



MINUTES OF THE THIRTY-FOURTH ANNUAL MEETING OF THE NORTH CAROLINA
REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND
CONFERENCE CENTER, GREENSBORO, NORTH CAROLINA, OCTOBER 24, 2007

MEMBERS PRESENTREPRESENTED BY

Alliance Mutual Insurance Company	Kevin Riney Mary Taylor Bob White Bob Blystone
Allstate Insurance Company Allstate Indemnity Company Allstate Property & Casualty Insurance Company Encompass Indemnity Company Northbrook Indemnity Company	
American Home Assurance Company AIG Casualty Company AIG Centennial Insurance Company AIU Insurance Company American International South Insurance Company Commerce & Industry Insurance Company Granite State Insurance Company Insurance Company of the State of Pennsylvania National Union Fire Insurance Company New Hampshire Insurance Company	Kevin Steele
Atlantic Casualty Insurance Company Coastal Casualty Insurance Company	Paul Aycock Mark Caughron Richard Yarbrough Mary Pierce
Auto Owners Insurance Company Owners Insurance Company	
Builders Mutual Insurance Company	Jerry Visintine
Erie Insurance Company Erie Insurance Exchange	Chuck Liles
Government Employees Insurance Company Converium Insurance (North America), Inc. Cornhusker Casualty Company GEICO General Insurance Company GEICO Indemnity Company General Star National Insurance Company Genesis Insurance Company National Indemnity Company National Liability & Fire Insurance Company Republic Insurance Company	Kirk La A. J. Zuvich

Hartford Fire Insurance Company	Andrew Brown
Hartford Accident & Indemnity Company	
Hartford Casualty 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	
Integon Indemnity Corporation	Art Lyon
CIM Insurance Corporation	
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	
MIC Property & Casualty Insurance Corporation	
National General Assurance Company	
New South Insurance Company	
Plaza Insurance Company	
Liberty Mutual Insurance Company	John Ittner
Colorado Casualty Insurance Company	
Employers Insurance Company of Wausau	
Excelsior Insurance Company	
First Liberty Insurance Corporation	
Liberty Insurance Corporation	
Liberty Mutual Fire Insurance Company	
Liberty Mutual Mid-Atlantic Insurance Company	
LM General Insurance Company	
LM Insurance Corporation	
LM Personal Insurance Company	
LM Property & Casualty Insurance Company	
Midwestern Indemnity Company	
Montgomery Mutual Insurance Company	
Netherlands Insurance Company	
Peerless Indemnity Insurance Company	
Peerless Insurance Company	
Wausau Business Insurance Company	
Wausau Underwriters Insurance Company	
Nationwide Mutual Insurance Company	Kevin King
Allied Property & Casualty Insurance Company	Amy Powell
AMCO Insurance Company	
Depositors Insurance Company	
Farmland Mutual Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company	
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	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff
Farm Bureau Insurance Company of North Carolina	
Progressive Casualty Insurance Company	Kate Terry
National Continental 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	
Sentry Casualty Company	Tim Miller
Dairyland Insurance Company	
Middlesex Insurance Company	
Peak Property & Casualty Insurance Corporation	
Sentry Insurance A Mutual Company	
Sentry Select Insurance Company	
Southern General Insurance Company	Angela Haithcock
State Farm Mutual Automobile Insurance Company	Alan Bentley
The Members Insurance Company	Jim McCafferty
Travelers Indemnity Company	Jonathan Konrad
Athena Assurance Company	Chad Mirock
Atlantic Insurance Company	Benjy Seagle
Automobile Insurance Company of Hartford	
Charter Oak Fire Insurance Company	
Commercial Guaranty Casualty Insurance Company	
Commercial Guaranty Insurance Company	
Discover Property & Casualty Insurance Company	
Farmington Casualty Company	
Fidelity & Guaranty Insurance Company	
Fidelity & Guaranty Insurance Underwriters, Inc.	
Mendakota Insurance 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 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 Insurance Company
Travelers Commercial Casualty Company
Travelers Home & Marine Insurance Company
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Personal Security Insurance Company
Travelers Property Casualty Company of America
Travelers Property Casualty Insurance Company
United States Fidelity & Guaranty Company
Universal Insurance Company

