

Annual Report

North Carolina Reinsurance Facility

2010

Core Values

Commitment

Faithfully and diligently fulfill the obligations of our Organization as set forth in the statutes.

Integrity

Perform each task as efficiently as possible with absolute honesty and integrity.

Respect

Treat your fellow associates and those you serve on behalf of the Organization with dignity and respect.

Talents

Continually strive to improve the Organization through the use of every associate's talents and creativity.

Ownership

Encourage participation and a sense of ownership from the members of our Organization.

Consistency

Demonstrate fairness and consistency among all associates and encourage personal development.

North Carolina Reinsurance Facility

Table of Contents

Message from the Chairman.....	4
Board of Governors	4
Standing Advisory Committees.....	5
General Manager's Report	6
Management Report & Analysis	7
Balance Sheet & Income Statement	12
Special Purpose Balance Sheet	14
Special Purpose Statement of Operations	14
Auditor's Report	15

General Organizational Information

NCRF Main Phone Number	919-783-9790
Facsimile	919-783-0355
Website Address	www.ncrb.org/nclf/
Physical Address	5401 Six Forks Road Raleigh, NC 27609

2010 Annual Meeting

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 14, 2010, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

Management Contacts

Ray Evans	General Manager 919-783-9790 rfe@ncrb.org
Edith Davis	Director, Reinsurance Facility 919-582-1006 etd@ncrb.org
Jannet Barnes	Manager, Compliance 919-582-1022 jbb@ncrb.org
Tim Lucas	Manager, Automobile 919-582-1021 ftl@ncrb.org
R. Mike Newton.....	Manager, Claims 919-582-1018 rmn@ncrb.org
David Sink	Director, Finance 919-582-1012 des@ncrb.org
Vicki Godbold	Director, Human Resources & Administrative Services 919-645-3170 vcg@ncrb.org
Shelley Chandler.....	Director, Information Services 919-582-1057 src@ncrb.org
Jo-Anne Mooney	Supervisor, Member Services 919-582-1036 jdm@ncrb.org



Message from the Chairman

Thankfully, 2010 hasn't had the drama of 2009, when the extent of the financial meltdown in our country became so evident. The NCRF has spent the months since our last report staying focused on actions that ensure our organization adapts to the marketplace and membership needs:

Keeping current...

- Commercial Auto Manual rewrite
- Commercial Auto & Other Than Clean Risks rate reductions
- Authorized accelerated reimbursement to members of an estimated \$21 million in premium refunds

Building for the future...

- EDGE System development progressed with continual input from member companies
- Infrastructure improvements were made for security and efficiency

Conservative management...

- Our new Investment Manager (Wellington) has taken over the portfolio and is providing the service we had hoped for
- Changes to our Financial Statements were approved by the Board to assure a clearer and well-documented approach to our business
- A Code of Ethics has been implemented

I would like to convey my appreciation to all the Board members and NCRF staff for their willingness to tackle any challenge and offer thoughtful solutions. They make a Chairman's job easy.

Best wishes for the balance of 2010 and for a great 2011.

Bob Blystone
Chairman

Board of Governors

Responsibility for management is vested in a 15 member Board of Governors. There are 12 voting members: seven member insurance companies; five agents appointed by the Insurance Commissioner; two nonvoting public members appointed by the Governor and the Insurance Commissioner, who is a member of the Board ex-officio without vote. Six meetings of the Board were held during the year, including three telephone conferences.

Members	Representative
Allstate Insurance Company	Bob Blystone*
Atlantic Casualty Insurance Company	Robbie Strickland
GEICO Indemnity Company	Kirk La
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Company	Amy Powell
Travelers Indemnity Company	Jonathan Konrad
Universal Insurance Company	Greg Spray

Agent Members

Apptd. by the Commissioner of Insurance	W. Hutson Wester, II
Apptd. by the Commissioner of Insurance	John E. Wooten, III
Auto Insurance Agents of North Carolina	Jeffrey W. Butler
Independent Insurance Agents of NC	Steven D. Smith
Independent Insurance Agents of NC	Tim Ward

Public Members

J. David Walker, Lumberton, NC
Steve J. Whitley, North Wilkesboro, NC

Ex-officio Member

Wayne Goodwin, Commissioner of Insurance
--

*chair

Standing Advisory Committees

The Plan of Operation establishes a number of advisory committees. These committees oversee the activities of the Facility and formulate recommendations for presentation to the Board of Governors. In addition, several additional specialty advisory groups perform similar tasks for the Facility throughout the year.

