NCRB-NCRF-NCIGA
north carolina
RATE BUREAU
REINSURANCE FACILITY
INSURANCE GUARANTY ASSOCIATION

MINUTES OF THE FORTY-SECOND ANNUAL MEETING OF THE NORTH CAROLINA REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA, OCTOBER 15, 2015

MEMBERS PRESENT	REPRESENTED BY
Allstate Insurance Company	Jennifer Jabben
Allstate Indemnity Company	
Allstate Northbrook Indemnity Company	
Allstate Property & Casualty Insurance Company	
Allstate Vehicle and Property Insurance Company	
Encompass Indemnity Company	
Esurance Insurance Company	
Integon General Insurance Corporation	Art Lyon
Agent Alliance Insurance Company	Brian Rogers
AmTrust Insurance Company of Kansas, Inc.	
First Nonprofit Insurance Company	
Imperial Fire & Casualty Insurance Company	
Integon Casualty Insurance Company	
Integon Indemnity Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Milwaukee Casualty Insurance Company	
National General Insurance Company	
National General Insurance Online, Inc.	
New South Insurance Company	
Security National Insurance Company	
Sequoia Insurance Company	
Technology Insurance Company	
Tower Insurance Company of New York	
Wesco Insurance Company	
Atlantic Casualty Insurance Company	Mark Caughron
Little River Insurance Company	Sonja Maki
	Robbie Strickland
GEICO Indemnity Company	Andrea Bradley
Amguard Insurance Company	Elaine Sola

Berkshire Hathaway Homestate Insurance Company	
Norguard Insurance Company	
Eastguard Insurance Company	
General Star National Insurance Company	
Government Employees Insurance Company	
Genesis Insurance Company	
National Indemnity Company	
National Liability & Fire Insurance Company	
Pennsylvania Insurance Company	
United States Liability Insurance Company	
GEICO Advantage Insurance Company	
GEICO Casualty Company	
GEICO Secure Insurance Company	
GEICO Choice Insurance Company	
GEICO General Insurance Company	
Greenville Casualty Insurance Company	Dean Kruger
Hartford Casualty Insurance Company	Andy Montano
Hartford Accident & Indemnity Company	
Hartford Fire Insurance Company	
Hartford Insurance Company of the Midwest	
Hartford Underwriters Insurance Company	
Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company, Ltd.	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
Liberty Mutual Insurance Company	Jason Tate
American Economy Insurance Company	
American Fire & Casualty Company	
American States Insurance Company	
American States Preferred 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	Joe Buck
Allied Insurance Company of America	Terry Collins
Allied Property & Casualty Insurance Company	Mendi Riddle
AMCO Insurance Company	
Crestbrook Insurance Company	
Depositors Insurance Company	
Farmland Mutual Insurance Company	
Freedom Specialty Insurance Company	
Harleysville Mutual Insurance Company	
Harleysville Preferred Insurance Company	
Harleysville Worcester Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company of America	
Nationwide Agribusiness Insurance Company	
Nationwide General Insurance Company	
Nationwide Insurance Company of America	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
Scottsdale Indemnity Company	
Titan Indemnity Company	
Victoria Automobile Insurance Company	
Victoria Fire & Casualty Company	
Pennsylvania National Mutual Casualty Ins. Co.	Pat Lovell Penn
National Security Company	Lynette Prosser
James Sizemore	
Sentry Insurance A Mutual Company	Peter Sampson
Dairyland Insurance Company	
Middlesex Insurance Company	
Peak Property & Casualty Insurance Corporation	
Sentry Casualty Company	
Sentry Select Insurance Company	
State Farm Mutual Automobile Insurance Company	Alan Bentley
Travelers Indemnity Company	Tom Torcia
Automobile Insurance Company of Hartford	
Charter Oak Fire Insurance Company	
Commercial Guaranty Insurance Company	
Discover Property & Casualty Insurance Company	

Fidelity & Guaranty Insurance Company
Fidelity & Guaranty Insurance Underwriters, Inc.
Farmington Casualty Company
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 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
Travelers Casualty Company of Connecticut Travelers
Casualty Insurance Company of America Travelers
Commercial Casualty Company Travelers Commercial
Insurance Company Travelers Constitution State
Insurance Company Travelers Home & Marine
Insurance Company Travelers Casualty & Surety
Company of America 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

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

Universal Insurance Company — Jim McCafferty
The Members Insurance Company

Wilshire Insurance Company — Rebecca Larson
Acceptance Casualty Insurance Company
Harco National Insurance Company
Occidental Fire & Casualty Company of NC
Transguard Insurance Company of America, Inc.

<u>OTHERS PRESENT</u>	<u>REPRESENTED BY</u>
Young, Moore and Henderson	Robert Paschal Glenn Raynor Mickey Spivey Mike Strickland

North Carolina Department of Insurance	Wayne Goodwin
	Fred Fuller
	Tim Johnson
Wellington Management	Chris Holleman
	Eric Tanaka
ISO	David Cummings
	Patrick Woods
Able Auto Insurance	Jeff Butler
Green & Wooten Insurance	John E. Wooten, III
Pinehurst Insurance	Rob McVay
Senn Dunn Marsh & Roland	Tim Ward
Wester Insurance Agency	Hutson Wester
Public Members – NCRF Board of Governors	Steve Smith
	David Walker
Staff	Jannet Barnes
	Joanna Biliouris
	Shelley Chandler
	Edith Davis
	Ray Evans
	Vicki Godbold
	Frank Lonnett
	Tim Lucas
	Lois Murphey
	David Sink
	Rebecca Williams

One-hundred and fifty six (156) other companies were represented by proxy.

