NCRF

NORTH CAROLINA REINSURANCE FACILITY

2009 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

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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 . . . . . 5401 Six Forks Road
Raleigh, NC 27609

Management Contacts

Ray Evans . . . . . General Manager
919-783-9790 rfe@ncrb.org

Edith Davis . . . . . Director, Reinsurance Facility
919-582-1006 etd@ncrb.org

Jannet Barnes . . . . . Manager, Compliance
919-582-1022 jbb@ncrb.org

Tim Lucas . . . . . Manager, 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 28, 2009, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

Message from the Chairman

The past 12 months have been challenging for the NCRF, and we are fortunate to have a staff of professionals to handle the daily operation, along with the legal counsel, committee members, and Governing Board to help formulate policy and future direction.

Priorities for us during the year included protecting the NCRF financial assets during the crisis that befell our nation, selecting a new Investment Manager, preparing four rate filings, handling the escrow, updating—and quickly adjusting—the Clean Risk Recoupment in response to the rate settlement, and dozens of other projects, such as updating the Commercial Auto manual. By noting all of these examples in one long sentence, I hope to impress upon you the variety and volume of work that was successfully accomplished since we were last together.

Of interest also is our new Insurance Commissioner, Wayne Goodwin. The Commissioner attended an NCRF Board meeting to introduce himself and to establish a dialogue on key subjects. His engagement and that of his staff are critical to advancing items of importance to all members and our customers.

More information on the topics I have touched on will be covered in this year's Annual Meeting. We all look forward discussing items with you that improve the NCRF as we move into the future.

Regards,

Bob Blystone
Chairman

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

Members	Representative
Allstate Insurance Company	Bob Blystone*
Atlantic Casualty Insurance Company	Robbie Strickland
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Company	Amy Powell
GEICO Indemnity Company	Kirk La
Travelers Indemnity Company	Jonathan Konrad
Universal Insurance Company	Greg Spray

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 Member

Wayne Goodwin, Commissioner of Insurance

*chair

The end of an era and the beginning of a new one:

In January 2009, after 24 years as North Carolina's Commissioner of Insurance and ex-officio member of the Facility's Board of Governors, Jim Long retired and passed the baton to Wayne Goodwin. Unfortunately, Commissioner Long's retirement was short-lived, as he unexpectedly passed away on February 2, 2009.

The Board of Governors wishes to express its appreciation for Jim Long's decades of service to the Reinsurance Facility.

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, 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

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

Investment Committee

Members	Representative
Allstate Insurance Co	Douglas Dupont
Nationwide Mutual Insurance Co	J. Kevin King*
State Farm Mutual Automobile Ins Co	Robert Stephan

Rating Committee

Members	Representative
Atlantic Casualty Insurance Co	Mark Caughron*
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

Members	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	Alan Bentley
Agent	Tim Ward

Task Force on Recoupment

Members	Representative
Nationwide Mutual Insurance Co	Isaac Adams
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Progressive Casualty Insurance Co	Kevin McGee
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

Ray Evans
General Manager

General Manager's Report

This past year has been about focus. As you will read in other parts of this report, the Reinsurance Facility has been busy—just as we should be. However, it's often difficult to plan and manage while balancing the demands of responding to external events and activities with the need to remain committed to our fundamental responsibilities.

Fortunately, we started the year by identifying key elements of a longer-term strategy for responding to change, remaining flexible and improving our skills. From this process, three key areas—quality, costs, and metrics—emerged as our highest management priorities. Not surprisingly, returning to a focus on these same three objectives has kept us from losing our way when faced with challenges.

While the details are presented later in this report, here's a short and simple summary of our accomplishments over the past year: we managed changes brought about by the economy, by Legislative activity, and by our new system, and we adapted to a new administration—all while continuing to enhance the Facility's reputation for integrity, accessibility, and professionalism.

The year has been hectic, and we have had to travel many unexpected roads. But by focusing on our fundamental values and goals, we maintained our reputation, made progress on our key objectives, and responded effectively and appropriately to the challenges we encountered.

