



MINUTES OF THE THIRTY-FIFTH ANNUAL MEETING OF THE NORTH CAROLINA
REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE
CENTER, GREENSBORO, NORTH CAROLINA, OCTOBER 29, 2008

MEMBERS PRESENTREPRESENTED BY

Alliance Mutual Insurance Company

Kevin Riney

Mary Taylor

Allstate Ins Co

Bob Blystone

Allstate Indemnity Co

Allstate Property & Casualty Ins Co

Encompass Indemnity Co

Northbrook Indemnity Co

American Home Assurance Co

Gary Sanginario

21st Century Casualty Company

21st Century Insurance Company

AIG Casualty Co

AIG Centennial Ins Co

AIU Insurance Company

American International South Ins Co

Commerce & Industry Ins Co

Granite State Ins Co

Ins Co of the State of Pennsylvania

National Union Fire Ins Co

New Hampshire Ins Co

American Modern Home

Pamela McKenzie

American Modern Select Insurance Company

American Southern Home Insurance Company

Atlantic Casualty Insurance Company

Mark Caughron

Coastal Casualty Insurance Company

Richard Yarbrough

Auto Owners Insurance Company

Mary Pierce

Owners Insurance Company

Companion Commercial Insurance Company

Rex Boylston

Companion Property & Casualty Insurance Company

Erie Insurance Company

Leigh Caudle

Erie Insurance Exchange

Geico General Insurance Company	Kirk La
Allied World Reinsurance Company	
Continental Indemnity Company	
Cornhusker Casualty Company	
GEICO Indemnity Company	
General Star National Insurance Company	
Genesis Insurance Company	
Government Employees Insurance Company	
National Indemnity Company	
National Liability & Fire Insurance Company	
Greenville Casualty Insurance Company	Dean Kruger
Horace Mann Insurance Company	Reid McClintock
Horace Mann Property & Casualty Insurance Company	
Teachers Insurance Company	
Integon Casualty Insurance Company	Art Lyon
CIM Insurance Corporation	
GMAC Direct Insurance Company	
GMAC Insurance Company Online, Inc.	
Integon General Insurance Corporation	
Integon Indemnity Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Integon Specialty Insurance Company	
MIC Property & Casualty Corporation	
National General Insurance Company	
New South Insurance Company	
Liberty Mutual Insurance Company	Anne McLeod
American Fire & Casualty Company	
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 and Casualty Insurance Company	
Midwestern Indemnity Company	
Montgomery Mutual Insurance Company	
Netherlands Insurance Company	
Ohio Casualty Insurance Company	
Peerless Indemnity Insurance Company	
Peerless Insurance Company	
Wausau Business Insurance Company	
Wausau Underwriters Insurance Company	
West American Insurance Company	

Lumbermens Mutual Casualty Company	Beth Blakley
American Manufacturers Mutual Insurance Company	Kimberly Burns
American Motorists Insurance Company	Donna Emery
Nationwide Insurance Company of America	Isaac Adams
Allied Property and Casualty Insurance Company	J Kevin King
AMCO Insurance Company	Amy Powell
Depositors Insurance Company	
Farmland Mutual Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company	
Nationwide Agribusiness Insurance Company	
Nationwide Mutual Fire Insurance Company	
Nationwide Mutual Insurance Company	
Nationwide Property & Casualty Insurance Company	
Scottsdale Indemnity Company	
Titan Indemnity Company	
Victoria Fire & Casualty Company	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff
Farm Bureau Insurance Company of North Carolina, Inc.	
Peak Property & Casualty Insurance Corporation	Ethan Vaade
Dairyland Insurance Company	
Middlesex Insurance Company	
Sentry Casualty Company	
Sentry Insurance A Mutual Company	
Sentry Select Insurance Company	
Progressive Casualty Insurance Company	Kate Terry
National Continental Insurance Company	
Progressive Advanced 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	
State Farm Mutual Automobile Insurance Company	Alan Bentley
The Members Insurance Company	Mike Cole
Travelers Indemnity Company	Jonathan Konrad
Athena Assurance Company	
Atlantic Insurance 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.	
Max America Insurance Company	

