

A silver and gold pen is positioned diagonally across the upper half of the image. Below the pen, a document is visible, featuring a bar chart with yellow bars and a red line graph showing an upward trend. The background is a warm, golden-yellow color.

*Committed
to
Excellence*

**North Carolina
Reinsurance Facility**

2006 ANNUAL REPORT

North Carolina Reinsurance Facility

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General Organizational Information

| | |
|-------------------------------|----------------------------------------------------------|
| <i>NCRF Main Phone Number</i> | 919-783-9790 |
| <i>Facsimile</i> | 919-783-0355 |
| <i>Internet Address</i> | www.ncrb.org/ncrf |
| <i>Physical Address</i> | 5401 Six Forks Road Raleigh, NC 27609 |

Management Contacts

| | | | | |
|-----------------------------|-----------------------------------------------------|--------------|-------|------------------------------------------------|
| <i>Ray Evans</i> | <i>General Manager</i> | 919-582-1001 | | rfe@ncrb.org |
| <i>Edith Davis</i> | <i>Director, Reinsurance Facility</i> | 919-582-1006 | | etd@ncrb.org |
| <i>Jannet Barnes</i> | <i>Manager, Compliance</i> | 919-582-1022 | | jbb@ncrb.org |
| <i>Tim Lucas</i> | <i>Manager, Automobile</i> | 919-582-1021 | | fil@ncrb.org |
| <i>R. Mike Newton</i> | <i>Manager, Claims</i> | 919-582-1018 | | rmn@ncrb.org |
| <i>David Sink</i> | <i>Director, Finance & Administration</i> | 919-582-1012 | | des@ncrb.org |
| <i>Vicki Godbold</i> | <i>Director, Human Resources</i> | 919-645-3170 | | vcg@ncrb.org |
| <i>Jim Auman</i> | <i>Director, Information Technology</i> | 919-582-1032 | | jra@ncrb.org |

Annual Meeting

The Annual Meeting for member companies of the North Carolina Reinsurance Facility will be held October 25, 2006 at the Grandover Resort and Conference Center, Greensboro, North Carolina.



Message from the Chairman

The last 12 months have again passed quickly by, and your Board of Governors has continued to actively manage the NCRF affairs. You'll recall 2 years ago that Members Equity was deeply in the red and a logical, measured approach was adopted by the Board to bring it in line. Last year significant progress had been made and as 2006 closes, it is no longer an issue.

Your Facility staff has had a goal to handle the daily operations efficiently and to build a better future via the EDGE system. This mechanized system will make life easier for your employees and improve the financial transactions with your company once it is completely rolled out. Many of you already know this because your staffs are involved in the development. Edith Davis has directed this effort and deserves your thanks.

There are many company representatives who serve on committees and task forces that contribute to the success of managing the Facility. I offer my thanks to each of you...your efforts matter.



Bob Blystone
Chair, NCRF Board of Governors

In closing, I would especially like to thank Ray Evans, who is able every day to balance competing needs and limited resources to a successful end. You can bet that the next Board Chairman will have the same tremendous support that I did.

Regards,

Bob Blystone
Chair, NCRF Board of Governors



“The Key to Effective Leadership is the Relationship You Build With Your Team”

Ken Blanchard Marc Muchnick

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. Six meetings of the Board were held during the year, including two telephone conferences.

| MEMBERS | REPRESENTATIVE |
|------------------------------------------|-----------------------|
| Allstate Insurance Co | Bob Blystone * |
| Atlantic Casualty Insurance Co | Richard Yarbrough |
| Integon Indemnity Corporation | Art Lyon |
| Nationwide Mutual Insurance Co | Amy Powell |
| New Hampshire Insurance C. | Gary Sanginario |
| Travelers Indemnity Co | Michael K. Fitzgerald |
| Universal Insurance Co | Greg Spray * Chair |

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

| PUBLIC MEMBERS | LOCATION |
|---------------------------|----------------------|
| J. David Walker | Lumberton, NC |
| Steve J. Whitley. | North Wilkesboro, NC |

| EX-OFFICIO MEMBER | |
|------------------------|---------------------------|
| 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 Stitstical Committee is a joint

AIPSO and NCRF committee and is chaired by Eagle Insurance Company. In addition, there are several additional specialty advisory groups who perform similar tasks for the Facility throughout the year. The following committees met during the report period:

Audit Committee

| MEMBER | REPRESENTATIVE |
|----------------------------------------------------|---------------------------|
| Liberty Mutual Insurance Co. | Ronald H. Robertson, Jr.* |
| NC Farm Bureau Mutual Insurance Co. | Linda M. Squires |
| Nationwide Mutual Insurance Co | Kathy Southern |
| Pennsylvania Nat Mut Casualty Ins Co | Charles J. Uckele |
| State Farm Mutual Automobile Insurance Co. | Audrey L. Martens |
| Travelers Indemnity Co | B.F. Seagle |
| Steven D. Smith - Agent | * Chair |

Compliance Committee

| MEMBER | REPRESENTATIVE |
|------------------------------------------|--------------------|
| Integon Indemnity Co | Seth Kernodle |
| Nationwide Mutual Insurance Co | Kathy Southern |
| Universal Insurance Co | Gregory L. Spray * |
| W. Hutson Wester, II - Agent | * Chair |

Investment Committee

| MEMBER | REPRESENTATIVE |
|------------------------------------------|------------------------|
| Allstate Insurance Co | Margorie Anderson |
| Nationwide Mutual Insurance Co | Michael D. Groseclose* |
| Royal Indemnity Co | Dave Shumway * Chair |

Task Force on Expense Allowances

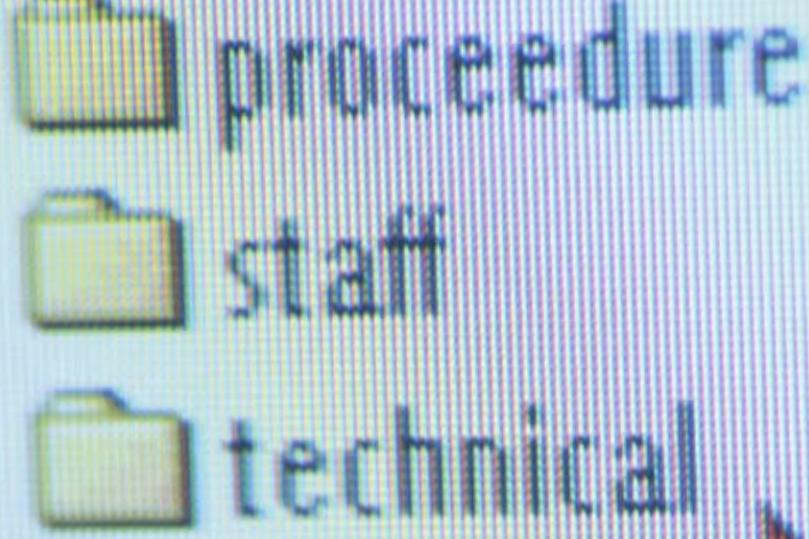
| MEMBER | REPRESENTATIVE |
|-----------------------------------------------------|--------------------|
| Allstate Insurance Co | Bob Blystone |
| American International South Insurance Co | Gary T. Sanginario |
| Nationwide Mutual Insurance Co | Steve Turner * |
| Sentry Insurance Co | Tim Miller |
| Tim Ward - Agent | * Chair |