The following committees met during the report period:

Audit Committee

Members	Representative
Liberty Mutual Insurance Co	Ronald H. Robertson, Jr., CPA*
NC Farm Bureau Mutual Insurance Co	Brian Top
Nationwide Mutual Insurance Co	Greg Kilburn
Pennsylvania Nat Mut Casualty Ins Co	Charles J. Uckele
State Farm Mutual Automobile Insurance Co	Alan Bentley
Travelers Indemnity Co	Jonathan Konrad
Agent	Steven D. Smith

Investment Committee

Members	Representative
Allstate Insurance Co	Douglas Dupont
Nationwide Mutual Insurance Co	J. Kevin King*
State Farm Mutual Automobile Ins Co	Joel Buck Robert Stephan

Rating Committee

Members	Representative
Atlantic Casualty Insurance Co	Mark Caughron*
Nationwide Mutual Insurance Co	Mike Barnes
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Travelers Indemnity Co	Todd Hoivik
Agent	Tim Ward

*chair

Task Force on Expense Allowances

Members	Representative
21st Century Insurance Co	Pete Cotton
Allstate Insurance Co	Bob Blystone
Nationwide Mutual Insurance Co	Isaac Adams*
Sentry Insurance Co	Ethan Vaade
State Farm Mutual Automobile Insurance Co	Alan Bentley
Agent	Tim Ward

Task Force on Recoupment

Members	Representative
Nationwide Mutual Insurance Co	Isaac Adams
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Progressive Casualty Insurance Co	Kevin McGee
Southern Guaranty Insurance Co	Stephen H. Cone
State Farm Mutual Automobile Insurance Co	Alan Bentley*
Travelers Indemnity Co	Jonathan Konrad
Agent	Steven D. Smith

*chair



Ray Evans
General Manager

General Manager's Report

Good news: Even as this message is being written, the testing required for final developmental of the EDGE operating system is being completed. If all continues to go well, the current appraisal by our folks working on this is that it will turn into a live system before the end of the year.

While we have spent considerable time and effort on this major project over the past few years, there also has been substantial progress towards building a sophisticated, effective and modern Reinsurance Facility in many other areas. For example, I believe our investment function is as successful as that of any institutional investor in both quality and returns. We are measuring the appropriateness of premiums and claims payments of every ceding carrier through thousands of policy audits this year. In planning the

transition to the new operating system, we are prepared to conduct training, monitor activity and provide support for over 110 carriers as they begin to enter and modify data on line. And, internally, we have prepared for the elimination of paper and are ready to move into a truly electronic world with new skills and activities.

Life after EDGE development will enable the Facility to zero in on becoming an even more efficient operation, able each year to perform 26 million accounting transactions and handle 1 million in-force policies and nearly \$1 billion in cash flow — all at the lowest possible cost.

We thank our associates, Committees, the Board and consultants for their hard work in making this all possible.

A handwritten signature in black ink that reads "Ray Evans".

Management Report and Analysis

During this past year, the Facility's activities have centered around staying current and focusing on the future. We have endeavored to be proactive about managing our business and positioning ourselves for future activities. Behind the scenes, we have implemented process improvements to enhance both data quality and integrity.

Operations

During this report period, the North Carolina Reinsurance Facility was the largest residual market mechanism by total written premium volume in the entire United States. As of June of 2010, there were approximately 1,025,000 policies in force — 96% were private passenger non-fleet policies and 4% All Other policies — generating about 26 million transactions.

Overall, private passenger cession notice volume has increased about 6% over the same period last year, while cession volume for All Other business was nearly flat.