With the help of the Board members, committee members, partners and associates, we have again successfully discharged the Facility's responsibilities.

Ray Evans

Edith T. Davis
Director, Reinsurance Facility

Management Report and Analysis

Operations

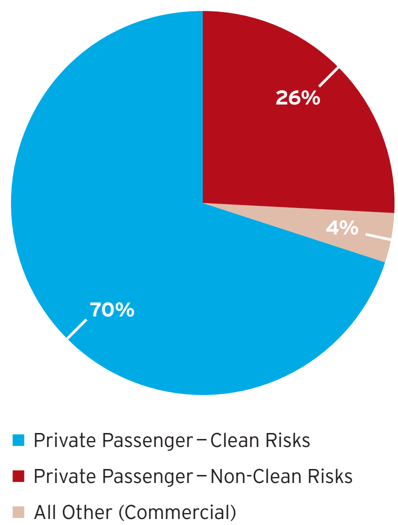
During this report period, the North Carolina Reinsurance Facility was the largest residual market mechanism by total written premium volume in the entire United States. As of June of 2009, there were approximately 968,000 policies in force—96% were Private Passenger non-fleet policies and 4% All Other policies—generating about 26 million transactions.

Overall, cession notice volume continued to decline slightly since last year; private passenger volume declined less than 3%, while all other risks declined at a much steeper rate of 7%.

The breakdown of total ceded exposures was that 70% were ceded "clean risks" and 26% were ceded private passenger "other-than-clean" risks. The remaining 4% of exposures were commercial risks.

Finally, written premium for the fiscal year ending September 2009 is projected to total nearly $730 million, about the same as in our last fiscal year.

Distribution by Exposures



Rate Changes and Escrow

This has been a busy year for rate changes in the Facility. Some of this activity began in 2008 and met with some substantial challenges—challenges that were not resolved until fiscal year 2009.

A summary of the course of events

On February 1, 2008, the North Carolina Rate Bureau filed a request for increases in voluntary private passenger auto liability rates totaling 15.8% for automobiles and 0.7% for motorcycles. Following a hearing, the Commissioner of Insurance disapproved the requests and ordered instead a 14.5% decrease for autos and an 11.2% decrease for motorcycles.

The Rate Bureau appealed the Commissioner's order and, as allowed by law, elected to implement a 12.8% increase in non-fleet private passenger auto liability rates; 0.0% change for motorcycle liability rates, and the filed changes to the bodily injury and property damage increased limits factors.

In September 2008, the Facility filed revisions to the non-fleet private passenger auto liability rates to become effective on January 1, 2009, concurrent with the revisions announced by the Rate Bureau. These changes included revisions in the base rates for "clean risks" ceded to the Facility (by law, the most this group may be charged is the voluntary manual rate), revisions to the rates for uninsured and combined uninsured/underinsured motorists coverages, revised increased limits factors, and revisions in the base rates for "other-than-clean risks" ceded to the Facility (revising those which became effective October 1, 2008) to take into account the revised increased limits factors.

The Facility established an escrow account and, with respect to clean risks ceded to the Facility, directed member companies to maintain records necessary to determine by policy the difference, if any, between the rates collected by each company and the rates ultimately determined to be the approved rates.

That brings us to the current year

On July 15, 2009, following lengthy negotiations, the Rate Bureau and the Commissioner of Insurance agreed to settle the 2008 and 2009 private passenger automobile rate filing cases. The 2008 case was settled for an overall liability rate change of +4.9% for non-fleet private passenger automobiles and a 0.0% change for motorcycles. The terms of the settlement provided, in part, for refunds to ceded clean risk policyholders of the portion of the premium paid that exceeded the rates as ultimately settled to be paid with interest in two specified time periods in 2010 and 2011.

