MINUTES OF THE MEETING OF THE THIRTY-SEVENTH ANNUAL MEETING OF THE NORTH CAROLINA REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA
OCTOBER 14, 2010

MEMBERS PRESENT

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

Atlantic Casualty Insurance Company
   Coastal Casualty Insurance Company

Auto Owners Insurance Company
   Owners Insurance Company

GEICO Indemnity Company
   Cornhusker Casualty Company
   GEICO Casualty Company
   GEICO General Insurance Company
   General Star National Insurance Company
   Genesis Insurance Company
   Government Employees Insurance Company
   National Indemnity Company
   National Liability & Fire Insurance Company

Integon Indemnity Corporation
   GMAC Insurance Company Online Inc
   Integon Casualty Insurance Company
   Integon General Insurance Corporation
   Integon National Insurance Company
   Integon Preferred Insurance Company
   MIC Property & Casualty Insurance Corporation
   National General Insurance Company
   New South Insurance Company

Hartford Fire Insurance Company
   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

REPRESENTED BY

Bob Blystone
Mark Caughron
Drew A Klasing
Kirk La
Rusty Ward
Art Lyon
Mike Apanowitch
Horace Mann Insurance Company
Horace Mann Property & Casualty Insurance Company
Teachers Insurance Company
Nationwide Mutual Insurance Company
Allied Property & Casualty Insurance Company
AMCO Insurance Company
Depositors Insurance Company
Farmland Mutual Insurance Company
Freedom Specialty Insurance Company
National Casualty Company
Nationwide Affinity Insurance Company
Nationwide Agribusiness Insurance Company
Nationwide Insurance Company of America
Nationwide Mutual Fire Insurance Company
Nationwide Property & Casualty Insurance Company
Scottsdale Indemnity Company
Titan Indemnity Company
Victoria Fire & Casualty Company
North Carolina Farm Bureau Mutual Insurance Company
Farm Bureau Insurance Company of North Carolina
Penn National Security Company
Pennsylvania National Mutual Casualty Insurance Company
State Farm Mutual Automobile Insurance Company
Travelers Indemnity Company
Athena Assurance Company
Automobile Insurance Company of Hartford
Charter Oak Fire Insurance Company
Commercial Guaranty Insurance Company
Discover Property & Casualty Insurance Company
Farmington Casualty Company
Fidelity & Guaranty Insurance Company
Fidelity & Guaranty Insurance Underwriters Inc
Northland Casualty Company
Northland Insurance Company
Phoenix Insurance Company
Select Insurance Company
St Paul Fire & Marine Insurance Company
St Paul Guardian Insurance Company
St Paul Medical Liability Insurance Company
St Paul Mercury Insurance Company
St Paul Protective Insurance Company
Standard Fire Insurance Company
Travco Insurance Company
Travelers Casualty & Surety Company
Travelers Casualty & Surety Company of America
Travelers Casualty Company of Connecticut
Travelers Casualty Insurance Company of America
Travelers Commercial Casualty Company
Travelers Commercial Insurance Company
Travelers Home & Marine Insurance Company
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Personal Insurance Company

Reid McClintock
Joe Buck
Amy Powell
Roger Batdorff
Pat Lovell
Alan Bentley
Kriss Barronton
122 other companies voted by proxy.

The meeting convened as scheduled, Mr. Blystone presiding. Mr. Evans 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 made available.
1. **Annual Report**

C \(\text{p}^{\text{ies}}\) of the Thirty-Seventh Annual Report for the fiscal year ended September 30, 2010 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 would be available on the Facility website under its own link from the homepage.

2. **Chairman’s Comments**

Mr. Blystone shared comments on the numerous activities and events of the preceding year, especially noting the conservative and functional management by the Board in 2010; and the efforts to keep current with the industry changes. He thanked the Board, the various participating committees, staff, and counsel for their efforts to support these.

3. **Adjournment**

There being no further business, the meeting was adjourned.

Respectfully submitted,

Edith T. Davis

Director, Reinsurance Facility

ETD/lad
Enclosure
RF-11-3
### Core Values

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Integrity</th>
<th>Respect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faithfully and diligently fulfill the obligations of our Organization as set forth in the statutes.</td>
<td>Perform each task as efficiently as possible with absolute honesty and integrity.</td>
<td>Treat your fellow associates and those you serve on behalf of the Organization with dignity and respect.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Talents</th>
<th>Ownership</th>
<th>Consistency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continually strive to improve the Organization through the use of every associate’s talents and creativity.</td>
<td>Encourage participation and a sense of ownership from the members of our Organization.</td>
<td>Demonstrate fairness and consistency among all associates and encourage personal development.</td>
</tr>
</tbody>
</table>
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.
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

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### 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.

<table>
<thead>
<tr>
<th>Members</th>
<th>Representative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allstate Insurance Company</td>
<td>Bob Blystone*</td>
</tr>
<tr>
<td>Atlantic Casualty Insurance Company</td>
<td>Robbie Strickland</td>
</tr>
<tr>
<td>GEICO Indemnity Company</td>
<td>Kirk La</td>
</tr>
<tr>
<td>Integon Indemnity Corporation</td>
<td>Art Lyon</td>
</tr>
<tr>
<td>Nationwide Mutual Insurance Company</td>
<td>Amy Powell</td>
</tr>
<tr>
<td>Travelers Indemnity Company</td>
<td>Jonathan Konrad</td>
</tr>
<tr>
<td>Universal Insurance Company</td>
<td>Greg Spray</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Agent Members</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Apptd. by the Commissioner of Insurance</td>
<td>W. Hutson Wester, II</td>
</tr>
<tr>
<td>Apptd. by the Commissioner of Insurance</td>
<td>John E. Wooten, III</td>
</tr>
<tr>
<td>Auto Insurance Agents of North Carolina</td>
<td>Jeffrey W. Butler</td>
</tr>
<tr>
<td>Independent Insurance Agents of NC</td>
<td>Steven D. Smith</td>
</tr>
<tr>
<td>Independent Insurance Agents of NC</td>
<td>Tim Ward</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Members</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>J. David Walker, Lumberton, NC</td>
<td></td>
</tr>
<tr>
<td>Steve J. Whitley, North Wilkesboro, NC</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ex-officio Member</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wayne Goodwin, Commissioner of Insurance</td>
<td></td>
</tr>
</tbody>
</table>