Of the total ceded exposures, 71% were ceded "clean risks," and 26% were ceded private passenger "other-than-clean" risks. The remaining 3% of exposures were commercial risks.

Finally, written premium for the fiscal year ending September 2010 is projected to total around \$730 million, virtually unchanged for the third fiscal year in a row.

Rate Changes, Escrow and Premium Refunds

Escrow and Premium Refunds

Last year we reported that on July 15, 2009, following lengthy negotiations, the North Carolina Rate Bureau and the Commissioner of Insurance agreed to settle the 2008 and 2009 private passenger automobile rate filing cases.

Following a hearing on the 2008 automobile filing, the Commissioner ordered a rate decrease, and the Bureau, as allowed by law, elected to implement (1) a rate increase in non-fleet private passenger auto liability rates and (2) the filed changes to the bodily injury and property damage increased limits factors. The Bureau's total implemented change was 12.8% on non-fleet private passenger automobile liability coverages and 0.0% on motorcycle liability coverages. With respect to clean-risk business ceded to the North Carolina Reinsurance Facility during the period for which the Rate Bureau's 2008 rate filing case applied, the Facility established rates equal to the Rate Bureau implemented manual rates.

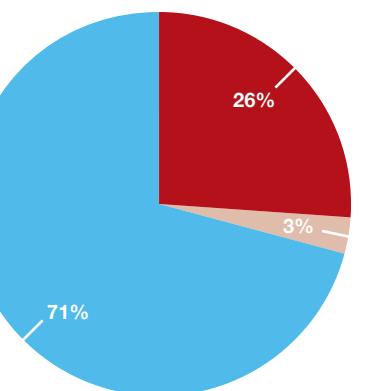
The Bureau's 2008 private passenger automobile rate filing case was ultimately settled for an overall liability rate change of +4.9% for non-fleet private passenger automobiles and a 0.0% change for motorcycles. The terms of the settlement provided, in part, for refunds to ceded clean-risk policyholders of the portion of the premium paid that exceeded the rates as ultimately settled. Refunds were ordered to be paid with interest in either of two specified time periods in 2010 and 2011.



Edith T. Davis

Director, Reinsurance Facility

Distribution by Exposures



- Private Passenger – Clean Risks
- Private Passenger – Non-Clean Risks
- All Other (Commercial)

The Reinsurance Facility had established and maintained a premium escrow account related to this business. Following the settlement, the Facility advised the ceding carriers to make arrangements to distribute appropriate refunds to clean-risk policyholders. In addition, the Facility informed the ceding carriers that they would be reimbursed by the Reinsurance Facility for the difference between the premium ceded to the Facility and the premium that would have been charged using the ultimately settled and approved rates on "clean risk" ceded business, as well as for the interest paid on premium refunded on such business.

In July 2009, the Facility's Board of Governors authorized staff to process accelerated reimbursements to member companies as appropriate from the escrowed funds. As of June 2010, the total estimated premium refund liability was approximately \$21.5 million, with \$4.8 million of premium refunds already reimbursed to ceding companies. It was anticipated that the remainder of the premium refunds will be distributed by ceding companies in accordance with the settlement during late 2010 and early 2011.

Rate Changes

In 2010, the Rate Bureau filed a private passenger automobile rate review and, in compliance with the 2008 and 2009 rate case settlements, did not propose any changes in rates. As a result, there were no rate changes this year for private passenger auto clean risks ceded to the Facility.

In June 2010, the Facility filed rate level changes for "other-than-clean" risks to become effective for all new and renewal policies effective on and after October 1, 2010. The filing included average rate level changes of -1.3% for bodily injury, -11.7% for property damage and

-8.4% for medical payments coverages — averaging -5.9% over rates presently in effect. The filing also included a rate level change of -1.7% for motorcycle liability coverages.