United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company

Greg Spray
Christine Wall
Eric Vaith

OTHERS PRESENT

Auto Insurance Agents of NC
Bagwell & Bagwell, Inc.
Evergreen Investments

Green & Wooten Insurance
Greenville Casualty Insurance Company
Independent Insurance Agents of North Carolina
Insurance Services Office
Senn, Dunn, Marsh & Roland
United Wisconsin Insurance Company
Wester Insurance Agency
Young, Moore & Henderson

Staff

REPRESENTED BY

Jeff Butler
Steve Smith
Rich Applebach
Paige Henderson
John Wooten
Dean Kruger
David Walker
Patrick Woods
Tim Ward
Mike McKeon
Hutson Wester
Mickey Spivey
Mike Strickland
Jim Auman
Jannet Barnes
Adrienne Bizzell
Tammy Choboy
Edith Davis
Ray Evans
Delisa Fairley
Vicki Godbold
Wayne Hinton
Fred Hoerl
Betty Hurst
Tim Lucas
Lois Murphey
Mike Newton
David Sink
Paula Stana
Amy Tart
Sue Taylor

132 other companies participated by proxy.

The meeting convened as scheduled, Mr. Yarbrough presiding. Mr. Evans announced that there was a quorum.

Reference was made to the Facility's Antitrust Compliance Policy and Conflicts of Interest Statement, copies of which were made available.

1. Annual Report

Copies of the Thirty-Fourth Annual Report for the fiscal year ended September 30, 2007 were distributed. Mr. Evans, Mr. Sink and Ms. Davis reviewed and commented on the Report, a copy of which is attached and forms a part of the record. The members were also advised that the Report was now available on the Facility website under its own link from the homepage.

Mr. Evans also introduced the new Manager of Quality Assurance, Tammy Choboy and the new Manager of Administrative Services, Amy Tart. Ms. Tart gave a presentation about this new role.

2. Plan of Operation Amendments

Ms. Davis reviewed proposed amendments to Article II of the Facility's Plan of Operation, to track the changes to N. C. G. S. 58-37-1 enacted by House Bill 729.

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

3. Chairman's Comments

Mr. Yarbrough reflected on the many changes the Facility had experienced since its inception and noted the current stability of the Facility's operating results and the health of the North Carolina auto insurance market. He commented on the recent and planned process improvements, like the development of the new information system, and expressed gratitude on behalf of the Board of Governors to the staff, members of the Facility committees and counsel for their efforts during the preceding year.

4. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Edith T. Davis

Director, Reinsurance Facility

ETD/dms

Enclosure

RF-07-10

11/21/07



SERVICE

SOLUTIONS

SYNERGY

2007 ANNUAL REPORT
North Carolina Reinsurance Facility

core
CORE VALUES
values

COMMITMENT

faithfully and diligently fulfill the obligations of our Organizations 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 Organizations with dignity and respect.

TALENTS

continually strive to improve the Organizations through the use of every associate's talents and creativity.

OWNERSHIP

encourage participation and a sense of ownership from the members of our Organizations.

CONSISTENCY

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



n o r t h c a r o l i n a
NORTH CAROLINA REINSURANCE FACILITY
 r e i n s u r a n c e f a c i l i t y

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GENERAL ORGANIZATIONAL INFORMATION

NCRF Main Phone Number.....	919-783-9790
Facsimile	919-719-7401
Website Address.....	www.ncrb.org /ncrf
Physical Address.....	5401 Six Forks Road Raleigh, NC 27609

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, Personal Lines
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
919-645-3170	vcg@ncrb.org

ANNUAL MEETING

The Annual Meeting for member companies of the North Carolina Reinsurance Facility will be held October 24, 2007 at the Grandover Resort and Conference Center, Greensboro, North Carolina.



message from

MESSAGE FROM THE CHAIRMAN

the chairman

Serving on the Facility Board as an agent and a company representative, it is easy to understand that the Reinsurance Facility provides a great service to North Carolina insureds. Protecting the public from uninsured drivers at an affordable premium is a win-win proposition for all North Carolinians. Offering a reasonable cost alternative for risks that may not otherwise be insurable, it provides protection for our fellow citizens.

In 1984, when I served on the Board as an agent representative, the Facility had been in place for just over ten years, and it insured then, as now, about a quarter of the automobile liability insurance market. There is a still healthy competition among companies selling auto insurance; however, there have been some significant changes. The North Carolina auto liability market has grown from \$635 million to \$3.04 billion in annual premium. Internet access, electronic entry, and other technological innovations have kept automobile premiums affordable and competitive. Many more options are now available to insureds, including more local agents and direct access to many markets. There are now 291 insurance companies selling auto policies in North Carolina.