The meeting convened as scheduled, Mr. McCafferty presiding. Ms. Davis announced that there was a quorum.

Reference was made to the Facility's Antitrust Compliance Policy, Conflicts of Interest Statement, and Code of Ethics and Standard of Conduct Statements, copies of which were included in the materials provided. Mr. Spivey briefly commented on the importance of these guidelines.

1. Minutes of the last meeting

   There were no outstanding minutes to be approved.

2. Address by the Commissioner of Insurance

   Commissioner Goodwin addressed the member companies and made brief comments about past, present and future initiatives of the Department of Insurance, and highlighted several items interest to the industry.

3. Plan of Operation Amendment

Ms. Davis directed attention to an exhibit distributed in the meeting materials regarding a proposed revision to Article IV, (7) Mail or Wire Votes to recognize electronic mail voting options.

A motion was made, seconded, and unanimously passed to adopt the amendment to Article IV in the Facility's Plan of Operation.

4. Annual Report

Copies of the Forty-Second Annual Report for the fiscal year ended September 30, 2015 were distributed, a copy of which is attached and forms a part of the record. The members were also advised that the Report would be available on the Facility website under its own link from the homepage. Mr. Evans outlined the objectives from the Board, offered general observations from the past year and reported on progress made towards the current year's goals, highlighting the continued focus on an enterprise risk management initiative.

5. Chairman's Comments

Mr. McCafferty shared comments on the numerous activities and events of the preceding year, especially noting the activity regarding the declining Members' Equity balances; the corresponding decline in the investment portfolio balance but returns that continued to outperform the benchmark under Wellington Management's oversight; and the efforts focused on efficiency, security and internal controls. He thanked Ray Evans for his leadership, as well as the Board, the various participating committees, staff, and counsel for their efforts on behalf of the Facility.

6. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Edith Davis

Chief Operating Officer

North Carolina Reinsurance Facility

ETD/lad

Enclosure

RF-15-14

NCRF

NORTH CAROLINA REINSURANCE FACILITY

2015 ANNUAL REPORT

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General Organizational Information

NCRF Main Phone Number 919-783-9790

Facsimile 919-783-0355

Website Address . . . . www.ncrb.org/ncrf/

Physical Address . . . . .2910 Sumner Blvd.
Raleigh, NC 27616

2015 Annual Meeting

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 15, 2015, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

Management Contacts

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919-783-9790 . . . . .rfe@ncrb.org

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Jannet Barnes. . . . . Manager, Compliance
919-582-1022 . . . . jbb@ncrb.org

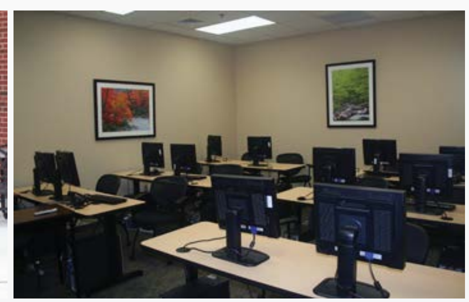
Tim Lucas . . . . Manager, Automobile
919-582-1021 . . . . ftl@ncrb.org

Mike Newton . . . . Manager, Claims
919-582-1018 . . . . rmn@ncrb.org

David Sink. . . . . .Chief Financial Officer
919-582-1012 . . . . des@ncrb.org

Vicki Godbold . . . . Chief Administrative Officer
919-645-3170 . . . . vcg@ncrb.org

Shelley Chandler . . . . Chief Information Officer
919-582-1057 . . . . .src@ncrb.org



General Manager's Report

Ray Evans
General Manager

During the past few weeks, I have had an opportunity to speak with several reporters and a few Legislators about the Reinsurance Facility. These conversations usually go this way: What about the "hidden" tax? Why does the Facility have the majority of the countrywide residual market private passenger auto liability premium? Where do we get the authority to do what we do? And, finally, where do the rates come from?

We have good answers, and they come pretty easily now. The first answer is, there is no "hidden" tax, but there is a cost to having a low percentage of uninsured drivers and requiring a carrier to take "all comers," which is currently about 2% of the premium for a full coverage policy. The next answer is a little more difficult. The Facility is a large entity, as you can see in the financial detail later in this report. However, over the past 43 years, its size in relation to the overall insurance market in North Carolina has remained pretty constant at about 25%, give or take a couple of percentage points. So, while there has been dollar growth, the number of cessions percentagewise is not changing. The last answer is always a surprise to the reporter in that there are statutes that give us the authority to do what we do and define what we do, and the real surprise is that these have changed little in four decades. Finally, there is always some consternation when the reporter learns that, for a large portion of the Facility risks, the Facility does not set rates; this is a Rate Bureau function which is closely supervised by the Commissioner of Insurance using a whole set of different statutes.