For the commercial auto business, in October 2009 the Facility filed revised basic limits premium rates for liability insurance for trucks, tractors and trailers, garages, zone-rated risks and private passenger types not eligible for rating under the North Carolina Personal Automobile Manual; revised primary, secondary and fleet rating factors included in the trucks, tractors and trailers classification plan; revised bodily injury and property damage increased limits factors; and revised rating factors and miscellaneous premium revisions related to increasing the minimum limits from \$25,000/\$50,000 to \$30,000/\$60,000 for bodily injury and from \$15,000 to \$25,000 for property damage. The various rate level changes averaged -5.7% over the rates previously in effect and applied to all new and renewal policies becoming effective on and after March 1, 2010.

In November 2009, the Facility published a rewrite of the Commercial Auto Manual. This was the culmination of a multi-year effort to improve its usability, update obsolete language and bring it more in line with the Insurance Services Office Commercial Auto Manual. Special thanks go out to the members of the Rating Committee for their input, time and commitment to this effort.

Clean-Risk Recoupment

North Carolina law requires carriers to "take all comers," and carriers cede to the Facility the risks for which the carrier deems the voluntary rates to be inadequate. While the Facility establishes actuarially sound rates for "other-than-clean" risks, the rates for "clean risks"

are statutorily capped at the voluntary rate level, which is inadequate to pay the losses and expenses of the clean risks ceded to the Facility. The difference between what this group pays and what it should pay is made up through the statutorily authorized "clean-risk" recoupment surcharge applied to the liability premiums of all private passenger non-fleet policies.

Recoupment surcharges are reviewed at least annually and adjusted as appropriate. Effective November 1, 2009, the Board of Governors implemented a clean-risk recoupment surcharge of 6.41% (before inclusion of agent compensation). For the fiscal year through June 2010, income from the clean-risk surcharges had generated approximately \$125 million.

In June 2010, the Board of Governors authorized a new clean-risk recoupment surcharge which will be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2010. This surcharge of 4.33% (before inclusion of agent compensation) is projected to generate approximately \$132.5 million.

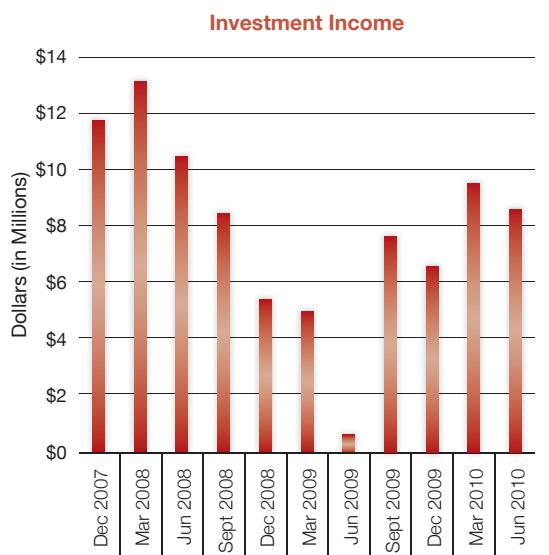


Investment Portfolio Performance

Thru June 2010

Quarter Ending	Return	Benchmark
December 31, 2009	0.82%	0.56%
March 31, 2010	1.99%	1.70%
June 30, 2010	2.74%	2.60%
Since Inception (Nine Months) September 30, 2009	5.61%	4.93%

*Excludes investment impairments



Investments

As noted in the 2009 Annual Report, Wellington Management Company assumed the role and responsibilities of investment manager for the North Carolina Reinsurance Facility on October 1, 2009. Later that month during its annual meeting, the Board of Governors approved revisions to the Facility's Statement of Investment Policy based on recommendations from the Investment Committee and Wellington Management; those guidelines have been the foundation of investment activity this past year. During the first three quarters of the current fiscal year, the portfolio has yielded a return of 5.61%, outperforming the benchmark by 68 basis points over that period.

Through the nine months ending June 30, 2010, the Facility's net investment income has totaled \$22.4 million, including recorded investment impairments of \$2.4 million. This net investment income represents an increase of approximately 103% over the same period a year ago. It was during that previous year that the financial markets experienced extreme volatility and uncertainty, yet the Facility's portfolio generated respectable returns, considering the economic conditions and investment impairments recognized during that period.

