
MEMBERS PRESENT

Allstate Insurance Company
   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
   Agent Alliance Insurance Company
   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
   Little River Insurance Company
GEICO Indemnity Company
   Amguard Insurance Company

REPRESENTED BY

Jennifer Jabben
Art Lyon
Brian Rogers
Mark Caughron
Sonja Maki
Robbie Strickland
Andrea Bradley
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.

OTHERS PRESENT
Young, Moore and Henderson

REPRESENTED BY
Robert Paschal
Glenn Raynor
Mickey Spivey Mike
Strickland
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
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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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Edith Davis ................................ Chief Operating Officer
Reinsurance Facility
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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 ........................................... mnn@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

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%, giving us a couple of percentage points. So, while there has been dollar growth, the number of cessions percentage wise 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’s work, 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 problems.
- 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 carriers 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 bright before the 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. Tentative 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 and fission 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.

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

<table>
<thead>
<tr>
<th>Members</th>
<th>Representative</th>
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<tbody>
<tr>
<td>Liberty Mutual Insurance Co*</td>
<td>Ronald H. Robertson, Jr</td>
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<tr>
<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Brian Top</td>
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<td>Nationwide Mutual Insurance Co</td>
<td>Greg Kilburn</td>
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<tr>
<td>Pennsylvania Nat Mut Casualty Ins Co</td>
<td>Charles J. Uckele</td>
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<tr>
<td>State Farm Mutual Automobile Ins Co</td>
<td>Alan Bentley</td>
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<tr>
<td>Travelers Indemnity Co</td>
<td>Jennifer Baurke</td>
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<tr>
<td>Agent</td>
<td>Robert M. McVay</td>
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Investment Committee

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<td>Allstate Insurance Co</td>
<td>Fernando Neal</td>
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<td>Art Lyon</td>
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<td>Nationwide Mutual Insurance Co</td>
<td>Mendi Riddle</td>
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<td>Travelers Indemnity Co</td>
<td>Stefanie M. Zaccchera</td>
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<tr>
<td>Universal Insurance Co*</td>
<td>Jim McCaffetty</td>
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Rating Committee

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<td>Atlantic Casualty Insurance Co*</td>
<td>Mark Caughron</td>
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<td>Integon Indemnity Corporation</td>
<td>Brian Rogers</td>
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<td>Nationwide Mutual Insurance Co</td>
<td>David Edwards</td>
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<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Roger N. Batdorff</td>
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<tr>
<td>Travelers Indemnity Co</td>
<td>Edward A. Bosk</td>
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<td>Agent</td>
<td>Tim Ward</td>
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Task Force on Expense Allowances

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<tr>
<th>Members</th>
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<tr>
<td>21st Century Insurance Co</td>
<td>David Bowman</td>
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<tr>
<td>Allstate Insurance Co</td>
<td>Fernando Neal</td>
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<tr>
<td>Nationwide Mutual Insurance Co*</td>
<td>Terry Collins</td>
</tr>
<tr>
<td>Sentry Insurance A Mutual Co</td>
<td>Peter Sampson</td>
</tr>
<tr>
<td>State Farm Mutual Automobile Ins Co</td>
<td>Alan Bentley</td>
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<td>Agent</td>
<td>Tim Ward</td>
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Task Force on Recoupment

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<th>Members</th>
<th>Representative</th>
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<td>Integon Indemnity Corporation</td>
<td>Art Lyon</td>
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<td>Nationwide Mutual Insurance Co</td>
<td>Terry Collins</td>
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<tr>
<td>NC Farm Bureau Mutual Insurance Co</td>
<td>Roger N. Batdorff</td>
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<tr>
<td>Progressive Casualty Insurance Co</td>
<td>Kevin McGee</td>
</tr>
<tr>
<td>Southern Guaranty Insurance Co</td>
<td>Stephen H. Cone</td>
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<tr>
<td>State Farm Mutual Automobile Ins Co*</td>
<td>Alan Bentley</td>
</tr>
<tr>
<td>Agent</td>
<td>Robert M. McVay</td>
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* Chair

Agent Members

| Apptd. by the Commissioner of Insurance | W. Hutson Wester, II |
| Apptd. by the Commissioner of Insurance | John E. Wooten, III  |
| Auto Insurance Agents of North Carolina | Jeffrey W. Butler     |
| Independent Insurance Agents of NC       | Robert M. McVay      |
| Independent Insurance Agents of NC       | Tim Ward              |

Members

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

Public Members

| J. David Walker, Lumberton, NC              |                       |
| Steven Smith, Raleigh, NC                  |                       |

Ex-officio Member

| Wayne Goodwin, Commissioner of Insurance    |                       |
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 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.
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 filed 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 definitions 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, and 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. These rates were to the territory base rates for “clean risks” and a result of the revised territory definitions 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 +1.4% 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 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 June 30, 2015, income from clean risks surcharges has generated approximately $116.7 million.
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 focuses 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 files are reviewed for, among other items, proper reporting of premiums and losses, claims handling, proper application of underwriting rules, eligibility, 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.

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 fiscal 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.

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 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
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, 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

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Shared Services

David Sink
Chief Financial Officer

NA
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.

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 of focused foundational changes that should propel us into a more secure environment where data are responsible for staying 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.