The point of this reminiscing is that the Facility's primary responsibility is to comply with statutes in the most effective way possible, and the report that follows details how we have executed these responsibilities during the past year. I am certainly biased, as I see on a daily basis how involved and hardworking our folks are, but as both a brief introduction and a summary, here are the areas of focus for the past year:

- Part of our mission is to collect the appropriate premiums and pay the right losses. We have implemented a more data-driven compliance effort to examine in more detail potential problem areas.
- The effort to have a robust electronic system continues as we are now completely "virtualized," which requires fewer servers, among other benefits.
- Internal controls are a quickly changing and evolving management responsibility. Managing 30 million accounting transactions and a billion dollars in cash flow for accuracy and security is a big job, especially in today's world of cyber problems.
- Keeping our invested assets safe and growing is another big part of what we do, and despite struggling financial markets, the Facility's nearly $800 million of investments is growing and is as safe as reasonably possible.

In summary, as you will see, another good year, doing what we should do—made possible by a great staff of associates, wise counsel and advice from many carrier and agent members of our various committees, the support of shared services and legal counsel and help from external sources such as our auditors and ISO.

Ray Evans
General Manager

Message From the Chairman

In the movie *The Replacements*, there is a scene where the coach, played by Gene Hackman, has a conversation with the quarterback, played by Keanu Reeves. It's right before their first game, and he asks the quarterback how he is doing.

"Doing great," was the response, to which the coach responded, "Yes, just like a duck crossing a pond. On the outside, everything looks great, but underneath the surface, those legs are just a paddling."

That's a great description for the Facility's fiscal year of 2014-2015. To the onlooker, everything is working smoothly and headed in the right direction, but for the staff, this has been a busy year of paddling. Listed below are some of the highlights for the year:

- Cession volume, premiums and paid losses increased over the same periods for the prior year. Private passenger policies-in-force increased moderately while commercial auto policies declined.
- Rate reviews and filings were performed for both Other-Than-Clean Private Passenger and Commercial Auto lines of business. Two commercial auto rate changes will become effective during 2015. Territory changes for private passenger policies are scheduled to become effective in October 2015.
- Clean Risk recoupment returned to annual revisions and was implemented at the full indications. This followed several periods of reduced recoupment factors refl ting off ts for portions of the private passenger members' equity.
- The 2014-2015 operating budget decreased over the prior year and is again less than 1% of the Facility annual premium. Operating expenses were under budget through June 2015.
- Our investment portfolio balance declined as a result of distributions generated by net operating losses, but the returns have continued to outperform the benchmark despite the low-interest-rate environment for fixed-income investments.
- 2014-2015 operational efforts focused on security and internal controls:
  - Upgrade of remaining operating systems for support and security completed
  - Network access security improvements implemented
  - Internal control documentation assessment performed by Ernst & Young
  - New audit plan initiated in fiscal year 2014-2015
  - Redesigned tracking of audit results moved into pilot phase in June 2015
  - New independent audit firm contracted in 2015
  - Continued to strengthen process documentation for training and succession planning

"The secret of success is constancy of purpose" (Benjamin Disraeli). Having had the privilege of serving as Chair for the past year, it became very obvious why the Facility has been so successful. The leadership of the Facility is constantly focused on the purpose of doing the right thing and creating value for the industry. Ray Evans' commitment to this purpose resonates with each staff member, and for more than four decades, the Facility has done an admirable job in serving the Member Companies, insureds and industry.

I would like to thank the staff and the Board for doing such an exceptional job over the past 12 months. It has been a privilege to work with such professionals.

Jim McCafferty
Universal Insurance Company
Chairman

Board of Governors

Responsibility for management is vested in a 15-member Board of Governors. The Board includes 12 voting members, seven member insurance companies and 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. Seven meetings of the Board were held during the year, including four telephone conferences.

Agent Members	Representative
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	Robert M. McVay
Independent Insurance Agents of NC	Tim Ward

Members	Representative
Allstate Insurance Co	Fernando Neal
Atlantic Casualty Insurance Co	Robbie Strickland
GEICO Indemnity Co	Andrea Bradley
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Mendi Riddle
Travelers Indemnity Co	Stefanie M. Zacchera
Universal Insurance Co*	Jim McCafferty

Public Members
J. David Walker, Lumberton, NC
Steven Smith, Raleigh, NC

Ex-officio Member
Wayne Goodwin, Commissioner of Insurance

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 other specialty advisory groups perform similar tasks for the Facility throughout the year.

Audit Committee

Members	Representative
Liberty Mutual Insurance Co*	Ronald H. Robertson, Jr
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 Ins Co	Alan Bentley
Travelers Indemnity Co	Jennifer Baurle
Agent	Robert M. McVay

Investment Committee

Members	Representative
Allstate Insurance Co	Ronald Pullie
Nationwide Mutual Insurance Co*	Joel Buck
State Farm Mutual Automobile Ins Co	Robert Stephan

Rating Committee

Members	Representative
Atlantic Casualty Insurance Co*	Mark Caughron
Integon Indemnity Corporation	Brian Rogers
Nationwide Mutual Insurance Co	David Edwards
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Travelers Indemnity Co	Edward A. Bosk
Agent	Tim Ward

Task Force on Expense Allowances

Members	Representative
21st Century Insurance Co	David Bowman
Allstate Insurance Co	Fernando Neal
Nationwide Mutual Insurance Co*	Terry Collins
Sentry Insurance A Mutual Co	Peter Sampson
State Farm Mutual Automobile Ins Co	Alan Bentley
Agent	Tim Ward

Task Force on Recoupment

Members	Representative
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Terry Collins
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 Ins Co*	Alan Bentley
Agent	Robert M. McVay

** Chair*

Edith T. Davis
Chief Operating Officer,
Reinsurance Facility

Management Report

Introduction

It has been another busy year as we continue to evolve as an organization and endeavor to stay current with the rapid pace of changes in both technology and the insurance industry. Our Enterprise Risk Management processes placed special focus for the current fi year on security, cyber liability and succession planning.