You will note from the financial statements near the end of this report that the book value of the Facility's investments totaled \$746.7 million, excluding the funds in escrow related to the 2008 private passenger automobile rate filing settlement. However, as of June 30, 2010, the

market value of the investment and escrow accounts were approximately \$808 million and \$22.6 million, respectively.

Operating Expenses

The operating expenses of the Facility totaled \$6.99 million during calendar year 2009, representing approximately 91% of the approved budget last year. The Facility's operating expenses are below budget through the first six months of 2010 and are projected to remain that way this year based on our current estimates. These expenses include the direct costs incurred by the Facility as well as the allocated costs of the departments whose expenses are shared with the Rate Bureau and the Insurance Guaranty Association. The table below shows a summary of the direct and allocated expenses for the prior two years and the first half of 2010.

Operating Results

During 2009, steps were initiated to implement changes to the presentation of the Facility's financial statements. Based on directions from the Board of Governors last year to present the Facility's financials in a manner more comparable to the presentation used by its member companies, accounts for Premiums Escrowed, Premium Refund Liability and Other-Than-Temporarily-Impaired Investment Assets were introduced for the first time in the statements for the quarter ended September 2009 and published in January 2010. Comparable revisions to the members' participation reports were implemented by AIPSO for the same period.

North Carolina Reinsurance Facility	Administrative Expenses		
	2008	2009	Thru June 2010
Reinsurance Facility (Direct)	\$ 2,813,878	\$ 2,869,802	\$ 1,424,829
Shared Services (Allocated)	4,223,799	4,115,606	1,986,552
Total Expenses	\$ 7,037,677	\$ 6,985,408	\$ 3,411,381
Total Budget	\$ 7,583,989	\$ 7,692,121	\$ 4,015,462

As of June 30, 2010, the Facility had realized operating gains over three consecutive quarters. With written premiums and paid losses nearly flat over the same period last year, this was primarily driven by increased recoupment surcharges and a significant increase in investment income. As a result of the operating gains, the members' equity balance increased from \$30 million in September 2009 to \$69.8 million in June 2010.

Compliance Activity

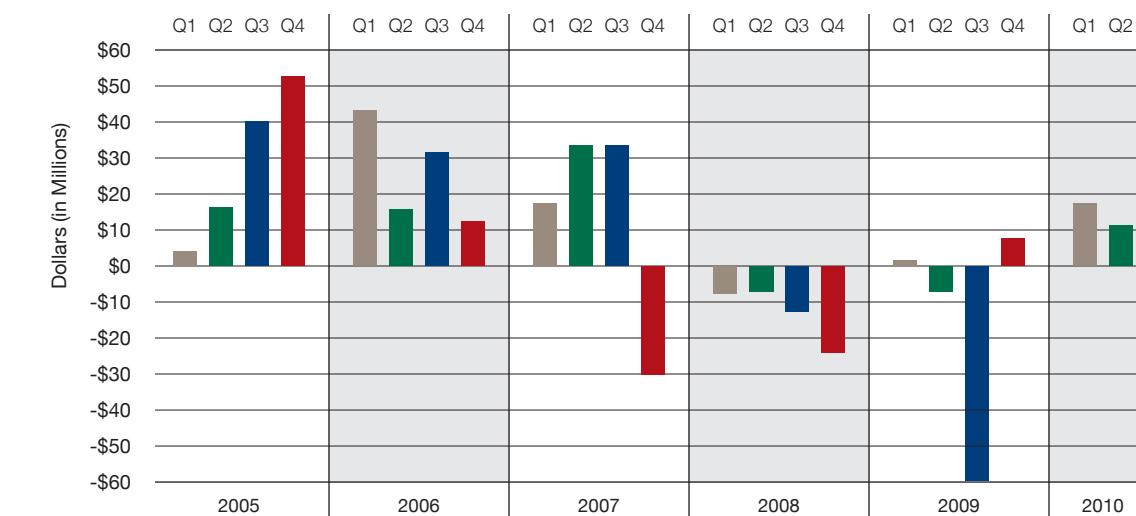
Over 100 member company groups report to the Facility and each is reviewed at least annually. Our focus is on compliance with statutes, rules and regulations, and eligibility for ceded coverage and reimbursement as part of our responsibility to ensure that the Facility collects the right premium and pays the right losses.