The Facility's 2009 rate filings

As a result of the settlement of the Rate Bureau's 2009 auto rate filing case, and again because the maximum that clean risks may be charged is the voluntary manual rate, in July 2009, the Facility filed revisions to the private passenger auto liability rates applicable to ceded "clean risks" effective on or after November 1, 2009, of -0.1% on medical payments and no other changes over the settled rates from the 2008 filing.

Also in July 2009, the Facility filed rate level changes for "other-than-clean" risks to become effective for all new and renewal policies effective on and after November 1, 2009. The filing included average rate level changes of -4.5% for bodily injury, -5.7% for property damage, and +0.6% for medical payments coverages, averaging -4.8% over rates presently in effect. The filing also included a rate level change of +6.1% for the motorcycle liability coverages.

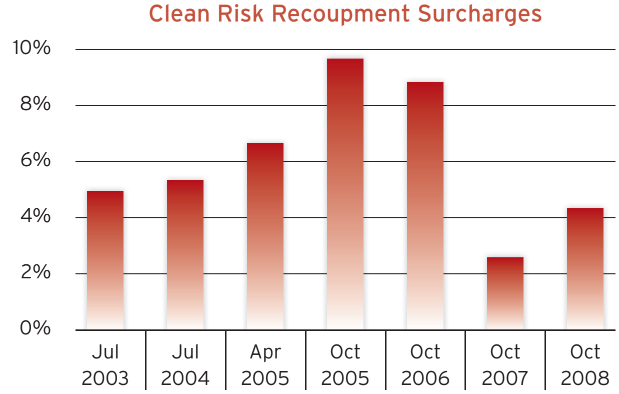
For the commercial auto business, the Facility filed rate level changes that averaged -12.6% over the rates previously in effect; this average was comprised of overall total limits changes of -14.6% for bodily injury and -9.1% for property damage for the Trucks, Tractors and Trailers, Garage Dealers, and Private Passenger Types coverages. The revised rates applied to all new and renewal policies becoming effective on and after July 1, 2009.

Clean Risk Recoupment

North Carolina law requires carriers to "take all comers," and carriers often cede to the Facility the risks for which the voluntary rates are inadequate. While the rates the Facility establishes for "other-than-clean" risks are actuarially sound, the rates for "clean risks" are capped at a voluntary rate level that is inadequate to pay the losses and expenses of the clean risks ceded to the Facility. The difference between what this group pays and what it should pay is made up through the statutorily authorized "clean risk" recoupment surcharge applied to the liability premiums of private passenger non-fleet policies.

Recoupment surcharges are reviewed at least annually and adjusted as appropriate. Effective October 1, 2008, the Board of Governors implemented a clean risk recoupment surcharge of 4.24% (before inclusion of agent compensation). This surcharge factor continued to be lower than the indicated surcharge in order to reduce the private passenger surplus and bring the members' equity position closer to break even. For the fiscal year through June 2009, the clean risk surcharge had generated approximately $102.7 million.

Clean Risk Recoupment Surcharges



In order that the new clean risk recoupment surcharge become effective concurrently with the rate changes applicable to all new and renewal private passenger policies effective on or after November 1, 2009, the Board of Governors extended the clean risk recoupment surcharge which began October 1, 2008 through October 31, 2009. The new clean risk recoupment surcharge of 6.41% (before inclusion of agent compensation) will be applicable to all new and renewal private passenger policies becoming effective on and after November 1, 2009.