This past fiscal year saw an increased awareness of developments and threats to our data and electronic environment. With EDGE being our largest and most complex system, all EDGE servers were upgraded first to the Windows 2012 operating system last year, followed by all of the remaining support systems by July 2015.

Security of data has been a high priority and included activities to manage our network access, resulting in the removal of thousands of inactive user accounts, the redaction of sensitive data stored in custom applications, the implementation of recommendations from last year's security audit, cyber liability training sessions and the development of a revised Acceptable Use Policy for electronic devices and access. Our business continuity planning is constantly evolving, and consideration is now underway for cloud based-opportunities to allow for more replication of data and services.

With revenue approaching $1 billion, heightened focus on internal controls during recent years prompted the commissioning of an assessment of the Facility's internal control documentation by Ernst & Young and the testing of selected controls. This review was performed at the end of 2014 and resulted in a favorable report by the independent auditors.

Succession planning is becoming increasingly more important as many of our associates now qualify for retirement. We have prepared for this by becoming a process-driven environment and developing documentation for all key processes.

Among our other key responsibilities is to manage members' equity effectively. There have been significant shifts in the members' equity for private passenger auto and commercial auto separately and collectively. These balances are monitored very closely by both staff and committees, and appropriate action is taken under the oversight of the Board of Governors. During the past year, the members' equity balance decreased from $14.7 million to -$34.9 million

Volume

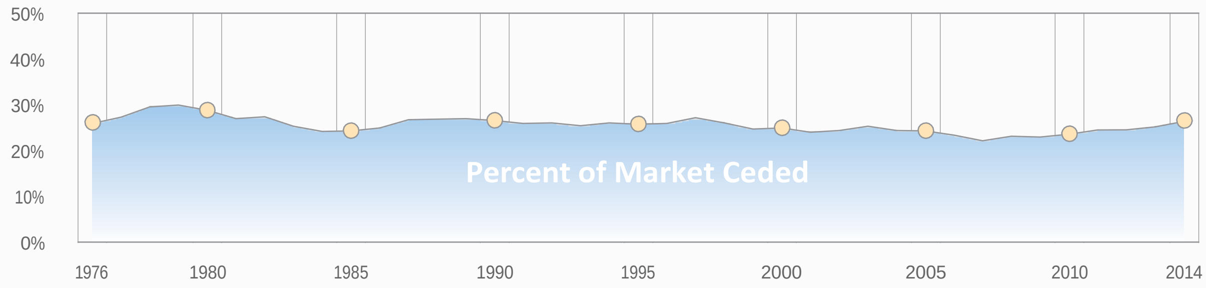
During this report period, the North Carolina Reinsurance Facility was the largest residual market mechanism for automobile insurance in the United States. The Facility provides reinsurance for approximately one quarter of the automobile liability business written in North Carolina. This figure has remained notably stable since the Facility was created in 1973 and is illustrated in a chart on the following page.

Of the total ceded exposures during this fiscal period, 75% were private passenger "clean risks," and 22% were private passenger "other-than-clean" risks, consistent with the previous fiscal year. The remaining 3% of ceded exposures were commercial auto risks.

As of May 2015, approximately 1.3 million policies were in force—97% were private passenger non-fleet policies, and 3% were all other policies—generating over 30 million transactions annually. Overall, total cession notice volume is about 3% higher than the same period last year.

Finally, written premium for the fiscal year ending September 2015 is projected to exceed $900 million, which is approximately 5% higher than the previous fiscal year.

SHARE OF NC AUTO LIABILITY MARKET CEDED — BY CALENDAR YEAR



Rates and Forms

Another key responsibility is to maintain adequate rates. During 2015, rate reviews were performed for all lines under the Facility's jurisdiction.

In March 2015, the Reinsurance Facility filed with the Commissioner of Insurance revised private passenger auto territory definitions. These revised territory definitions track the revisions announced by the North Carolina Rate Bureau in January 2015. The revised definitions became effective for all new and renewal policies becoming effective on or after October 1, 2015.

Also in March 2015, the Reinsurance Facility fi with the Commissioner of Insurance revisions to the private passenger auto rates applicable to "clean risks" ceded to the Facility and became effective for all new and renewal policies becoming effective on or after October 1, 2015. The revisions were to the territory base rates for "clean risks" and a result of the revised territory defi announced by the North Carolina Rate Bureau in January 2015 and subsequently adopted by the Facility.

The Facility performed a rate review for "other-than-clean" risks and filed for a +1.2% rate increase over the rates previously in effect and applied to all new and renewal policies becoming effective on or after October 1, 2015.

In September 2014, the Facility filed revised basic limits premium rates for liability insurance for trucks, tractors and trailers; private passenger types not eligible for rating under the North Carolina Personal Automobile Manual and zone-rated classes and revised bodily injury and property damage increased limits factors. The various rate level changes averaged +13.8% over the rates previously in effect and applied to all new and renewal policies becoming effective on and after March 1, 2015.