Northland Casualty Company
Northland Insurance Company
Phoenix Insurance Company
Select Insurance Company
St. Paul Fire and 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 Security Insurance Company
Travelers Property Casualty Company of America
Travelers Property Casualty Insurance Company
United States Fidelity & Guaranty Company

Universal Insurance Company

Greg Spray

OTHERS PRESENT

Young, Moore & Henderson

Able Auto Insurance agency
Automobile Insurance Agents of North Carolina
Bagwell & Bagwell
Evergreen Investments

Green & Wooten Insurance
Independent Insurance Agents of North Carolina
Insurance Services Office
North Carolina Department of Insurance

Senn Dunn Marsh & Roland
Wester Realty & Insurance Agency
Staff

REPRESENTED BY

Mickey Spivey
Mike Strickland
Jeff Butler
Rick Pegram
Steve Smith
Rich Applebach
Paige Henderson
Doug Williams
John Wooten
David Walker
Patrick Woods
Fred Fuller
Robert Mack
Tim Ward
Hutson Wester
Jim Auman
Shelley Chandler
Tammy Choboy
Edith Davis
Ray Evans
Vicki Godbold
Tim Lucas
Lois Murphey

Mike Newton
David Sink
Amy Tart
Sue Taylor

159 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, 2008 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. Board of Governors Selection

Ms. Davis announced that Travelers Indemnity Company had been selected by the American Insurance Association and that GEICO Indemnity Company had been selected by the Property and Casualty Insurance Association of America as members of the Board of Governors for the ensuing three years. Ms. Davis announced that Allstate Insurance Company had been elected for membership on the Board of Governors representing the nonaffiliated stock members, to become effective on January 1, 2009, after the completion of their termination of membership from PCI. Ms. Davis advised that, since Allstate Insurance Company is not eligible to fill the nonaffiliated stock member position until January 1, 2009, New Hampshire Insurance Company would continue to serve in this capacity until Allstate became eligible to assume the seat. Ms. Davis also reported that Nationwide Mutual Insurance Company was elected for membership on the Board of Governors representing the non-affiliated nonstock members for a three-year term.

Ms. Davis also announced that the Commissioner of Insurance had selected, as agent members of the Board of Governors for the ensuing three years, Jeffrey W. Butler of Wilmington, Steven D. Smith of Raleigh, Tim Ward of Greensboro, W. Hutson Wester, II of Henderson and John E. Wooten, III of Wake Forest; and as domestic member insurers Integon Indemnity Corporation and Universal Insurance Company, also for three year terms. She further advised that public members appointed by the Governor were J. David Walker of Lumberton and Steve Whitley of North Wilkesboro; and that Atlantic Casualty Insurance Company had been elected as the representative from the industry at large, for three year terms.

3. Chairman's Comments

Mr. Yarbrough reflected on the many activities of the past year and on the many recent changes in the state, national and international markets. He noted the progress of the EDGE system development, and oversight provided by the Investment committee during the recent turbulence of the financial markets 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/pag
Enclosure
RF-08-20



innovation

2008 **North Carolina Reinsurance Facility** ANNUAL REPORT



core 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.



North Carolina Reinsurance Facility

table of contents

Message from the Chairman	2
Board of Governors	3
Standing Advisory Committees	3
General Manager's Report	5
Management Discussion & Analysis	6
Income Statement & Balance Sheet	9
Special Purpose Statements of Operations	11
Special Purpose Balance Sheets	12
Auditor's Report	13

general organizational information

NCRF Main Phone Number	919-783-9790
Facsimile	919-783-0355
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	edt@ncrb.org
Jannet Barnes	Manager, Compliance
919-582-1022	jbb@ncrb.org
Tim Lucas	Manager, Automobile
919-582-1021	ftl@ncrb.org
R. Mike Newton	Manager, Claims
919-582-1018	rmn@ncrb.org
David Sink	Director, Finance
919-582-1012	des@ncrb.org
Vicki Godbold	Director, Human Resources & Administrative Services
919-645-3170	vcg@ncrb.org

general organizational information

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 29, 2008, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

message from the chairman

This is the 35th year that the North Carolina Reinsurance Facility has provided a great service to North Carolina insureds. Drivers who would otherwise be uninsurable can obtain insurance for the protection of the general public. Protecting the public from uninsured drivers at an affordable premium is a win-win proposition for all North Carolinians.