Investment Activity

A very busy year

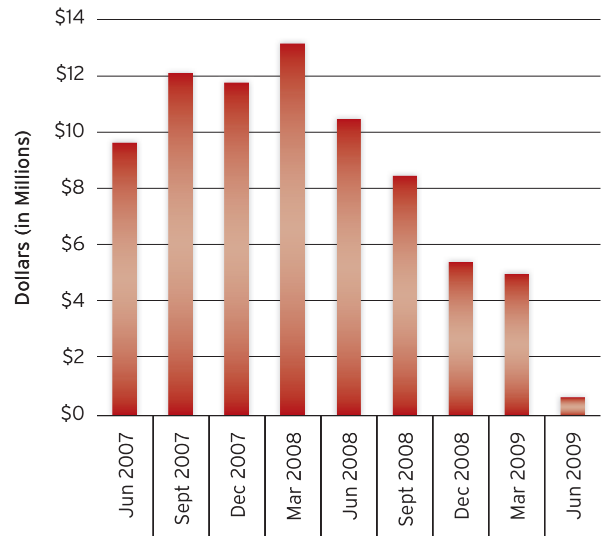
The Investment Committee has been very active this past year—continuing a thorough evaluation and review of the Facility's investment program that began in the spring of 2008. The Facility engaged Evaluation Associates to conduct an on-site review of Evergreen Investments—the institutional investment division of Wachovia Bank. This was the first engagement of this nature conducted by the Facility but proved timely in that several reorganizations had occurred at Evergreen, and the financial markets were beginning to show signs of great uncertainty and volatility.

The review was ultimately expanded to include a search for and a comparison of investment managers who could provide the necessary investment management services to the Facility. With the assistance of Evaluation Associates, the Investment Committee considered several candidates and recommended that Wellington Management assume the investment manager responsibilities of the Facility's portfolio. The Board of Governors approved this recommendation at its meeting on July 29, 2009, and we expect the new relationship to begin around the first of October this year.

Not the best year

You will see in the financial exhibits that net investment income approximated $11 million during the first three quarters of the current fiscal year. This figure is slightly less than one-third the net investment income for the same period one year ago—due to significantly lower yields and to capital losses on certain securities as a result of the turmoil in the financial markets during this period. Furthermore, though we expect that there may be more capital losses before the year end, it is worth noting that the Facility's investment results during this difficult period have been better than many comparable portfolios.

Investment Income



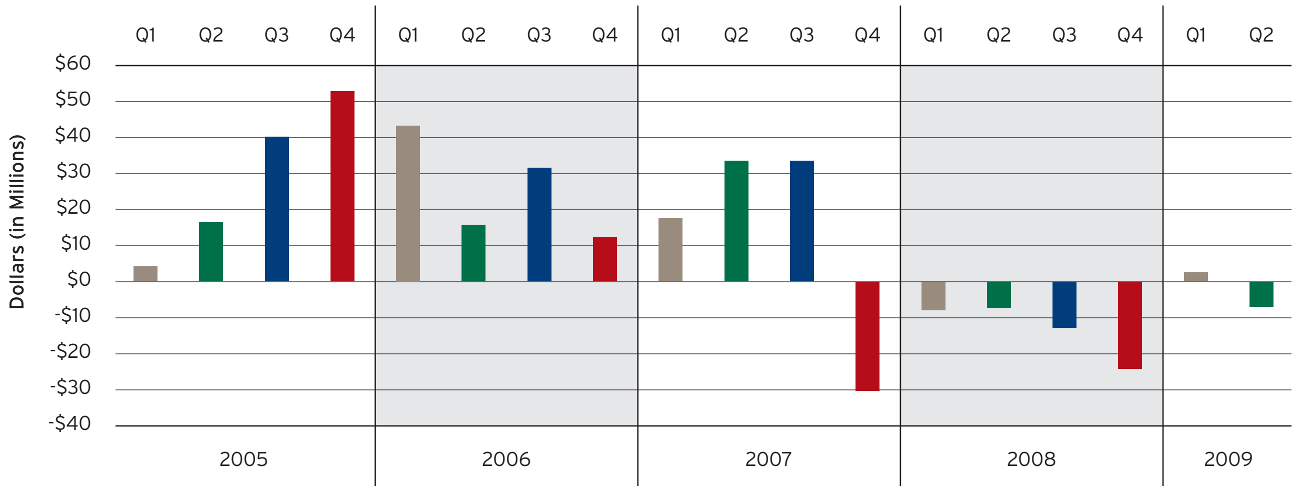
Looking toward next year

The Investment Committee is currently working to review and revise the investment guidelines to further limit the various asset classes permitted under the current policy, and we are confident that the Facility's investment program will continue to be appropriate for our organization and its purpose.