Throughout the year, the compliance staff performs audits on each ceding company. The files are reviewed for, among other items, proper reporting of premiums and losses, claims handling, proper application of underwriting rules, eligibility statutes, experience modification rating and recoupment. The compliance staff also performs audits on non-ceding companies to ensure that recoupment amounts are correctly determined and collected. During this report period, almost 5000 files were audited. In addition to the regular audits, this year the premium refunds will also be reviewed.

Legislative Changes

The Facility was created by the Legislature in 1973 and replaced an Assigned Risk Auto Plan. At that time, there was a perceived stigma of being included in a bad-risk pool, so this new mechanism enabled drivers to select the company of their choice. Since then the legislature has made alterations over time to address changing conditions in the marketplace.

Net Results of Operations (After Recoupments)



In the 2010 legislative session, there was no legislation enacted which directly impacted the Reinsurance Facility. It should be noted that, in 2009, the General Assembly enacted Senate Bill 749, which modified the mandatory limits of coverage required for UM and UIM and clarified the requirements for coverage of fleets. In October 2009, the Facility adopted revisions to the Personal Automobile Manual and Form NC 03 40 02 10 – Notice of Right to Purchase Higher limits of UM/UIM – to reflect these changes which became effective on February 1, 2010.

EDGE System Development

2010 continued to be a struggle for the development of the Electronic Data Gathering Enterprise (EDGE) system. In January, we initiated a Task Force that placed key developers and subject matter experts in a “war room” setting to ensure direct communications among key team members as defects were fixed before entering User Acceptance Testing. The remainder of the year was spent executing User Acceptance Testing to ensure that the

ultimate users of the system were comfortable that the system would perform as expected. In addition, teams were created to finalize planning for taking the system live. This planning takes into consideration data that must be migrated into a new system, training for hundreds of internal and external users and many other details that must be executed in a very short period of time in order to ensure that the member companies can continue to receive the expected level of service during this transition.

In anticipation of the roll-out of additional customer-facing functionality, the Facility engaged the Advisory Services division of Ernst & Young LLP to perform an assessment of the EDGE system in late 2009 and 2010. This assessment reported on the readiness of the system and the organization's ability to implement and support it. There were no material weaknesses found during this review.

File Transfer Protocol (FTP) reporting of data by the member companies has laid a solid foundation for the launch of the next phase of the EDGE system. During

this report period, we processed over 13,000 member company files with no late data submissions.

Information Services

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

As technology continues to become an increasingly important component of business, the technology area works to ensure that systems are effective, reliable and more secure. In 2010, this area undertook a major initiative to revolutionize the way it manages computer server resources using virtualization technology. This technology allows the Reinsurance Facility to decrease expenses related to energy usage and hardware needs, reduce downtime, improve overall capacity, enhance disaster recovery solutions and provide faster turnaround time for new technology requests.

The process documentation services team is actively working to create a process-driven environment. This will promote a culture where processes are identified, documented, measured, managed and improved, ultimately resulting in higher customer satisfaction, reduction in errors and lower costs. To date, the team has made significant progress in documenting critical processes across the organizations. Relying on subject matter experts, documentation is delivered, reviewed and validated by the business units.

Once process improvements are identified, the software development team designs, implements and improves systems to help increase productivity for internal associates and external customers.

Human Resources

Human Resources (HR) is the strategic and coherent approach to the management of our Organization's most valued assets – the people. HR responsibilities

include administering HR policies, programs and practices and providing a safe work environment, professional development opportunities and work-life balance for our associates. This year we've been most involved in implementing H.R. 4872 — The Health Care and Education Affordability Reconciliation Act, better known as Healthcare Reform.

Onsite training this year consisted of 12 wellness classes through our partnership with WakeMed Hospital, two Microsoft Office classes, and eight professional development classes.