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 valuable assets—our people. Administrative Services provide a secure and comfortable work environment along with mail services and receptionist services.

Our Wellness Program consists of
- 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
- certification 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

Vicki Godbold
Chief Administrative Officer

Shelley Chandler
Chief Information Officer

NCRF
## North Carolina Reinsurance Facility

### Balance Sheet

**As of**

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

### Income Statement

**Fiscal Year through**

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2015</th>
<th>June 30, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned Premiums</td>
<td>$661,064,701</td>
<td>$631,287,951</td>
</tr>
<tr>
<td>Clean Risk Recoupment</td>
<td>116,673,133</td>
<td>73,561,268</td>
</tr>
<tr>
<td>Investment Income</td>
<td>19,070,674</td>
<td>22,445,331</td>
</tr>
<tr>
<td>Membership Fee Income</td>
<td>53,800</td>
<td>54,500</td>
</tr>
<tr>
<td>Other Income</td>
<td>44,880</td>
<td>122,854</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$ 796,907,188</td>
<td>$ 727,471,904</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses Incurred</td>
<td>$585,201,763</td>
<td>$528,205,761</td>
</tr>
<tr>
<td>Ceding &amp; Claims Expenses</td>
<td>256,286,982</td>
<td>234,147,682</td>
</tr>
<tr>
<td>Premiums Escrowed</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other Underwriting Deductions</td>
<td>201,875</td>
<td>-</td>
</tr>
<tr>
<td>Salaries &amp; Administration Expenses</td>
<td>1,716,116</td>
<td>1,740,904</td>
</tr>
<tr>
<td>Outside Services Expenses</td>
<td>1,787,753</td>
<td>1,927,567</td>
</tr>
<tr>
<td>Other Operating Expenses</td>
<td>1,317,271</td>
<td>1,318,211</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>$ 846,511,760</td>
<td>$ 767,340,125</td>
</tr>
<tr>
<td><strong>Net Income/(Loss)</strong></td>
<td>$ (49,604,572)</td>
<td>$ (39,868,221)</td>
</tr>
<tr>
<td><strong>Before Loss Recoupments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loss Recoupments</td>
<td>587</td>
<td>(44)</td>
</tr>
<tr>
<td><strong>Net Income/(Loss)</strong></td>
<td>$ (49,603,985)</td>
<td>$ (39,868,265)</td>
</tr>
<tr>
<td><strong>After Loss Recoupments</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## 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>Premiums Earned</td>
<td>$ 845,732,308</td>
<td>$ 807,312,392</td>
</tr>
<tr>
<td>Cash and Short-Term Investments</td>
<td>$ 19,402,063</td>
<td>$ 22,577,114</td>
</tr>
<tr>
<td>Long-Term Investments, at Amortized Cost</td>
<td>$ 760,015,968</td>
<td>$ 771,247,045</td>
</tr>
<tr>
<td>Accrued Interest Receivable</td>
<td>4,537,952</td>
<td>5,286,638</td>
</tr>
<tr>
<td>Settlements Receivable From Member Companies</td>
<td>19,376,991</td>
<td>13,182,553</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$ 803,332,974</td>
<td>$ 812,293,350</td>
</tr>
</tbody>
</table>

| 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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premiums Earned</strong></td>
<td>$ 845,732,308</td>
<td>$ 807,312,392</td>
</tr>
<tr>
<td>Clean Risk Subsidies Reported</td>
<td>111,256,490</td>
<td>96,892,669</td>
</tr>
<tr>
<td><strong>Total Underwriting Income</strong></td>
<td>$ 956,988,798</td>
<td>$ 904,205,061</td>
</tr>
<tr>
<td>Losses Incurred</td>
<td>$ 702,054,308</td>
<td>$ 662,699,960</td>
</tr>
<tr>
<td>Ceding Expense Allowances</td>
<td>217,979,401</td>
<td>209,434,949</td>
</tr>
<tr>
<td>Claims Expense Allowances</td>
<td>99,539,773</td>
<td>89,101,782</td>
</tr>
<tr>
<td><strong>Total Underwriting Expenses</strong></td>
<td>$ 1,019,573,482</td>
<td>$ 961,236,691</td>
</tr>
<tr>
<td><strong>Net Underwriting Loss</strong></td>
<td>$(62,584,684)</td>
<td>$(57,031,630)</td>
</tr>
<tr>
<td><strong>Net Investment Income</strong> (Loss)</td>
<td>$(92,599,976)</td>
<td>$(603,930,160)</td>
</tr>
<tr>
<td>Net Realized Investment Gains Including Other-than-Temporary Impairments</td>
<td>5,349,937</td>
<td>(3,302,260)</td>
</tr>
<tr>
<td>Late Premium Charges and Penalties</td>
<td>140,609</td>
<td>150,199</td>
</tr>
<tr>
<td>Membership Fees</td>
<td>54,900</td>
<td>55,000</td>
</tr>
<tr>
<td>General and Administrative Expense</td>
<td>(5,535,657)</td>
<td>(5,353,638)</td>
</tr>
<tr>
<td>Other Miscellaneous Expense</td>
<td>4,803</td>
<td>(2,122)</td>
</tr>
<tr>
<td><strong>Total Other Income — Net</strong></td>
<td>$ 22,588,109</td>
<td>$ 15,849,061</td>
</tr>
</tbody>
</table>