Due to numerous operating losses resulting in the significant decline of the commercial auto members' equity balance, the Facility accelerated the 2015 annual rate review and in May 2015, filed revised basic limits premium rates for liability insurance for trucks, tractors and trailers and private passenger types not eligible for rating under the North Carolina Personal Auto Manual and bodily injury and property damage liability increased limits factors for such coverages, including garages, rated under the Facility's Commercial Automobile Insurance Manual. These various rate level changes averaged +14.3% over the rates previously in effect and applied to all new and renewal policies becoming effective on and after October 1, 2015.

In July 2015, as a result of the passage and ratification of Senate Bill 423—Foster Care Family Act, the Facility adopted the Foster Child Named Driver Exclusion Endorsement for use with the personal automobile policy effective October 1, 2015.

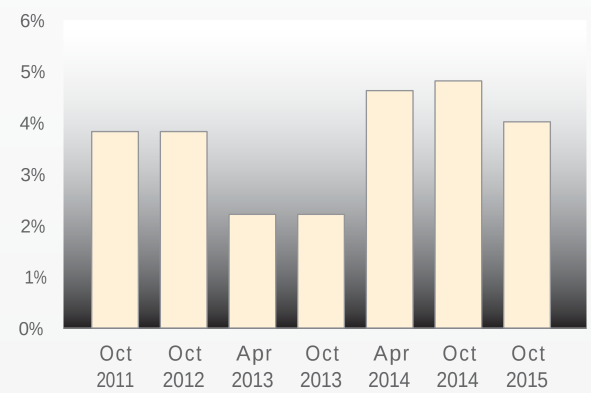
Clean Risk Recoupment

North Carolina law requires carriers to "take all comers" on automobile liability insurance, and carriers can cede to the Facility the risks they choose not to insure voluntarily. While the Facility establishes actuarially sound rates for "other-than-clean" risks (except that no profit is included), 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 shortfall 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 deemed appropriate and necessary. In June 2014, the Board of Governors implemented a clean risk recoupment surcharge of 4.86% (before inclusion of agent compensation) to be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2014, through September 30, 2015. This surcharge percentage reflected a return to the full-indicated clean risk recoupment surcharge following several periods of reduced surcharges resulting from the application of a significant portion of the Facility's members' equity balance as an offset against the indicated clean risk shortfall.

In June 2015, the Board of Governors authorized a new clean risk recoupment surcharge of 4.06% (before inclusion of agent compensation), which will be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2015, through September 30, 2016. For the current fiscal year through July 2015, income from clean risk surcharges has generated approximately $116.7 million.

CLEAN RISK RECOUPMENT SURCHARGES



Operating Results

The Facility realized more operating losses in all three quarters for the fiscal year through June 30, 2015. Written premiums increased but were outpaced by significant increases in incurred losses and moderate decreases in investment income that generated net losses for this period. As a result of the operating losses, the members' equity balance decreased from $14.7 million in September 2014 to -$34.9 million in June 2015.

While the experience for 2010, 2011 and 2012 was reasonably stable, the losses in 2013 were generated by a planned rebalancing of members' equity as a result of the earlier more stable and consistent years' experience. The commercial auto business experience has been eroding for several years but is no longer offset by the private passenger business as that line of business began to worsen in late 2014 and continued into 2015.

The Facility continues to operate with a budget that totals less than 1% of the annual written premium volume of the Facility.

Compliance Activity

Our compliance staff's focus is on compliance with statutes, rules and regulations, as well as 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. In the various types of audits performed by the compliance staff, member company fi are reviewed for, among other items, proper reporting of premiums and losses, claims handling, proper application of underwriting rules, eligibility, experience modifi tion rating and recoupment. The compliance staff also performs audits on non-ceding companies to ensure that recoupment amounts are correctly determined and collected.

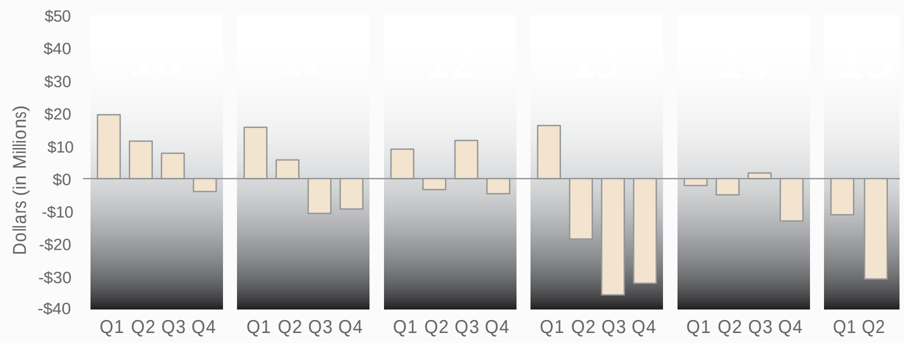
In an effort to leverage the EDGE system for improved recording and analysis of audit results, new data collection functionality was moved into a pilot phase in June 2015 that was anticipated to be in full production by fall. The Compliance department also implemented a new audit plan for the fi year 2014-2015, which placed more emphasis on target audits. In February 2015, a revised Form NCRF-36 "Request For Assistance in Experience Rating a Risk Ceded to the North Carolina Facility" was published with updates designed to expedite the handling of these requests on behalf of member companies.