Task Force on Recoupment

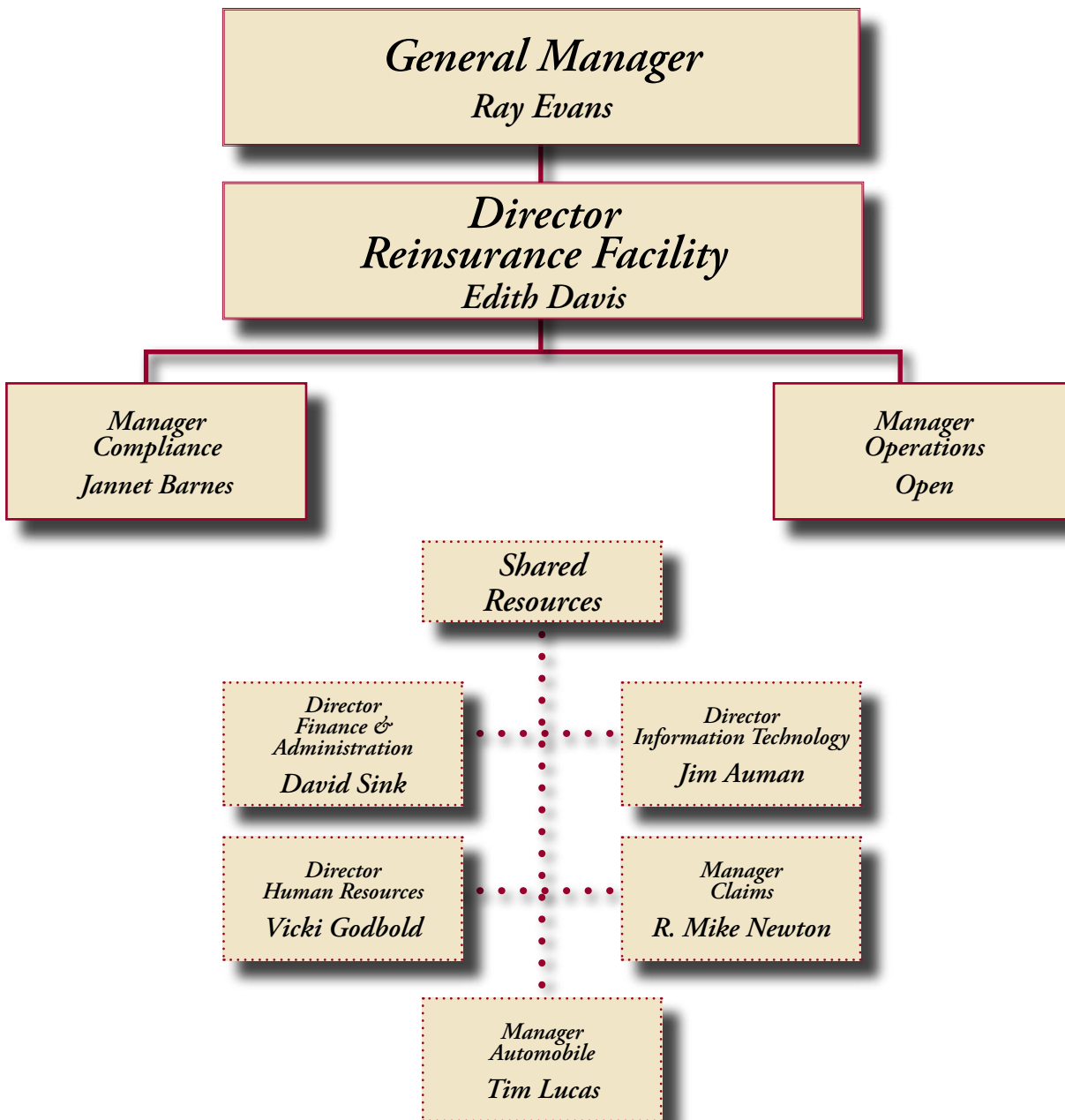
| MEMBER | REPRESENTATIVE |
|-----------------------------------------------------|---------------------|
| General Casualty Insurance Co | Stephen H. Cone |
| Nationwide Mutual Insurance Co | Steve Turner |
| NC Farm Bureau Mutual Insurance Co | Roger N. Batdorff |
| Progressive Casualty Insurance Co | Patricia D'Ambrosia |
| State Farm Mutual Automobile Insurance Co | Terry Pemberton * |
| Travelers Indemnity Co | B.F. Seagle |
| Steven D. Smith - Agent | * 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 | Patricia D'Ambrosia |
| Safeco Insurance Co | Jeff Castle |
| Southern General Insurance Co | Marguerite Clark |
| State Farm Mutual Insurance Co | Paula Harlow |
| Travelers Indemnity Co | Annette Whitaker |
| Universal Insurance Co | Lisa Stafford |



NCRF Organizational Chart





General Manager's Report

What a difference a year makes! Last year at this time the Facility had a deficit of about \$120 million, experience was deteriorating and we were facing a huge project in replacing the operating software.

Today, we're happy to report an entirely different story: a surplus of about \$46 million, an underwriting "profit" and a software replacement project that is on schedule and on budget. The Facility is stable, financially strong, total revenue is matched with expenses and losses, and we are close to migrating to an operating platform that will last for years.