The Reinsurance Facility works well because of the efforts of so many. Industry representatives and agents serve on the Board, task forces, and committees that oversee the successful operation of the Facility. Various experts consult with these groups and offer important information and perspective. Last but certainly not least, dedicated staff manage the day-to-day activities and constantly look for ways to improve services and provide manageable data for more efficient operations. Many thanks to the professional staff of our Reinsurance Facility and to the former Board members and employees who laid the foundation for a precision operation.

Sincerely,

A handwritten signature in black ink that reads "Richard C. Yarbrough". The signature is written in a cursive, flowing style.

Richard C. Yarbrough CPCU, CIC
Chair, NCRF Board of Governors

board of
BOARD OF GOVERNORS
governors

Responsibility for management is vested in a fifteen-member Board of Governors. There are twelve 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. Five meetings of the Board were held during the year, including one telephone conference.

COMPANY MEMBERS **REPRESENTATIVE**

Allstate Insurance Co.....	Bob Blystone
Atlantic Casualty Insurance Co.....	Richard Yarbrough*
Integon Indemnity Corporation.....	Art Lyon
Nationwide Mutual Insurance Co.....	Amy Powell
New Hampshire Insurance Co.....	Gary T. Sanginario
Travelers Indemnity Co.....	Michael K. Fitzgerald
Universal Insurance Co.....	Greg Spray
	*chair

AGENT MEMBERS

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

PUBLIC MEMBERS **LOCATION**

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

EX-OFFICIO MEMBERS

James E. Long	Commissioner of Insurance
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standing advisory
STANDING ADVISORY COMMITTEES
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. The Accounting and Statistical Committee is a joint AIPSO and NCRF committee and is chaired by New Hampshire Insurance Company. In addition, there are several additional specialty advisory groups who perform similar tasks for the Facility throughout the year.

The following committees met during the report period:

audit
AUDIT COMMITTEE
committee

MEMBERS **REPRESENTATIVE**

Liberty Mutual Insurance Co.....	Ronald H. Robertson, Jr., CPA*
NC Farm Bureau Mutual Insurance Co.....	Brian Top
Nationwide Mutual Insurance Co.....	Kathy Southern
Pennsylvania Nat. Mut. Casualty Ins Co.....	Charles J. Uckele
State Farm Mutual Automobile Insurance Co.....	Alan Bentley
Travelers Indemnity Co.....	B.F. Seagle
Agent	Steven D. Smith
	*chair

claims
CLAIMS COMMITTEE
committee

MEMBERS **REPRESENTATIVE**

Allstate Insurance Co.....	Todd Lonker
Hartford Accident & Indemnity Co.....	Lorraine Karas
Nationwide Mutual Automobile Insurance Co.....	Bob Kistner
State Farm Mutual Automobile Insurance Co.....	Tom Huels*
Travelers Indemnity Co.....	B.F. Seagle
United Services Automobile Association.....	Michael Cox
Agent	W. Hutson Wester, II
Agent	John E. Wooten, III
	*chair

compliance
COMPLIANCE COMMITTEE
committee

MEMBERS **REPRESENTATIVE**

Integon Indemnity Corp.....	Seth Kernodle
Nationwide Mutual Insurance Co.....	Kathy Southern
Universal Insurance Co.....	Gregory L. Spray *
Agent	W. Hutson Wester, II
	*chair

investment
INVESTMENT COMMITTEE
committee

MEMBERS **REPRESENTATIVE**

Allstate Insurance Co.....	Douglas Dupont
Nationwide Mutual Insurance Co.....	J. Kevin King*
State Farm Mutual Automobile Ins. Co.....	Alan Bentley
	*chair

rating
RATING COMMITTEE
 committee

MEMBERS	REPRESENTATIVE
Atlantic Casualty Insurance Co.	Mark Caughron*
Liberty Mutual Insurance Co.	Cheryl B. Watts
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
TASK FORCE ON EXPENSE ALLOWANCES
 expense allowances