This has been a very active year. A total revision and update of the commercial auto manual is well underway, and the File Transfer Protocol (FTP) phase of the EDGE information system has been implemented, providing better, cheaper, and more secure reporting for the member companies. More functionality is coming, which will provide greater access and information to both the member companies as well as the Facility staff.

Recent changes in the financial markets have been monitored closely by the Investment Committee. The Facility's investments are very low risk, and there has been minimal impact by the market changes. We have and will continue to maintain an extremely conservative investment strategy and continue to abide by our strict investment guidelines.

The Facility works well because of the efforts of so many. Industry and agent representatives serving on the Board, task forces, and committees oversee its successful operation. Various experts consult with these groups and offer important information and perspective. We have always been fortunate to have a professional and knowledgeable staff with many years of experience managing our operations. They 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 well managed operation.

Sincerely,

Richard C. Yarbrough

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



Board of 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. Eight meetings of the Board were held during the year, including three telephone conferences.

member 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 Sanginario
 Travelers Indemnity Co. Jonathan Konrad
 Universal Insurance Co Greg Spray
 *chair

agent members

Independent Insurance Agents of NC Steven D. Smith
 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 Tim Ward

public members

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

ex-officio members

James E. Long Commissioner of Insurance

Standing Advisory Committees

The Plan of Operation establishes a number of advisory committees. These committees oversee the activities of the Facility and formulate recommendations for presentation to the Board of Governors. 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 that perform similar tasks for the Facility throughout the year.

The following committees met during the report period:

audit committee

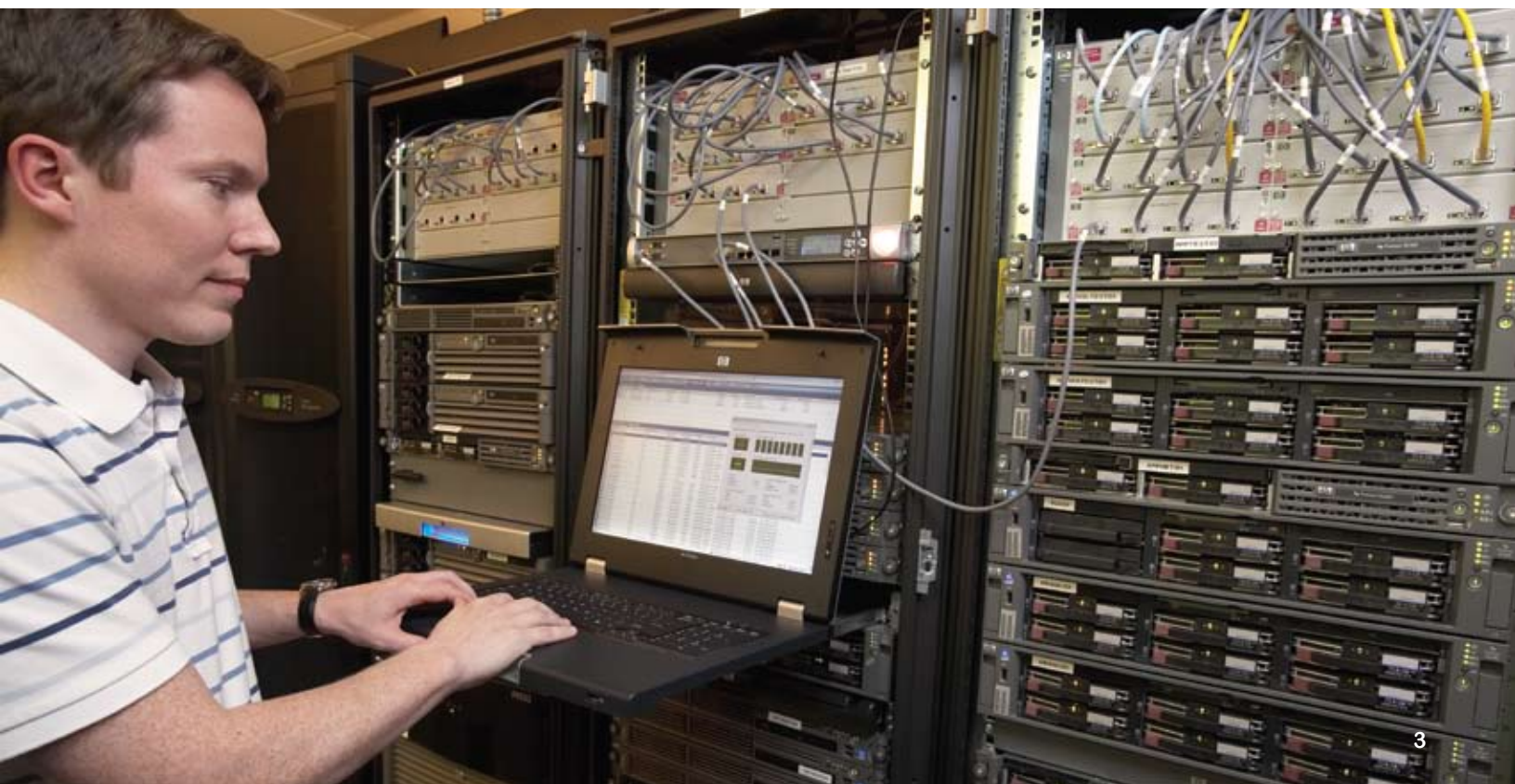
member representative

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. Jonathan Konrad
 Agent Steven D. Smith
 *chair

compliance committee

member representative

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



investment committee
member **representative**

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

rating committee
member **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 expense allowances
member **representative**

Allstate Insurance Co. Bob Blystone
 American International South Insurance Co. . . Gary T. Sanginario
 Nationwide Mutual Insurance Co Isaac Adams*
 Sentry Insurance Co. Ethan Vaade
 State Farm Mutual Automobile Insurance Co. Avana Nice
 Agent Tim Ward
 *chair

task force on recoupment
member **representative**

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

technical advisory group
member **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
 Progressive Insurance Co. Kate Terry
 Safeco Insurance Co. Jeff Castle
 Southern General Insurance Co. Marguerite Clark
 State Farm Mutual Insurance Co Larry Shifflet
 Travelers Indemnity Co. Annette Whitaker
 Universal Insurance Co. Angela Smitherman



Raymond F. Evans, Jr., CPCU
general manager



general manager's report

Among our many tasks undertaken this year, perhaps the most important has been protecting the Facility's reputation for honesty, integrity, accessibility, and professionalism. If folks don't have confidence in what we say, it is difficult to complete effectively our primary tasks of getting the right premium, paying claims properly, and administering the financial matters that result.

The bottom line of how we do this is in executing the intent of the enabling statute in the best, most sincere, honest, and transparent way possible. I believe this thinking has served us well this year and guided us in dealing with a diverse set of challenges, including being IT developers, determining how taxi cabs are rated, responding to financial markets, and participating in a Legislative study committee.

Perhaps the most important issue facing us has been, and appears to continue to be, how we manage and invest the money that the Facility operation generates. As noted in other parts of this report, the Facility has considerable reserves and cash flow for which we are responsible to maintain and invest in safe, conservative investments that generate a reasonable return. The good news is that thus far, and we are confident this is going to continue, we have been successful in navigating the turbulent financial waters with the help of our staff, Board input, oversight by the Investment Committee, and a host of vendors and experts.