What *happened*, as one of my grandchildren is fond of saying when he has just gotten into mischief? Maybe, and I am being only a little facetious, it was the 47 box lunches we had during committee meetings. The reality is that it has been a combination of hard work, good decisions and a focus on results. These fundamentals, along with good

communications— one of the reasons for all those box lunches— and a "do what is needed to get the job done" attitude enabled the Facility to enjoy such a successful year.

The story of the year's important events are detailed a little later in this report, so, I won't belabor the points here. Instead, I'd like to take this opportunity to thank the Board and especially Bob Blystone, the Chair, for asking questions, listening and taking action. In addition to the Board were a number of Committees of the Board that were involved at every step— a big thank you to them. Finally, I'd like to express my appreciation to our staff— a group that shares a vision of being committed to excellence and is willing and able to put the strategies of the Board into action.



Raymond F. Evans, Jr., CPCU
General Manager

Raymond F. Evans, Jr., CPCU
General Manager



Management Discussion & Analysis



Edith Davis, CPA,
Director, Reinsurance Facility

The NCRF accomplished many significant goals in the past year.

It's All About Value

As a not-for-profit organization, we do not have the normal benchmarks for success, but are nevertheless committed to excellence.

The way we achieve excellence is to provide value to the industry.

Our charge is to provide stability to the marketplace. Throughout our 33-year history, we have maintained a market share of about 25%. During this report period, the NCRF was the second largest residual market mechanism by total written premium volume in the United States.

The activities of the Facility are designed to ensure that we receive the right premium and recoupment, pay the right losses and minimize the financial burden on the driving public.

Each year we improve on this through more efficient operations and enhanced compliance.

Solid Financial Results

- ✓ Positive Equity Restored
- ✓ Loss Recoupment Surcharge Expired
- ✓ Clean Risk Recoupment Surcharge Decreasing
- ✓ Annual Recoupment Review Date Moved to October

It was a very successful year on many fronts.

Milestones of Fiscal Year 2005-2006

- ✓ Positive Equity Restored
- ✓ Loss Recoupment Surcharge Expired
- ✓ Clean Risk Recoupment Surcharge Decreasing
- ✓ Annual Recoupment Review Date Moved to October
- ✓ New information system moved from concept to reality
- ✓ Audit Tracking Tool Designed
- ✓ Commercial Auto FAQ's published on Website
- ✓ Implementation of IT Disaster Recovery Plan
- ✓ Implementation of Contact Management & Web Security systems

First, the Facility has been restored to a positive equity position right on schedule within the 12-month plan laid out in 2005 by the disciplined actions of the Board of Governors. Through June 2006, the Loss Recoupment surcharge implemented in April 2005 had recovered \$107 million of the targeted \$112.7 deficit incurred in 2004. This surcharge of 4.17% (before agent compensation) applied to the liability premiums of private passenger non-fleet policies. Between the additional revenue generated by this retrospective Loss Recoupment, and improved operating results, the Board was able to terminate the Loss Recoupment for policies effective on or after March 31, 2006.

The improved operating results were influenced by a change in methodology for calculating the prospective Clean Risk Recoupment put into place in 2005 by the Board. The new methodology better estimates the shortfall in premiums received by the Facility on ceded "clean risks" that by law may only be charged the voluntary manual rates. This is not a self-supporting rate for these risks. The Clean Risk Recoupment was adjusted twice in 2005, but as a result of several approved private passenger voluntary rate increases, the Clean Risk Recoupment surcharge of 9.71% (before agent compensation) will be reduced to 8.82% (before agent compensation) effective in October, 2006. An additional benefit of these changes was the completion of a move to an October recoupment review date annually

to better assist member companies with their programming and reduce the number of times a year companies have to "raise hood" on their system for Facility changes.

Rate Changes

During the year, the Facility filed a base rate change to the "other than clean risks" ceded to the Facility. The filed rates increased 2.9% which was split with an increase in bodily injury of 13.7, a decrease of 11.1% for property damage and an increase of 17.6% for medical payments coverage. The revision also included a decrease of 4.1% for motorcycle liability insurance. This filing was a "file and use" filing and became effective with all policies effective on or after October 1, 2006.