We have a strong wellness initiative that includes:

- Weight Watchers
- a partnership with the NC Prevention Partners
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10k steps a day
- wellness screenings held on site each July
- flu shots provided for associates on site
- Certification in First Aid, CPR and AED for a quarter of our workforce through the American Red Cross

Community service involvement by our associates includes a sponsorship level in Habitat for Humanity-Wake this year. Various fundraisers have been held to culminate with construction of a new home this fall. This is in addition to supporting the United Way in various events during our fall campaign.

Associate service milestones (NCRF staff and shared service staff) this year include:

- 2 associates celebrating 5 years
- 1 associate celebrating 10 years
- 2 associates celebrating 20 years
- 1 associate celebrating 25 years

We recognize the service our associates provide our member companies throughout this year and each year and are pleased to share this with you:

Years of Service		
Years	# of Employees	% of Employees
0-9 Years	7	41%
10-19 Years	2	12%
20-29 Years	7	41%
30-39 Years	1	6%
40+ Years	0	0%
Total	17	100%

Conclusion

This has been another year of collecting the right premium, paying the right losses and minimizing the impact on our stakeholders. Our efforts have been concentrated on staying current while focusing on the future. Our goal every year is to do what we are supposed to do but, we hope, just a little better. We would like to thank the Board for cheering us on and providing direction. We thank the committee members who do a great job of leaving their "company" hats at the door and putting on their "Facility" hats when assisting us with determining what actions are most appropriate, as well as our industry experts and attorneys who counsel us on a myriad of constantly changing issues.

And I would personally like to thank the staff for rising to every challenge thrown at them and learning to think outside of the box — they have really raised the bar this year.

Edith Davis

Edith Davis

Director, Reinsurance Facility

North Carolina Reinsurance Facility

BALANCE SHEET

Fiscal Year through

	June 30, 2010	June 30, 2009
Assets		
Cash (Checking Account)	\$ 1,188,065	\$ 695,836
Cash Restricted (Including Escrow)	22,447,045	36,110,377
Investments	746,685,876	744,191,647
Accounts Receivable	26,400,530	14,669,726
Accrued Interest Receivable	7,147,402	6,400,758
Other Assets	44,459	91,589
Total Assets	\$ 803,913,377	\$ 802,159,933
Liabilities & Members' Equity		
Accounts Payable	\$ 22,693,143	\$ 23,679,565
Loss Reserves	478,354,815	467,213,892
Unearned Premium Reserves	216,480,402	220,923,820
Provision for Premium Refunds	16,053,973	-
Other Liabilities	563,497	469,905
Total Liabilities	\$ 734,145,830	\$ 712,287,182
Members' Equity	69,767,547	89,872,751
Total Liabilities & Members' Equity	\$ 803,913,377	\$ 802,159,933

INCOME STATEMENT

Fiscal Year through

	June 30, 2010	June 30, 2009
Income		
Earned Premiums	\$ 548,095,894	\$ 548,660,423
Clean-Risk Recoupment	140,916,175	99,561,833
Investment Income	22,378,089	11,010,393
Membership Fee Income	52,400	50,800
Other Income	276,158	598,419
Total Income	\$ 711,718,716	\$ 659,881,868
Expenses		
Losses Incurred	\$ 455,187,718	\$ 462,593,296
Ceding & Claims Expenses	214,601,156	222,252,600
Premiums Escrowed	(3,339,192)	-
Salaries & Administration Expenses	1,559,232	1,392,312
Outside Services Expenses	2,564,996	2,848,918
Other Operating Expenses	1,369,237	1,109,259
Total Expenses	\$ 671,943,147	\$ 690,196,385
Net Income / (Loss)	\$ 39,775,569	\$ (30,314,517)
Before Loss Recoupments		
Loss Recoupments	(248)	48,298
Net Income / (Loss)	\$ 39,775,321	\$ (30,266,219)
After Loss Recoupments		