MEMBERS	REPRESENTATIVE
Allstate Insurance Co.	Bob Blystone
American International South Insurance Co.	Gary T. Sanginario
Nationwide Mutual Insurance Co.	Isaac Adams*
Sentry Insurance Co.	Tim Miller
State Farm Mutual Automobile Insurance Co.	Alan Bentley
Agent.	Tim Ward
	*chair

task force on
TASK FORCE ON RECOURPMENT
 recoupment

MEMBERS	REPRESENTATIVE
General Casualty Insurance Co.	Stephen H. Cone
Nationwide Mutual Insurance Co.	Isaac Adams
NC Farm Bureau Mutual Insurance Co.	Roger N. Batdorff
Progressive Casualty Insurance Co.	Chris Skorcz
Southern Guaranty Insurance Co.	Stephen H. Cone
State Farm Mutual Automobile Insurance Co.	Alan Bentley*
Travelers Indemnity Co.	B.F. Seagle
Agent.	Steven D. Smith
	*chair

technical advisory
TECHNICAL ADVISORY GROUP
 group

MEMBERS	REPRESENTATIVE
Allstate Insurance Co.	Essie Williams
Atlantic Casualty Insurance Group	Greg Ricker
Discovery Insurance Co.	Denise Jefferson
Guaranty National Insurance Co.	Diane Wirkus
Integon Indemnity Corporation.	Mary Anne Peele
Nationwide Mutual Insurance Group	Larry Donaldson
New Hampshire Insurance Co.	Pete Cotton
NC Farm Bureau Mutual Insurance Co.	Brian Top
Safeco Insurance Co.	Jeff Castle
Southern General Insurance Co.	Marguerite Clark
State Farm Mutual Insurance Co.	Paula Harlow
Travelers Indemnity Co.	Annette Whitaker
Universal Insurance Co.	Lisa Stafford



Raymond F. Evans, Jr., CPCU
General Manager

g e n e r a l m a n a g e r s
GENERAL MANAGER'S REPORT
r e p o r t

Another year, another set of challenges. With the North Carolina Legislature in its long session, I believe we spent more time in 2007 educating and explaining the operations of the Facility – participating in dozens of interviews, meetings and bill analysis sessions – than we did dealing with our usual concerns.

We don't know if this is the good news or the bad news, but the end result was that virtually nothing changed. On the decidedly positive side, we heard from many sources that the process enhanced the Facility's reputation for honesty, integrity, accessibility and helpfulness.

In spite of the legislatively induced distraction, we made considerable progress in improving our routine functions of complying with the statute, getting the right premium and paying the right amount for claims.

Insuring that premium and loss transactions are accurate falls to the Compliance folks and they steadily increased their effectiveness this past year. We believe we are doing a more comprehensive job of reviewing premium and loss data, being less intrusive to member companies in the process, and becoming more confident in the accuracy of our numbers.

Work on the replacement operating system is continuing with an anticipated go-live date in early 2008; developers here and offshore are working nearly around the clock to help the Facility and our IT department bring it all together.

One thing that has struck me this year is the important role the Facility plays in our state's auto insurance market. Because of that, our job here continues to be to do the best we can in the most efficient way possible. I think the work of our associates, with the support of counsel and help from the Board and Committees, is a big part of why the whole market works. Thanks to everyone.



edith T. DAVIS, CPA
director, reinsurance facility

Edith T. Davis

management discussion
MANAGEMENT DISCUSSION & ANALYSIS
& analysis

Mission:

- Ensure availability of auto liability insurance to all eligible risks
- Collect the right premiums
- Pay the right losses
- Minimize the impact on policyholders and companies in North Carolina

so·lu·tion:

Pronunciation: sə-ˈlū-shən

Function: noun

Definition: a: an action or process of solving a problem; b : an answer to a problem

The Facility was created in 1973 by legislators in the General Assembly as their solution to ensure that all eligible risks could purchase auto liability insurance. We still serve that purpose today.

The following pages of financial information reflect a very stable and financially sound Reinsurance Facility. The Facility operations have generated notable net operating gains and, as a result, the Clean Risk recoupment surcharge will be reduced from 8.82% to 2.48% effective October, 2007. This is very different from two years ago when the Facility's equity position was negative \$112 million. Several factors contributed to this turnaround, as follows.

Financial
FINANCIAL POSITION
position

RATE CHANGES

The Facility experienced the effect of rate increases for private passenger non-fleet vehicles.