This coming year, there will be a change we have not seen for 24 years. The Commissioner is going to be someone other than Jim Long. While we have not always seen eye to eye, Jim Long has been an imposing and important part of the insurance business in North Carolina. I can't imagine the Commissioner retiring, but whatever his future plans, I hope you join me in wishing him well. For sure, next year will be different.

Thanks to each of our partners, Board members, committee members, and associates for working so hard to ensure that the Facility can effectively fulfill its obligations.





Edith T. Davis

Director,
Reinsurance Facility

Edith Davis

management discussion & analysis

Created by the NC Legislature to replace an Assigned Risk Plan, over its 35-year existence, the Facility has annually reinsured a high of 30% of the auto liability market and a low of 23% of the auto liability market in NC. Since its inception, it has reinsured around \$14 billion in auto liability for the policyholders of North Carolina. A few of the original staff still work here. A few of the Board and committee members remember the early days, although most of the names and faces have changed. But for the most part, the Facility remains “business as usual.”

rate changes

Ceded “clean risks” comprised approximately 70% of the total ceded exposures. By law, the most this group may only be charged is the voluntary manual rate. In 2007, no changes were filed by the Rate Bureau for the voluntary private passenger auto rates. The Rate Bureau’s February 1, 2008 voluntary auto rate filing requested a liability increase of 16.5% for automobiles and 0.7% for motorcycles. Following a public hearing, the Commissioner disapproved the filed increases and ordered a 14.5% liability decrease for automobiles and an 11.2% decrease for motorcycles. The Rate Bureau Governing Committee voted to appeal the Commissioner’s order and to implement an overall increase of 12.8% for automobiles and 0% for motorcycles to be effective January 1, 2009.

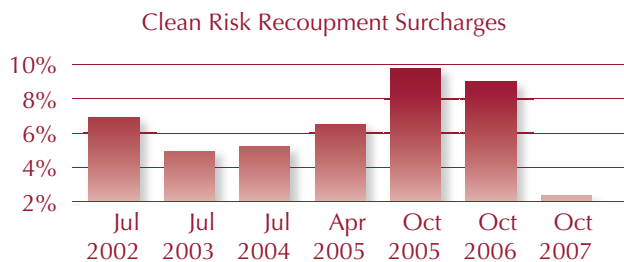
The ceded private passenger “other-than-clean” risks comprised about 26% of total ceded exposures. In June 2008, the Facility filed a base rate change to the “other-than-clean” risks, including average rate level changes of 10.4% for bodily injury, 12.4% for property damage, and 0.7% for medical payments coverages, averaging 10.8% over rates presently in effect. The filing also included a rate level change of 2.2% for the motorcycle liability coverages. The revised rates apply to all new and renewal policies effective on and after October 1, 2008.

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

clean risk recoupment

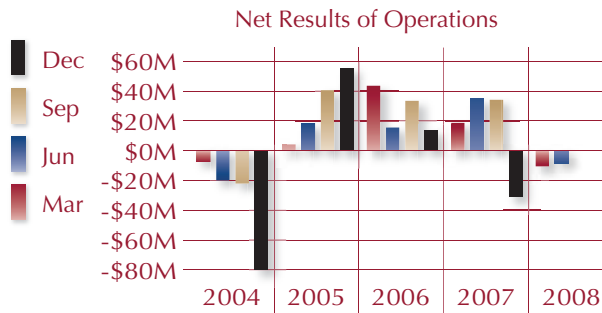
North Carolina law requires carriers to “take all comers,” and the risks for whom the voluntary rates are inadequate are often ceded to the Facility. While the Facility establishes rates for other-than-clean risks that are actuarially sound, the rates for “clean risks” are capped at the voluntary rate level. The voluntary rate level 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 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.