Organization Shared Resources

Directors



Shelley Chandler
Director,
Information Services



Vicki Godbold
Director,
Human Resources and
Administrative Services



David Sink
Director,
Finance

Managers



Tim Lucas
Manager,
Automobile



Mike Newton
Manager,
Claims

NCRF Management Staff



Jannet Barnes
Manager,
Compliance



Jo-Anne Mooney
Supervisor,
Member Services

North Carolina Reinsurance Facility

SPECIAL PURPOSE BALANCE SHEET

Year Ending	Sept 30, 2009	Sept 30, 2008
Assets		
Cash and Short-Term Investments	\$ 126,344,532	\$ 82,887,691
Long-Term Investments, at Amortized Cost	609,003,077	685,962,281
Accrued Interest Receivable	5,559,372	6,592,033
Receivables From Member Companies:		
• Settlements	17,921,324	10,752,019
• Late Premium Charges and Penalties	74,343	112,943
	17,995,667	10,864,962
Total Assets	\$ 758,902,648	\$ 786,306,967
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves:		
• In Course of Settlement	\$ 347,414,844	\$ 342,290,072
• Incurred But Not Reported	124,076,785	116,424,367
Total Loss And Loss		
Adjustment Expense Reserves	471,491,629	458,714,439
Unearned Premium Reserves	227,787,678	222,254,189
Unearned Clean-Risk Subsidies	331,383	2,711,992
Settlements Payable to Member Companies	17,666,753	26,779,877
Provision for Premium Refunds	19,393,165	-
Other Liabilities	412,663	334,332
Total Liabilities	\$ 737,083,271	\$ 710,794,829
Commitments and Contingencies		
Members' Equity	21,819,377	75,512,138
Total Liabilities and Members' Equity	\$ 758,902,648	\$ 786,306,967

SPECIAL PURPOSE STATEMENT OF OPERATIONS

Year Ending	Sept 30, 2009	Sept 30, 2008
Premiums Earned	\$ 734,634,282	\$ 731,018,339
Clean-Risk Subsidies	138,266,646	61,420,998
Total Underwriting Income	\$ 872,900,928	\$ 792,439,337
Losses Incurred	\$ 621,669,137	\$ 607,354,318
Ceding Expense Allowances	198,698,584	195,439,936
Claims Expense Allowances	102,313,192	89,052,774
Premiums Escrowed	19,393,165	-
Total Underwriting Expenses	\$ 942,074,078	\$ 891,847,028
Net Underwriting (Loss) Income	\$ (69,173,150)	\$ (99,407,691)
Other Income (Expense):		
Net Investment Income	\$ 33,220,144	\$ 42,578,754
Net Realized Investment Gains (Losses)		
Including Impairments	(12,405,001)	(40,217,422)
Late Premium Charges and Penalties	488,230	360,283
Membership Fees	51,000	49,900
Cession Notice Charges	15,255	17,320
General and Administrative Expense	(5,936,977)	(5,771,985)
Total Other Income (Expense) — Net	\$ 15,432,651	\$ (2,983,150)
Net Operating (Loss) Income	\$ (53,740,499)	\$ (102,390,841)

Report of Independent Auditors

- Special Purpose Financial Statement in Accordance with NCRF Standard Practices Manual
- Audit in Accordance with Generally Accepted Accounting Standards
- Internal Control Language
- Limited Distribution Report
- Unqualified Standard Practice Manual Opinion



ERNST & YOUNG

Report of Independent Auditors

The Board of Governors
North Carolina Reinsurance Facility

We have audited the accompanying special-purpose balance sheets of the North Carolina Reinsurance Facility (the Facility, a partnership) as of September 30, 2009 and 2008, and the related special-purpose statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in the "Standard Practice Manual," which were approved for use by and within the authority of the Chair of the Facility's Board of Governors and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Reinsurance Facility at September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting practices prescribed the Facility's Standard Practice Manual.

This report is intended solely for the information and use of the Board of Governors, the member companies and the North Carolina Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Ernest & Young LLP

February 16, 2010

Ernst & Young LLP
Suite 500
4130 ParkLake Avenue
Raleigh, NC 27612-4462
Tel: +1 919 981 2800
Fax: +1 919 981 2997
www.ey.com



North Carolina Reinsurance Facility

5401 Six Forks Road Raleigh, NC 27609 www.ncrb.org