Legislative Changes

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

2015 was a long session of the North Carolina General Assembly during which many bills were introduced that would impact automobile liability insurance, with a select few passing and becoming law. While the Facility does not lobby for or against any idea or position, the Facility is often called upon to provide information to various groups that wish to study these complex matters. The Facility's staff and counsel responded to a great number of inquiries resulting from the various legislative proposals introduced during this session.

NET RESULTS OF OPERATIONS (AFTER RECOUPMENTS)



As previously noted, Senate Bill 423—Foster Care Family Act was enacted to become effective on October 1, 2015. Among the provisions of this bill was a requirement for the creation of the Foster Child Named Driver Exclusion Endorsement, which will apply to the Personal Auto Policy and, at the request of a named insured, specifically exclude a foster child residing within the insured's household when the insured is also the foster parent from being included on the insured's auto policy, provided that the foster child is insured under a separate Personal Auto Policy or Named Non-Owner Policy. This endorsement applies to policies effective on or after October 1, 2015.

House Bill 148—Insurance Required for Mopeds was also enacted. This bill will require owners of mopeds to have in full force and effect a policy of insurance satisfying financial responsibility requirements and specifically states that liability insurance on a moped is not eligible for cession to the Facility. These provisions will become effective on July 1, 2016. A separate provision of this bill became effective July 1, 2015, and amended the definition of motor vehicle to exclude mopeds.

After much activity, Senate Bill 541—Regulate Transportation Network Companies was enacted to define Transportation Network Companies (TNCs), their permissible services and financial responsibility requirements effective October 1, 2015. Among the various provisions, the bill clarifies that all coverage may be excluded under a personal auto policy during any period of time that the owner or operator of a personal vehicle is logged on to a transportation network company's online-enabled application or platform or while the driver provides TNC services. The bill also provides that no insurer is required to sell a policy of insurance providing the coverage required by this bill and that no insurance policy providing coverage required by the bill is cedable to the North Carolina Reinsurance Facility due solely to the requirements of this bill.

As we mature as an organization, we continuously look for ways to improve our effectiveness and efficiency, to leverage technology and to contribute to both the insurance industry and the driving public of North Carolina. Our talented associates, expert consultants, highly engaged legal counsel, oversight committees and most of all, our Board of Governors, hugely support these efforts throughout the year, for which we are most grateful.

Edith Davis
Chief Operating Officer, Reinsurance Facility

Shared Services

David Sink
Chief Financial Officer

Finance

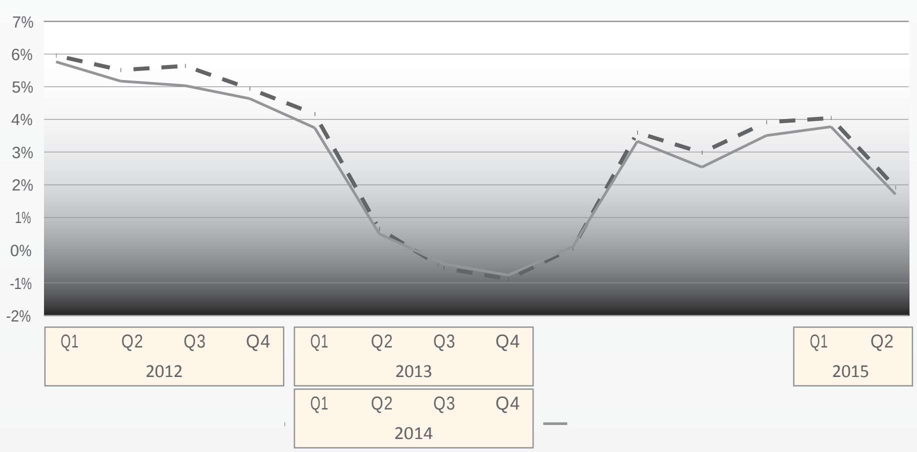
Investments

The Facility's portfolio has performed well over the past year, especially considering some headwinds caused by global economic events and moderate volatility in short-term interest rates. Net operating losses over recent periods have required distributions from the investment account to satisfy the Facility's obligations to member companies and have contributed to a decrease in the book value of the Facility's portfolio from approximately $783 million 12 months ago to $770 million as of June 30, 2015. As of that date, the market value of the account was $791 million, reflecting net unrealized gains of about $21 million. For the 12 months ending June 30, 2015, the portfolio returned 1.91%, outperforming the benchmark by 21 basis points during that period. The chart below reflects the portfolio's performance compared to the benchmark for the 12 months ending at the respective periods. As noted in the 2014 Annual Report, the Facility revised its methodology for evaluating and recording other than temporary impairments of investments—and none were recorded at the end of the 2014 fiscal year.