Ceded "clean risks" comprised approximately 69% of the total ceded exposures. Two voluntary liability rate increases—5.1% overall effective May 2006 and 4.0% overall effective November 2006 – were applied. (By law, this group may only be charged the voluntary manual rate; however, this is not a self supporting rate for these risks.)

Ceded private passenger "other-than-clean" risks comprised about 27% of total ceded exposures; the overall rate increase of 2.9% for this group took effect in October 2006.

There was no rate change for the remaining 4% of exposures in the commercial line of business for the report period.

In 2007, no changes were filed for the voluntary private passenger rates, and the Facility filed a base rate change to the "other-than-clean risks" ceded to the Facility. The filed rates decreased 4.6%, split among a decrease of 9.3% for bodily injury, an increase of 2.4% for property damage, and a decrease of 3.3% for medical payments coverage. The revision also included a decrease of 5.2% for motorcycle liability insurance. This filing was effective on or after October 1, 2007.

CLEAN RISK RECOUPMENT

North Carolina law requires carriers to "take all comers" and the risks for whom the voluntary rates are inadequate are often ceded to the Facility. Even in the Facility the rates for "clean risks" are capped at the voluntary rate level. The difference between what this group pays and what they should pay is made up through the statutorily authorized "clean risk" recoupment surcharge applied to the liability premiums of private passenger non-fleet policies. Effective October 2006, this surcharge was 8.82% (before agent compensation); through June 2007, it generated approximately \$188.8 million.

OPERATING RESULTS

Last year, we noted that positive equity had been restored and the loss recoupment surcharge had expired for policies effective after March 31, 2006, as planned.

The North Carolina automobile market saw improvement in loss experience, and coupled with the liability rate increases and clean risk recoupment, the Facility began to see operating gains without any increase in market share.

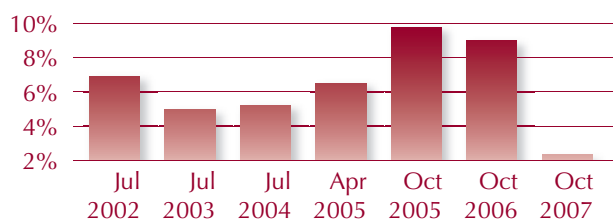
INVESTMENT INCOME

Investment income contributed \$31 million due in part to higher returns on the portfolio from the operating gains and some improvement on investment yields. There were also some minor revisions during this fiscal year to the portfolio's Investment Policy to improve performance with continued low risk.

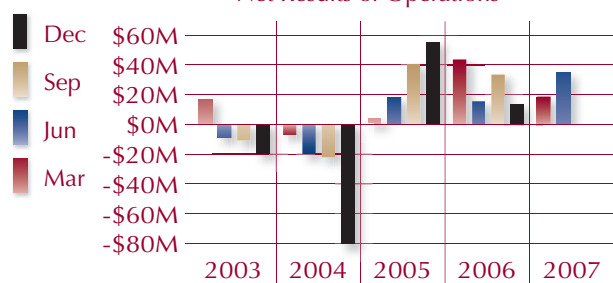
MEMBER'S EQUITY

The Facility is required to operate at neither a profit nor loss. As part of this balancing act, the recoupment surcharges are reviewed at least annually and adjusted as appropriate. In July 2007, the Board of Governors, as authorized by statute, approved that the otherwise applicable clean risk recoupment be reduced to reflect credit for the entire balance of Member's Equity surplus generated by the Private Passenger line of business as of March 31, 2007, the most recent period available. The Clean Risk Recoupment surcharge will be reduced from 8.82% (before inclusion of agent compensation) to 2.48% (before inclusion of agent compensation) effective October 2007.

Clean Risk Recoupment Surcharges



Net Results of Operations



operations
OPERATIONS ACTIVITY
activity

During this report period, we were the largest residual market mechanism by total written premium volume in the United States. There were 1.04 million policies in force as of June 2007, consisting of 96% Private Passenger non-fleet policies and 4% All Other policies, generating more than 27 million transactions. Cession notice volume was flat over the prior year and written premium for the fiscal year ending September 2007 was estimated to exceed \$760 million – a slight increase over the prior fiscal year attributable to liability rate increases in both voluntary and ceded base rates which became effective in 2006.

