13,030,800</td>
<td>$11,942,274</td>
</tr>
<tr>
<td>Membership Fees Income</td>
<td>764,250</td>
<td>751,450</td>
</tr>
<tr>
<td>Late Data Reporting Charges</td>
<td>14,300</td>
<td>9,000</td>
</tr>
<tr>
<td>Policy Keying Charges</td>
<td>-</td>
<td>66,850</td>
</tr>
<tr>
<td>Delinquent USR Charges</td>
<td>424,000</td>
<td>477,100</td>
</tr>
<tr>
<td>Cancellation &amp; Reinstatement Charges</td>
<td>-</td>
<td>17,770</td>
</tr>
<tr>
<td>Other Income</td>
<td>9,650</td>
<td>5,036</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$14,243,000</td>
<td>$13,269,480</td>
</tr>
</tbody>
</table>

| **Expenses**                         |                   |                |
| Legal, Consulting & Other Outside Services | $7,625,000   | $7,237,577 |
| Salaries & Administration Expenses   | 3,210,000       | 3,110,592     |
| Other Operating Expenses              | 2,965,000       | 2,817,353     |
| **Total Expenses**                    | $13,800,000     | $13,165,522 |

**Net Income/(Loss)**                  | $443,000        | $103,958      |