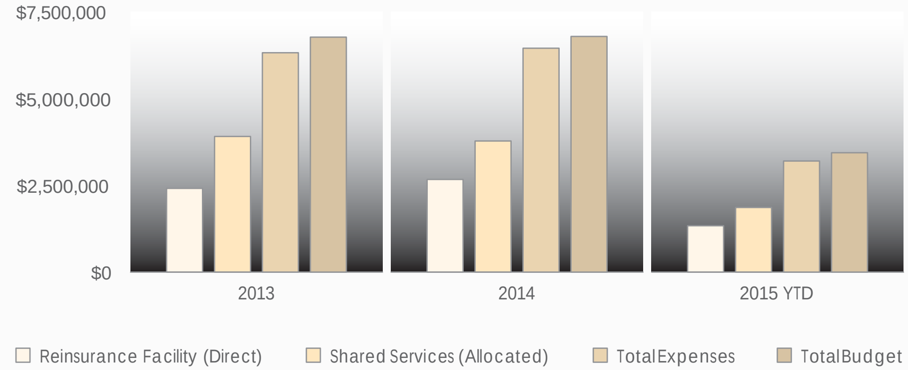
Net Operating Results and Administrative Expenses

As noted above, the Facility has continued to experience net operating losses over recent quarters. The net operating loss of the Facility totaled $49.6 million for the fiscal year to date as of June 30,

NORTH CAROLINA REINSURANCE FACILITY'S PORTFOLIO ANNUALIZED TOTAL RETURNS VS. BENCHMARK



NORTH CAROLINA REINSURANCE FACILITY ADMINISTRATIVE EXPENSES



Administrative Expenses	2013	2014	Thru June 2015
Reinsurance Facility (Direct)	$ 2,422,473	$ 2,680,383	$ 1,339,001
Shared Services (Allocated)	3,916,860	3,794,489	1,872,571
Total Expenses	$ 6,339,333	$ 6,474,872	$ 3,211,572
Total Budget	$ 6,789,173	$ 6,792,093	$ 3,452,791

2015. As of that date, the Members' Equity stood at -$34.9 million, which consists of -$13.5 million private passenger business and -$21.4 million other than private passenger.

The Facility's administrative expenses totaled $6.5 million during calendar year 2014, which represented an increase of 2% from the prior year and approximately 95% of the approved budget for the respective period. The total administrative expenses of the Facility are comprised of the direct costs related to specific activities of the Facility as well as allocated expenses of the departments whose services are shared with the Rate Bureau and Insurance Guaranty Association. The table and chart on this page show a summary of the direct and allocated expenses for the prior two years and the first half of calendar year 2015. Overall, the administrative expenses have remained relatively stable and consistent over the past few years and are projected to be within budget once again for 2015.

Audit

At the conclusion of the latest audit, Ernst & Young met with the Facility's Audit Committee, presented the audited financial statements and required communications for the fiscal year ending September 30, 2014, and issued an unqualified opinion on the special purpose financial statements, noting there were no misstatements or internal control weaknesses identified during the audit and that the significant accounting policies had been consistently applied during the

current year. An excerpt of those audited financial statements is included in this report. The Facility's Audit Committee authorized Staff to prepare and distribute a Request for Proposal for audit services beginning with the current fiscal year. Following that exercise, Johnson Lambert was selected to serve as the Facility's independent auditor prospectively beginning with the fiscal year ending September 30, 2015. While Ernst & Young and the Facility have had a great working relationship for a number of years, Ernst & Young declined to submit a proposal, citing a change in client focus and marketing strategies as the primary reasons.

Shelley Chandler
Chief Information Offi er

Information Services

The news is full of stories of major corporations being hacked and data being compromised or held at ransom. Companies are spending more time and resources on security, and we are no exception. In 2015, we focused a great deal of time and energy into ensuring that we are positioned to maintain, protect and keep secure all of the data entrusted to us by the insurance companies of NC.

Keeping hardware and software up to date is critical to ensuring the most secure environment for the data we maintain. In 2014 and 2015, we rebuilt our entire server network to run on the newest operating system, which will ensure that we continue to receive security updates critical to the network's health. Also, we updated our 17 custom software applications to ensure they were compatible with the newer technologies, including the server operating system, database version and Internet Explorer browser. This was an enormous undertaking with an immoveable deadline, and we are happy to report that we completed the project more than a month ahead of the deadline.

In addition to technical upgrades, we also revised our security policies and tightened down our security controls. We implemented security education for our associates to ensure they are well educated on how to keep our network and data secure and safe. We also implemented a Security Information and Event Management system to help us more proactively monitor the systems we support.

There were also a number of business-driven upgrades undertaken in 2015.

We worked with business experts in the Reinsurance Facility to help capture audit results in a standard format that can be used to better analyze and refine which types of audits are most worthwhile. We continue to maintain and improve the operational functions in the EDGE system.

In 2015, we worked with the Accounting/Finance department to move to a new software support vendor and helped facilitate improvements to that system to increase efficiency and security.

2015 has been a year focused on foundational changes that should propel us into a more secure environment where the data we are responsible for stays safe and secure. We continue to look into the future to best utilize new technologies that enable efficiencies while focusing on the importance of securing the large volumes of data that are entrusted to us.

Vicki Godbold
Chief Administrative Officer

Human Resources

"There will always be a reason why you meet people. Either you need them to change your life or you're the one that will change theirs." — Diem Brown

Our Human Resources is the strategic and comprehensive approach committed to our Organization's most valued assets—our people. Administrative Services provide a secure and comfortable work environment along with mail services and receptionist services.