Compliance Activity

- ✓ Audit Tracking Tool Designed
- ✓ Commercial Auto FAQ's Published on Website

Member compliance continues to be a major focus. All member companies are now audited at least once a year. In the year covered by this report, almost 6000 premium and claim files were reviewed and over \$3 million in reporting or rating errors were corrected. These reviews serve not only as a financial and compliance audit, but as a service to members; companies had advised us that system problems are often identified and corrected sooner as a result of these audits, which can mitigate the amount of correction action required.



From Concept to Reality, EDGE is on schedule and will begin to roll out in early 2007

We are getting an EDGE!

✓ **New information system moved from concept to reality**

Our Electronic Data Gathering Enterprise (EDGE) system development is in high gear. This year, with tremendous support from the Board and member companies, and a new partnership with AIPSO, the Facility was able to undertake the only full development of a new information system in the history of the Facility. Three years in the making, EDGE is not an update of the current system but a complete re-engineering of the Facility processes, incorporating current industry best practices. The COBOL-based mainframe system at AIPSO will be replaced by a business-to-business web application that uses technology designed for the way companies do business today.

This system will offer member companies a number of distinct advantages:

- **Single sign-on access to the Facility, Rate Bureau and IGA**
- **Secured, encrypted electronic transfer of data**
- **Settlement cycles shortened from 60 days to 30 days**
- **Online presentation of new consolidated statement billing**
- **EFT payment options**
- **Real-time ceding of risks**
- **Online acknowledgements and management of submitted data**
- **Online edits**
- **Email alerts**

The efficiencies to be gained benefit not only the NCRF; member companies will experience a reduction in the man-hours and overhead required for Facility

reporting, the elimination of shipping costs to report their data, and an increase in the time available to make corrections – thereby reducing penalties – as the current a once-a-month opportunity to submit corrections becomes a 24/7 capability with multi-user access. For the first time ever, companies will have access to their own data already submitted and receive real-time acknowledgements of submissions, further reducing the opportunity for errors resulting in the loss of ceded coverage.

To date, EDGE is on schedule and on budget, and will begin to roll out in early 2007. Special thanks to the participation of the Technical Advisory Group! This cross-section of member companies has assisted in every phase of the design, requirements, and testing of EDGE to make it as member-friendly as possible.

Technology is delivering benefits in this area, too. An Audit Tracking module is included in the design of EDGE to enable the Facility staff to better manage and track the results of the audits. In addition, this year saw the introduction of 12 pages of Frequently Asked Questions relating to Commercial Auto coverage, specifically developed to assist companies in properly rating and reporting Commercial ceded coverages, posted on our website.

Ongoing activities in Compliance included the development of new process documentation and a review and refinement of all audit procedures.

EDGE is only part of the way we are positioning ourselves for the future.

✓ **Implementation of Contact Management & Web Security systems**

There is undeniable value in economies of scale. The NCRF is part of a continued synergy with our sister organizations, the NC Rate Bureau and the NC Insurance Guaranty Association. Targeted for completion in 2006 is a Web Security and Contact Management System which will provide consolidated contact and web access information for all three organizations and allow users a single ID and password to access secured portions of the website for any of the three.

✓ **Implementation of IT Disaster Recovery Plan**

Investments have been made in a new shared IT Disaster Recovery plan to ensure continuity of critical systems. Additional functionality will be added in 2007.

Conclusion

We conclude fiscal year 2005-2006 on solid financial ground, having achieved some significant milestones, and within our budget. And along the way, we believe we contributed to our ultimate goal – to add value through our commitment to excellence.

Edith T. Davis
Edith T. Davis, CPA
Director, NCRF



Facility Facts

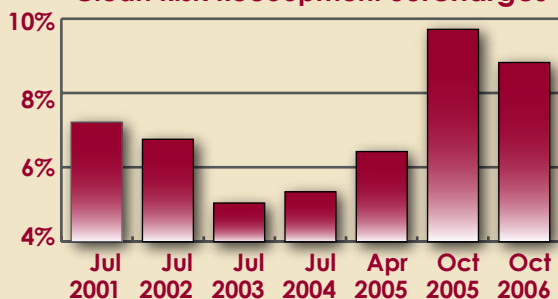
Currently, premiums consist of approximately 91% Private Passenger Non-Fleet business and 9% All Other Business.

Approximately 53% of these Private Passenger Non-Fleet risks are “clean risks”.