*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**
- Liberty Mutual Insurance Co
- NC Farm Bureau Mutual Insurance Co
- Nationwide Mutual Insurance Co
- Pennsylvania Nat Mut Casualty Ins Co
- State Farm Mutual Automobile Insurance Co
- Travelers Indemnity Co
- Agent

**Representative**
- Ronald H. Robertson, Jr., CPA*
- Brian Top
- Greg Kilburn
- Charles J. Uckele
- Alan Bentley
- Jonathan Konrad
- Steven D. Smith

### Investment Committee
**Members**
- Allstate Insurance Co
- Nationwide Mutual Insurance Co
- State Farm Mutual Automobile Ins Co

**Representative**
- Douglas Dupont
- J. Kevin King*
- Robert Stephan

### Rating Committee
**Members**
- Atlantic Casualty Insurance Co
- Nationwide Mutual Insurance Co
- NC Farm Bureau Mutual Insurance Co
- Travelers Indemnity Co
- Agent

**Representative**
- Mark Caughron*
- Mike Barnes
- Roger N. Batdorff
- Todd Hoivik
- Tim Ward

### Task Force on Expense Allowances
**Members**
- 21st Century Insurance Co
- Allstate Insurance Co
- Nationwide Mutual Insurance Co
- Sentry Insurance Co
- State Farm Mutual Automobile Insurance Co
- Agent

**Representative**
- Pete Cotton
- Bob Blystone
- Isaac Adams*
- Ethan Vaade
- Alan Bentley
- Tim Ward

### Task Force on Recoupment
**Members**
- Nationwide Mutual Insurance Co
- NC Farm Bureau Mutual Insurance Co
- Progressive Casualty Insurance Co
- Southern Guaranty Insurance Co
- State Farm Mutual Automobile Insurance Co
- Travelers Indemnity Co
- Agent

**Representative**
- Isaac Adams
- Roger N. Batdorff
- Kevin McGee
- Stephen H. Cone
- Alan Bentley*
- Jonathan Konrad
- Steven D. Smith

*chair
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.
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.
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.
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.
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.

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:

<table>
<thead>
<tr>
<th>Years of Service</th>
<th># of Employees</th>
<th>% of Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-9 Years</td>
<td>7</td>
<td>41%</td>
</tr>
<tr>
<td>10-19 Years</td>
<td>2</td>
<td>12%</td>
</tr>
<tr>
<td>20-29 Years</td>
<td>7</td>
<td>41%</td>
</tr>
<tr>
<td>30-39 Years</td>
<td>1</td>
<td>6%</td>
</tr>
<tr>
<td>40+ Years</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>100%</td>
</tr>
</tbody>
</table>

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
## BALANCE SHEET

<table>
<thead>
<tr>
<th>Fiscal Year through</th>
<th>June 30, 2010</th>
<th>June 30, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash (Checking Account)</td>
<td>$ 1,188,065</td>
<td>$ 695,836</td>
</tr>
<tr>
<td>Cash Restricted (Including Escrow)</td>
<td>22,447,045</td>
<td>36,110,377</td>
</tr>
<tr>
<td>Investments</td>
<td>746,685,876</td>
<td>744,191,647</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>26,400,530</td>
<td>14,669,726</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>7,147,402</td>
<td>6,400,758</td>
</tr>
<tr>
<td>Other Assets</td>
<td>44,459</td>
<td>91,589</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$ 803,913,377</strong></td>
<td><strong>$ 802,159,933</strong></td>
</tr>
</tbody>
</table>

| **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

<table>
<thead>
<tr>
<th>Fiscal Year through</th>
<th>June 30, 2010</th>
<th>June 30, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Premiums</td>
<td>$ 548,095,894</td>
<td>$ 548,660,423</td>
</tr>
<tr>
<td>Clean-Risk Recoupment</td>
<td>140,916,175</td>
<td>99,561,833</td>
</tr>
<tr>
<td>Investment Income</td>
<td>22,378,089</td>
<td>11,010,393</td>
</tr>
<tr>
<td>Membership Fee Income</td>
<td>52,400</td>
<td>50,800</td>
</tr>
<tr>
<td>Other Income</td>
<td>276,158</td>
<td>598,419</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td><strong>$ 711,718,716</strong></td>
<td><strong>$ 659,881,868</strong></td>
</tr>
</tbody>
</table>

| **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) |
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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Short-Term Investments</td>
<td>$126,344,532</td>
<td>$82,887,691</td>
</tr>
<tr>
<td>Long-Term Investments, at Amortized Cost</td>
<td>609,003,077</td>
<td>685,962,281</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>5,559,372</td>
<td>6,592,033</td>
</tr>
<tr>
<td>Receivables From Member Companies:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Settlements</td>
<td>17,921,324</td>
<td>10,752,019</td>
</tr>
<tr>
<td>• Late Premium Charges and Penalties</td>
<td>74,343</td>
<td>112,943</td>
</tr>
<tr>
<td>• Settlements Payable to Member Companies</td>
<td>17,995,667</td>
<td>10,864,962</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$758,902,648</td>
<td>$786,306,967</td>
</tr>
</tbody>
</table>

| 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

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

February 16, 2010