Recoupment surcharges are reviewed at least annually and adjusted as appropriate. Effective October 2007, the Board of Governors implemented a clean risk recoupment surcharge of 2.48% (before inclusion of agent compensation). This was significantly lower than the indicated surcharge in order to reduce the private passenger surplus and bring the members’ equity position closer to a break-even position. Fiscal year to date through June 2008, the clean risk surcharge had generated approximately \$48.6 million



investment income

Investment income approximated \$36 million for the fiscal year to date through June 30, 2008. This represents an increase of 16.5% from the same period one year ago – much of which is attributable to capital gains realized during a declining interest rate environment over the first part of the report year. Despite the recent volatility in the financial markets related to mortgage devaluations and illiquidity issues, the values of the securities held in the Facility's portfolio were minimally affected, primarily due to the high quality of assets held and the conservative nature of the investment policy.



operating results

As of June 30, 2008 the Facility had realized its third consecutive quarterly operating loss, and the private passenger surplus continued to decline. These operating losses were planned and due, in part, to the reduced recoupment surcharges and the reduction in other-than-clean risk private passenger rates effective in October 2007.

member's equity

As a result of the operating losses, the members' equity balance decreased from \$178 million in September 2007 to \$131.2 million in June 2008.

The clean risk recoupment surcharge was adjusted to 4.24% (before inclusion of agent compensation) effective October 2008. The new surcharge continues to be significantly below the indicated level so as to further reduce the member's equity balance.

operations

During this report period, we were the largest residual market mechanism by total written premium volume in the United States. There were approximately one million policies in force as of June 2008, consisting of 96% Private Passenger non-fleet policies and 4% All Other policies, generating about 26 million transactions. Cession notice volume was down slightly over the same period for the prior year, and written premium for the fiscal year ending September 2008 was projected to total \$730 million – a modest reduction of less than 4% over the prior fiscal year.

compliance 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.

Throughout the year, the compliance staff performs audits on each ceding company, as well as voluntary companies who report only recoupment to the Facility. The files are reviewed for claims handling, proper application of underwriting rules, eligibility statutes, experience modification rating, and recoupment, among others. During this report period, over 3600 files were audited. One of the primary benefits of these audits is to identify system problems and enable a company to correct them sooner to minimize their impact.

This effort has appeared to have also educated the member companies on the Facility guidelines, resulting in fewer errors that required special audits to be performed. Additionally, the compliance staff focused great effort on the design and testing of the new audit-tracking module in the EDGE system, which has been designed to improve the timeliness, selection, review, and tracking of the Facility audits in the future.

legislative 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.

In 2007, the statutory definition of the eligibility of risks that can be ceded to the Facility changed as a result of 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 became effective on January 1, 2008. In 2008, the General Assembly enacted House Bill 738 making UM and UIM coverages mandatory up to the limits of liability coverage purchased. The Facility will be required to accept coverage of those policies to which mandatory UM and UIM apply.

EDGE system development

The development of our new Electronic Data Gathering Enterprise (EDGE) system has been extended to address design issues which were revealed during testing. Though full implementation is taking longer than expected, we are no less confident in the advantages the system will

Innovation in Action



I have been very involved with the FTP process. I LOVE it. I can now preview the detail and summary records before we send it— I was never able to view the tape cartridge. I actually detected a coding issue that was incorrect and had it fixed BEFORE it got to NCRF and AIPSO. I also like the 25-day lag much better than the 45-day lag. Using 21st century technology is great!

Margaret Menard – Travelers Insurance

bring to both the member companies and the Facility. 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.

We did have a big win this year—an initial phase of the EDGE system was implemented this year. File Transfer Protocol (FTP) reporting went into full production in April 2008, with 100% of member companies meeting the cutover target date. For the first time, all active member companies are reporting their data in to the Facility electronically in the same standard format and encrypted for security. This replaces reporting to AIPSO via magnetic media (cartridges, CD's, diskettes). We congratulate our member companies for making this transition with us and note that, as a result, the timeliness of reporting has dramatically improved, and there have no late reports since 2007. Special thanks to the migration coordinators at the member companies who helped facilitate this effort and to AIPSO for their invaluable commitment to this success.