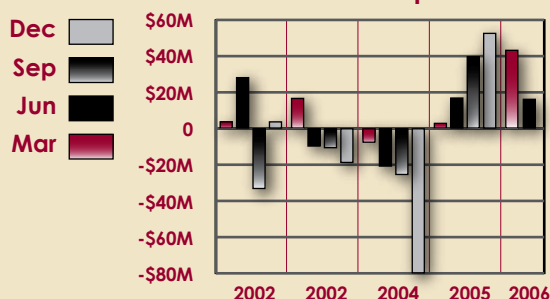
The Staff of the NCRF is charged with annually overseeing:

- \$750 million in reinsurance premiums**
- \$240 million in clean risk recoupment surcharges**
- \$107 million in loss recoupment surcharges**
- \$630 million in loss reimbursements to members**
- \$500 million in reserves maintained for losses**
- 2.7 million cession transactions**
- 24 million accounting transactions**

Clean Risk Recoupment Surcharges



Net Results of Operations



Behind the North Carolina Reinsurance Facility

The Facility was created by the General Assembly in 1973 to ensure that automobile liability coverage is available to drivers the insurers are not otherwise willing to cover. Governed by statute, the Facility provides a mechanism enabling all drivers or auto policyholders in North Carolina to be insured.

Under the North Carolina law, licensed and writing carriers and agents must accept and insure any eligible applicant for coverages and limits that may be ceded to the Facility.

There is currently no cession limitation on the number of risks an insurance company may cede to the Facility.

The Facility is required by statute to operate at neither a profit nor a loss.

All insurance companies writing automobile insurance in the state are required by law to be members of the Facility.

The Facility reinsures approximately 25% of the auto liability market in NC; in CY 2005, this equated to approximately \$750 million in premiums.

North Carolina is the second largest in terms of private passenger auto liability premiums of all state residual market mechanisms. The fact that it has one of the lowest percentages of uninsured motorists in the country indicates how well this mechanism works.

1 out of every 4 of these cars is reinsured by the Facility



North Carolina Reinsurance Facility

BALANCE SHEET

| | June 30, 2005 | June 30, 2006 |
|--------------------------------------------|----------------------|----------------------|
| Assets | | |
| Cash (Checking Account) | \$109,014 | \$(80,582) |
| Investments | 605,790,816 | 757,547,666 |
| Assessments Receivable | 47,366,617 | 42,508,789 |
| Accrued Interest Receivable | 6,368,659 | 7,241,560 |
| Other Assets | 58,871 | 61,275 |
| Total Assets | \$659,693,977 | \$807,278,708 |
| Liabilities & Fund Equity | | |
| Accounts Payable | \$31,164,383 | \$34,526,221 |
| Loss Reserves Liability | 504,185,624 | 495,568,154 |
| Premium Liability | 228,668,490 | 231,237,866 |
| Other Liabilities | (491) | (774) |
| Total Liabilities | \$764,018,005 | \$761,331,466 |
| Fund Equity | (104,324,028) | 45,947,241 |
| Total Liabilities & Fund Equity | \$659,693,977 | \$807,278,708 |

INCOME STATEMENT

| | | |
|----------------------------------|----------------------|----------------------|
| Income | | |
| Membership Fees | \$49,200 | \$46,950 |
| Interest Income | 18,550,040 | 23,307,422 |
| Written Premiums Income | 565,437,006 | 546,019,162 |
| Realized Inv (Gain)/Loss | 812,457 | (4,645,943) |
| Clean Risk Recoupment Income | 106,455,271 | 182,867,644 |
| Loss Recoupment Surcharge Income | 27,452,410 | 51,825,962 |
| Other Income | 594,719 | 555,341 |
| Total Income | \$719,351,103 | \$799,976,537 |
| Expenses | | |
| Salaries, Adm, & Payroll Taxes | \$943,133 | \$1,029,784 |
| Outside Services | 1,444,868 | 1,723,403 |
| Ceding, Claims, & Losses Paid | 687,546,649 | 696,252,154 |
| Other Operating Expenses | 385,355 | 780,104 |
| Total Income | \$690,320,004 | \$699,785,446 |
| Net Income | \$29,031,099 | \$100,191,091 |

North Carolina Reinsurance Facility (A PARTNERSHIP)