Our Wellness Program consists of

- WeightWatchers,
- a partnership with WakeMed Hospital,
- a partnership with the Performance Athletic Center,
- 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,
- flu shots provided for associates on-site and
- certifi tion in First Aid, CPR and AED for a third of our workforce through the American Red Cross.

On-site training focus this year was on our Wellness Initiative and consisted of 12 fitness classes, eight wellness seminars, 15 Wellness lunch-n-learns and associate desk visits to encourage stretch breaks by Performance Athletic Center staff.

Community Service involvement by our associates this year included The Wounded Warrior Project, the United Way and the NC Food Bank.

NCRF Management Staff

Tim Lucas
Manager, Automobile

Mike Newton
Manager, Claims

Jannet Barnes
Manager, Compliance

North Carolina Reinsurance Facility

Balance Sheet

As of

	June 30, 2015	June 30, 2014
Assets		
Cash (Checking Account)	$ 8,670,696	$ 887,112
Cash Restricted (Including Escrow)	-	-
Investments	770,181,765	782,855,355
Accounts Receivable	13,661,269	16,089,917
Accrued Interest Receivable	4,646,825	4,865,626
Other Assets	92	92
Total Assets	**$ 797,160,647**	**$ 804,698,102**
Liabilities & Members' Equity		
Accounts Payable	$ 30,069,384	$27,937,480
Loss Reserves	523,471,320	509,126,142
Unearned Premium Reserves	277,714,076	254,901,646
Provision for Premium Refunds	-	-
Other Liabilities	811,834	136,422
Total Liabilities	**$ 832,066,614**	**$ 792,101,690**
Members' Equity	**(34,905,967)**	**12,596,412**
Total Liabilities & Members' Equity	**$ 797,160,647**	**$ 804,698,102**

Income Statement

Fiscal Year through

	June 30, 2015	June 30, 2014
Income		
Earned Premiums	$661,064,701	$ 631,287,951
Clean Risk Recoupment	116,673,133	73,561,268
Investment Income	19,070,674	22,445,331
Membership Fee Income	53,800	54,500
Other Income	44,880	122,854
Total Income	**$ 796,907,188**	**$ 727,471,904**
Expenses		
Losses Incurred	$585,201,763	$528,205,761
Ceding & Claims Expenses	256,286,982	234,147,682
Premiums Escrowed	-	-
Other Underwriting Deductions	201,875	-
Salaries & Administration Expenses	1,716,116	1,740,904
Outside Services Expenses	1,787,753	1,927,567
Other Operating Expenses	1,317,271	1,318,211
Total Expenses	**$ 846,511,760**	**$ 767,340,125**
Net Income/(Loss) Before Loss Recoupments	**$ (49,604,572)**	**$ (39,868,221)**
Loss Recoupments	587	(44)
Net Income/(Loss) After Loss Recoupments	**$ (49,603,985)**	**$ (39,868,265)**

North Carolina Reinsurance Facility

Special Purpose Balance Sheet

Year Ending

	Sept 30, 2014	Sept 30, 2013
Assets		
Cash and Short-Term Investments	$ 19,402,063	$ 22,577,114
Long-Term Investments, at Amortized Cost	760,015,968	771,247,045
Accrued Interest Receivable	4,537,952	5,286,638
Settlements Receivable From Member Companies:	19,376,991	13,182,553
Total Assets	**$ 803,332,974**	**$ 812,293,350**
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves		
• In Course of Settlement	$ 395,102,656	$ 375,415,187
• Incurred But Not Reported	109,536,163	111,927,054
Total Loss and Loss Adjustment Expense Reserves	**504,638,819**	**487,342,241**
Unearned Premium Reserves	265,432,835	254,605,083
Advanced Clean Risk Subsidies	2,965,916	735,950
Settlements Payable to Member Companies	18,278,399	17,739,099
Other Liabilities	284,903	142,249
Total Liabilities	**$ 791,600,872**	**$ 760,564,622**
Commitments and Contingencies		
Members' Equity	11,732,102	51,728,728
Total Liabilities and Members' Equity	**$ 803,332,974**	**$ 812,293,350**

Special Purpose Statement of Operations

Year Ending

	Sept 30, 2014	Sept 30, 2013
Premiums Earned	$ 845,732,308	$807,312,392
Clean Risk Subsidies Reported	111,256,490	96,892,669
Total Underwriting Income	**$ 956,988,798**	**$ 904,205,061**
Losses Incurred	$ 702,054,308	$ 662,699,960
Ceding Expense Allowances	217,979,401	209,434,949
Claims Expense Allowances	99,539,773	89,101,782
Total Underwriting Expenses	**$ 1,019,573,482**	**$ 961,236,691**
Net Underwriting Loss	**$ (62,584,684)**	**$ (57,031,630)**
Other Income (Expense)		
Net Investment Income	$22,573,517	$24,301,882
Net Realized Investment Gains Including Other-than-Temporary Impairments	5,349,937	(3,302,260)
Late Premium Charges and Penalties	140,609	150,199
Membership Fees	54,900	55,000
General and Administrative Expense	(5,535,657)	(5,353,638)
Other Miscellaneous Expense	4,803	(2,122)
Total Other Income — Net	**$22,588,109**	**$ 15,849,061**
Net Operating Income (Loss)	**$ (39,996,575)**	**$ (41,182,569)**

NCRF

NORTH CAROLINA **REINSURANCE FACILITY**

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