Innovation in Action



I thought our transition went very well. The FTP support team was extremely helpful throughout the process. It took a little work to get everything completed, but it is certainly paying off. The FTP process is a much more efficient and safer way to exchange data especially at a time when data security is a must. Thanks!

Tim Gallagher - The Hartford

The EDGE project team continues to dedicate a huge amount of effort to bringing this system into reality, and the contributions of each member are greatly appreciated. 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.

other system development

In early 2008, the organizations rolled out a new and improved Website. The new site contained improved content and featured new graphics, better navigation, and some new functionality. In the future, the site will host the portal through which member companies will access the EDGE system.

Innovation in Action



The dial-up process we were using was slow and cumbersome, and support wasn't very good when having connection problems. We have experienced no problems since we went live, and the upload process has been more efficient. We like the daily e-mail confirmation on sessions uploaded, and find it much easier to send an additional (multiple) files, if needed. By comparison, the prior process was much more difficult.

Greg Ricker - Atlantic Casualty Insurance

Behind the scenes, the Facility also transitioned to our new Contact Management System (CMS). This single repository of contact information will eliminate the use and maintenance of several other systems, reduce the scattered silos of contact information, simplify the business continuity needs, and interface with the EDGE system and a Web Security system as the single source for member company information.

Innovation in Action



We are pleased to be reporting via FTP. We prefer it since the process is not as cumbersome as the tapes, and it allows us to transmit sensitive customer data more securely. We also like that it is now a scheduled job as opposed to relying on someone to transmit the tapes.

Lisa Pierce – GEICO

conclusion

This has been another very active year. While many of the improvements and efficiencies gained are not all visible from the outside, they are no less valuable or important. The staff deserves a big round of applause for the double duty they have been performing by maintaining the regular business operations of the Facility while committed to the development of the EDGE system, the new organization Website, the transition to the new Contact Management System, and other behind-the-scenes activities. They have brought new meaning to the term "team effort."

The contributions of the industry experts and counsel who support the various activities of the Facility are also greatly appreciated. They are often called upon to assist us on an amazing variety of issues. And finally, we would like to thank the members of the Board of Governors and the committees that devote significant amounts of their time. These industry leaders provide us guidance and leadership and continue to support our efforts to improve each and every year.

Edith T. Davis

North Carolina Reinsurance Facility

balance sheet

assets	June 30, 2008	June 30, 2007
Cash (Checking Account)	\$694,473	\$488,997
Investments	832,909,536	848,658,137
Accounts Receivable	8,713,134	38,199,344
Accrued Interest Receivable	8,116,123	7,944,782
Other Assets	39,980	22,784
total assets	\$850,473,246	\$895,314,044
liabilities & fund equity		
Accounts Payable	\$32,421,700	\$27,360,085
Loss Reserves	468,253,486	493,915,306
Unearned Premium Reserves	218,226,450	229,556,308
Other Liabilities	318,778	236,024
total liabilities	\$719,220,414	\$751,067,723
Members' Equity	131,252,832	144,246,321
total liabilities & members' equity	\$850,473,246	\$895,314,044

income statement

income	Fiscal Year through June 30, 2008	Fiscal Year through June 30, 2007
Earned Premiums	\$553,313,406	\$583,740,330
Clean Risk Recoupment	44,630,587	186,848,060
Investment Income	36,000,184	30,899,452
Membership Fee Income	49,300	48,800
Other Income	646,432	411,368
total income	\$634,639,910	\$801,948,010
expenses		
Losses Incurred	\$463,546,226	\$495,961,374
Ceding & Claims Expenses	212,995,200	228,940,917
Salaries & Administration Expenses	1,330,700	1,112,401
Outside Services Expenses	2,235,874	2,600,834
Other Operating Expenses	1,220,793	1,272,469
total expenses	\$681,328,793	\$729,887,995
Net Income/(Loss) Before Loss Recoupments	\$(46,688,883)	\$72,060,015
loss recoupments	(21,465)	(1,560,779)
Net Income/(Loss) After Loss Recoupments	\$(46,710,348)	\$70,499,236