SPECIAL-PURPOSE STATEMENTS of OPERATIONS

| | Years Ended September 30, 2005 | September 30, 2004 |
|---------------------------------------------------|--------------------------------|-------------------------|
| Premiums earned | \$742,061,858 | \$722,046,336 |
| Clean risk subsidies | 150,582,254 | 123,630,900 |
| Total Underwriting Income | \$892,644,112 | \$845,677,236 |
| Losses incurred | 637,647,285 | 661,504,233 |
| Ceding expense allowances | 199,256,687 | 192,784,211 |
| Claims expense allowances | 91,005,200 | 88,271,151 |
| Total Underwriting Expenses | \$927,909,172 | \$942,559,595 |
| Net Underwriting Loss | \$ (35,265,060) | \$ (96,882,359) |
| Other Income (Expense) | | |
| Net investment income | 24,694,189 | 23,486,201 |
| Net realized capital gains | 528,290 | 6,189,610 |
| Late premium charges and penalties | 523,989 | 639,736 |
| Membership fees | 50,550 | 48,400 |
| Cession notice charges | 26,159 | 24,992 |
| General and administrative expense | (3,668,034) | (2,632,030) |
| Provision for premium refunds, including interest | 5,705,552 | (71,936,000) |
| Other miscellaneous income | 216,674 | 80,878 |
| Total Other Income (Expense) - Net | \$28,077,369 | \$ (44,098,213) |
| Net Operating Loss | \$ (7,187,691) | \$ (140,980,572) |

North Carolina Reinsurance Facility (A PARTNERSHIP)

SPECIAL-PURPOSE BALANCE SHEET

Years Ended September 30, 2005 September 30, 2004

Assets

| | | |
|------------------------------------------|---------------------|---------------------|
| Cash and short-term investments | \$28,259,744 | \$108,820,022 |
| Long-term investments, at amortized cost | 603,487,957 | 561,894,492 |
| Accrued interest receivable | 5,241,584 | 6,028,826 |
| Receivables from member companies: | | |
| Settlements | 59,064,984 | 26,789,402 |
| Late premium charges and penalties | 43,241 | 23,902 |
| | \$59,108,225 | \$26,813,304 |

| | | |
|------------------------------|----------------------|----------------------|
| Earned but unbilled premiums | 35,357 | 47,092 |
| Total Assets | \$696,132,867 | \$703,603,736 |

Liabilities & members' (deficit) equity

| | | |
|---------------------------------------------------------|----------------------|----------------------|
| Loss and loss adjustments expense reserve | | |
| In the course of settlement | \$393,371,809 | \$383,017,494 |
| Incurred but not reported | 110,999,151 | 107,661,364 |
| Total Loss and Loss Adjustments Expense Reserves | \$504,370,960 | \$490,678,858 |

| | | |
|-----------------------------------------|----------------------|----------------------|
| Unearned premium reserves | 232,617,782 | 221,227,798 |
| Provision for premium refunds | - | 67,881,099 |
| Settlements payable to member companies | 23,432,045 | 36,301,406 |
| Other liabilities | 406,258 | 131,289 |
| Total Liabilities | \$760,827,045 | \$816,220,450 |

Commitments and contingencies

| | | |
|--------------------------------------------------------|----------------------|----------------------|
| Members' (deficit) equity | (64,694,178) | (112,616,714) |
| Total Liabilities and Members' (Deficit) Equity | \$696,132,867 | \$703,603,736 |

Report of Independent Auditors

The Board of Governors
North Carolina Reinsurance Facility

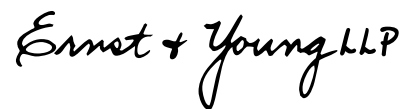
We have audited the accompanying special-purpose balance sheets of the North Carolina Reinsurance Facility (the Facility, a partnership) as of September 30, 2005 and 2004, and the related special-purpose statements of operations, members' (deficit) equity and cash flows for the years then ended. These 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, 2005 and 2004, 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.



January 24, 2006

Shared Resources



Jim Auman
Director, Information Technology



Vicki Godbold
Director, Human Resources



David Sink
Director, Finance & Administration



Tim Lucas
Manager, Automobile



R. Mike Newton
Manager, Claims

NORTH CAROLINA RATE BUREAU
NORTH CAROLINA REINSURANCE FACILITY
NC INSURANCE GUARANTY ASSOCIATION



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