compliance
COMPLIANCE ACTIVITY
activity

As part of our responsibility to ensure that the Facility collects the right premium and pays the right losses, regular and special audits are performed on all member companies. This is no small effort as there are over 100 member company groups reporting to the Facility. We continue to emphasize compliance with statutes, rules and regulations, and eligibility for ceded coverage and reimbursement. During this report period almost 6000 premium and claim files were reviewed and approximately \$4.5 million in rating or reporting errors were identified. These audits often identify system problems which enable a company to correct them sooner and minimize the impact.

legislative
LEGISLATIVE CHANGES
changes

The Facility was created by the Legislature in 1973 with N.C.G.S. §58-37 and replaced an Assigned Risk Auto Plan. At that time there was a perceived stigma of being in a bad risk pool, and this new mechanism enabled drivers to select the company of their choice. Since then the legislature has made alterations to address changing conditions in the marketplace.

One such change was House Bill 729, which became law in North Carolina on August 23, 2007. A portion of this legislation was effective on ratification; however, most of the bill's provisions become effective on January 1, 2008. This legislation amends several statutes dealing with the eligibility of risks that can be ceded to the Facility. One of the major changes was in the eligibility for cession of nonfleet private passenger motor vehicles owned by nonresidents.

Prior to this change, N.C.G.S. §58-37-1 provided that nonfleet private passenger motor vehicles owned by nonresidents were eligible risks if they were registered or principally garaged in North Carolina. As amended by House Bill 729, N.C.G.S. §58-37-1 now will provide that such vehicles are eligible risks only if they are registered and principally garaged in North Carolina and supplies a definition of "principally garaged." The

legislation also contains a new section, N.C.G.S. §58-2-164, to address rate evasion fraud and prevention programs that will require consideration by the companies.

edge system
EDGE SYSTEM DEVELOPMENT
development

The development of our new Electronic Data Gathering Enterprise (EDGE) system is nearing completion and we are entering the testing phase. This web-based system will allow companies to interface with the Facility like never before, providing them access to the nearly 300 million records of their own reported data.

As some functionality is being phased in, benefits are already being realized. The deadline for reporting accounting data was shortened in early 2007 from 45 days to 25 days – and 100% of member companies achieved the target implementation date! The result is that member companies now receive monthly settlements approximately one month earlier.

File Transfer Protocol (FTP) submission of data will be a requirement for EDGE and companies have already begun the transition from reporting to AIPSO via magnetic media to reporting directly to the Facility via FTP. A number of major carriers are already in full production. Special thanks to the migration coordinators at the member companies who are facilitating this progress.

This is the largest development project this organization has ever taken on. The efforts of many dedicated project team members and subject matter experts at the Facility, AIPSO and member companies will be realized when this system goes live. A heartfelt thanks goes out to the project team and especially to the member companies and our Board of Governors who have been so supportive during this effort. It will change the way companies do business with the Facility and offer features such as single sign-on access to the NCRF, NCRB, and NCIGA; real-time ceding of risks; online edits; email alerts; and new online consolidated billing with EFT payment options among others.

conclusion
CONCLUSION

It has been a whirlwind of a year. We have managed a lot of ceded business and audited a lot of files all the while attending endless meetings for the EDGE project and supplying lots of information to outside parties about the Facility and how it works. That's our job. And we will continue to try to improve our processes and do it even better. So next year the Facility will still be here, stable as ever, to ensure the availability of auto insurance for all eligible risks

Edith T. Davis

Edith T. Davis, CPA
Director, NCRF

n o r t h c a r o l i n a
NORTH CAROLINA REINSURANCE FACILITY
 r e i n s u r a n c e f a c i l i t y

BALANCE SHEET

ASSETS	June 30, 2006	June 30, 2007
Cash (Checking Account)	\$(80,582)	\$488,997
Investments	757,547,666	848,658,137
Accounts Receivable	42,508,789	38,199,344
Accrued Interest Receivable	7,241,560	7,944,782
Other Assets	61,275	22,784
Total Assets	\$807,278,708	\$895,314,044
LIABILITIES & MEMBERS' EQUITY		
Accounts Payable	\$34,526,221	\$27,360,085
Loss Reserves	501,638,712	493,915,306
Unearned Premium Reserves	223,886,672	229,556,308
Other Liabilities	279,069	236,024
Total Liabilities	\$760,330,674	\$751,067,723
Members' Equity	46,948,034	144,246,321
Total Liabilities & Members' Equity	\$807,278,708	\$895,314,044