NCRF Management Staff



Jannet Barnes
Manager, Compliance



Valerie Pearson
Supervisor, Operations

Organizational Shared Resources



Vicki Godbold
*Director,
Human Resources &
Administrative Services*



David Sink
Director, Finance



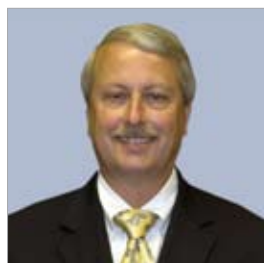
Jim Auman
Manager, IT Services



Shelley Chandler
*Manager,
Software Development*



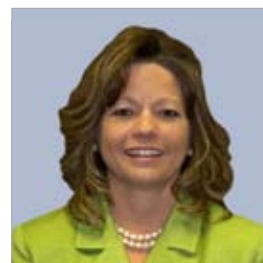
Tammy Choboy
*Manager,
Quality Assurance*



Tim Lucas
Manager, Automobile



Mike Newton
Manager, Claims



Amy Tart
*Manager, Organizational
Administration*

North Carolina Reinsurance Facility

special purpose statement of operations

	Year Ended September 30, 2007	Year Ended September 30, 2006
Premiums Earned	\$775,355,621	\$743,119,401
Clean Risk Subsidies	251,534,429	249,253,969
Total Underwriting Income	1,026,890,050	992,373,370
Losses Incurred	654,314,245	635,769,818
Ceding Expense Allowances	205,515,311	199,881,841
Claims Expense Allowances	99,171,286	93,051,730
Total Underwriting Expenses	959,000,842	928,703,389
Net Underwriting Income	67,889,208	63,669,981
Other Income (Expense):		
Net Investment Income	44,109,065	31,920,109
Net Realized Capital Losses	(1,071,995)	(4,672,275)
Late Premium Charges And Penalties	349,449	465,872
Membership Fees	49,100	47,350
Cession Notice Charges	16,980	21,690
General And Administrative Expense	(5,924,231)	(4,880,691)
Other Miscellaneous Expense	(2,649)	(4,653)
Total Other Income – Net	37,525,719	22,897,402
Net Operating Income	\$105,414,927	\$86,567,383

North Carolina Reinsurance Facility

special purpose balance sheets

assets	Year Ended September 30, 2008	Year Ended September 30, 2007
Cash And Short-Term Investments	\$95,383,556	\$83,466,602
Long-Term Investments, At Amortized Cost	769,469,937	690,122,248
Accrued Interest Receivable	7,631,674	6,640,099
Receivables From Member Companies:		
Settlements	44,706,055	53,434,675
Late Premium Charges And Penalties	24,269	31,578
	44,730,324	53,466,253
total assets	\$917,215,491	\$833,695,202
liabilities & members' equity		
Loss And Loss Adjustment Expense Reserves:		
In Course Of Settlement	\$373,226,252	\$390,158,556
Incurred But Not Reported	116,380,138	112,335,543
Total Loss And Loss Adjustment Expense Reserves	489,606,390	502,494,099
Unearned Premium Reserves	230,358,184	232,696,618
Settlements Payable To Member Companies	19,060,002	24,465,895
Other Liabilities	227,734	291,505
total liabilities	739,252,310	759,948,117
Commitments And Contingencies		
members' equity	177,963,181	73,747,085
total liabilities and members' equity	\$917,215,491	\$833,695,202

Report of Independent Auditors

The Board of Governors
North Carolina Reinsurance Facility

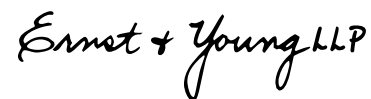
We have audited the accompanying special-purpose balance sheets of the North Carolina Reinsurance Facility (the Facility, a partnership) as of September 30, 2007 and 2006, and the related special-purpose statements of operations, members' equity and cash flows for the years then ended. These financial 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. 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, 2007 and 2006, 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.



February 4, 2008

2008 ANNUAL REPORT

North Carolina Reinsurance Facility