INCOME STATEMENT

INCOME	Fiscal Year Thru June 30, 2006	Fiscal Year Thru June 30, 2007
Earned Premiums	\$554,758,981	\$583,740,330
Clean Risk Recoupment	182,867,644	186,848,060
Investment Income	18,661,479	30,899,452
Membership Fee Income	46,950	48,800
Other Income	555,341	411,368
Total Income	\$756,890,395	\$801,948,010
EXPENSES		
Losses Incurred	\$478,293,182	\$495,961,374
Ceding & Claims Expenses	215,247,671	228,940,917
Salaries & Administration Expenses	1,029,784	1,112,401
Outside Services Expenses	1,723,403	2,600,834
Other Operating Expenses	780,105	1,272,469
Total Expenses	\$697,074,145	\$729,887,995
Net Income Before Loss Recoupments	\$59,816,250	\$72,060,015
Loss Recoupments	51,825,962	(1,560,779)
Net Income After Loss Recoupments	\$111,642,212	\$70,499,236

SHARED RESOURCES



R. MIKE NEWTON
manager, claims

JIM AUMAN
director,
information technology

TAMMY CHOBOY
manager,
quality assurance

VICKI GOBOLD
director,
human resources

TIM LUCAS
manager,
automobile

AMY TART
manager,
administrative services

DAVID SINK
director,
finance

NCRF MANAGEMENT STAFF



JANNET BARNES
manager,
compliance

VALERIE PEARSON
supervisor,
operations

SPECIAL-PURPOSE STATEMENTS OF OPERATIONS

UNDERWRITING INCOME & EXPENSES	Years Ended September 30, 2006	September 30, 2005
Premiums Earned	\$743,119,401	\$742,061,858
Clean Risk Recoupment	249,253,969	150,582,254
Total Underwriting Income	\$992,373,370	\$892,644,112
Losses Incurred	\$635,769,818	\$637,647,285
Ceding Expense Allowances	199,881,841	199,256,687
Claims Expense Allowances	93,051,730	91,005,200
Total Underwriting Expenses	\$928,703,389	\$927,909,172
Net Underwriting (Loss) or Gain	\$63,669,981	\$(35,265,060)
OTHER INCOME (Expense)		
Net Investment Income	\$31,920,109	\$24,694,189
Net Realized Capital Gains (Losses)	(4,672,275)	528,290
Late Premium Charges and Penalties	465,872	523,989
Membership Fees	47,350	50,550
Cession Notice Charges	21,690	26,159
General and Administrative Expense	(4,880,691)	(3,668,034)
Provision for Premium Refunds, Including Interest	-	5,705,552
Other Miscellaneous Income	(4,653)	216,674
Total Other Income (Expense) - Net	\$22,897,402	\$28,077,369
Net Operating (Loss) or Gain	\$86,567,383	\$(7,187,691)

SPECIAL-PURPOSE BALANCE SHEETS

ASSETS	Years Ended September 30, 2006	September 30, 2005
Cash and short-term investments	\$83,466,602	\$28,259,744
Long-term investments, at amortized cost	690,122,248	603,487,957
Accrued interest receivable	6,640,099	5,241,584
Receivables from member companies:		
Settlements	53,434,675	59,064,984
Late premium charges and penalties	31,578	43,241
	<u>\$53,466,253</u>	<u>\$59,108,225</u>
Earned but unbilled premiums	–	\$35,357
Total assets	<u>\$833,695,202</u>	<u>\$696,132,867</u>
LIABILITIES & MEMBERS' (DEFICIT) EQUITY		
Loss and loss adjustment expense reserves:		
In course of settlement	\$390,158,556	\$393,371,809
Incurred but not reported	112,335,543	110,999,151
Total loss and loss adjustment expense reserves	\$502,494,099	\$504,370,960
Unearned premium reserves	\$232,696,618	\$232,617,782
Settlements payable to member companies	24,465,895	23,432,045
Other liabilities	291,505	406,258
Total liabilities	\$759,948,117	\$760,827,045
Commitments and contingencies		
Members' equity (deficit)	<u>\$73,747,085</u>	<u>\$(64,694,178)</u>
Total liabilities and members' equity (deficit)	<u>\$833,695,202</u>	<u>\$696,132,867</u>

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, 2006 and 2005, and the related special-purpose statements of operations, members' equity (deficit) 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. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed by 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.

Ernst & Young LLP

February 9, 2007

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