Investment Portfolio Performance
Thru June 2009

Time	Percent
Last 3 Months	3.27
Year to Date	3.60
One Year	2.00
Three Years	4.62
Five Years	3.88
Ten Years	5.10
Since 01/31/80	7.96

Net Results of Operations (After Recoupments)



Operating Results

As of June 30, 2009, the Facility had realized operating losses in six of the last seven consecutive quarters, and the private passenger surplus continued to decline as planned. This was primarily driven by the reduced recoupment surcharges and more recently by the decline in investment income as previously noted. As a result of the operating losses, the members' equity balance decreased from $120.1 million in September 2008 to $89.9 million in June 2009.

Compliance Activity

There are over 100 member company groups reporting to the Facility, and each is reviewed at least annually. Our focus is on compliance with statutes, rules and regulations, and eligibility for ceded coverage and reimbursement as part of our responsibility to ensure that the Facility collects the right premium and pays the right losses.

Throughout the year, the compliance staff performs audits on each ceding company as well as voluntary companies who report only recoupment to the Facility. The files are reviewed for, among others, proper reporting of premiums and losses, claims handling, proper application of underwriting rules, eligibility statutes, experience modification rating, and recoupment. During this report period, almost 5000 files were audited.

The types of issues encountered this year in the audit process include

- policies ceded with incorrect class codes;
- policies ceded for higher limits without proper Form NCRF-31 documentation in the policy file;
- noncompliance with the inexperienced operator rule;
- improper premium calculation for out-of-state vehicles;
- improper calculation of recoupment surcharges on deviated premiums;
- failure to program rate and/or class plan changes, and
- improper use of policy forms.

Legislative Changes

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

In 2009, the General Assembly had a prolonged and very busy legislative session. The Facility's staff and counsel were asked to participate in reviewing close to a dozen pieces of proposed legislation. While the Facility does not lobby for any position on an issue, we are often asked to provide information to educate interested parties. The session was generally consumed by the state's budget issues, and only a few of the proposed changes affecting auto liability coverage came to fruition.

It should be noted that, in 2008, the General Assembly enacted H.B. 738 making UM and UIM coverages mandatory at the limits of liability coverage purchased. In 2009, the General Assembly enacted Senate Bill 749, which modified the mandatory limits of coverage required for UM and UIM and clarified the requirements for coverage of fleets; these provisions will become effective on February 1, 2010.

EDGE System Development

They say anything worth having is worth waiting for—and that's what we're trying to keep in mind as we continue to experience delays in the deployment of our new Electronic Data Gathering Enterprise (EDGE) system. All of the design changes we have made are intended to improve performance of a complex and comprehensive system comprised of many modules and built to support hundreds of users, both internal and external.

This year, EDGE has been through numerous rounds of testing and refinement. We are nearing the final stages of testing to ensure the next phase of the system functions as intended and that it is intuitive and user-friendly for the member companies to use.

The prior phase to go to production has continued to be a big success. Electronic reporting of data via File Transfer Protocol (FTP) has streamlined the flow of data to the Facility, and we currently average over 1100 company files per month. Receiving these files is the Facility's most critical process as the receipt date of the file may determine when ceded coverage begins. We have had some real-life opportunities to test our business continuity plan for receiving files at our co-location if our production system is down and now have a tested solution for this contingency.

Human Resources

Human Resources is the strategic and coherent approach to the management of our Organization's most valued assets—the people who work individually and collectively to contribute to the achievement of our objectives and Strategic Focus. HR responsibilities include effectively administering HR policies, programs and practices.

During this fiscal year, HR arranged on-site training that included nine wellness classes through our partnership with WakeMed Hospital, six Microsoft Office classes, and five professional development classes.

We have a strong wellness initiative that includes

- WeightWatchers at work;
- a partnership with the NC Prevention Partners that has resulted in a tobacco-free campus and nutritious snacks and drinks in our vending machines;
- annual participation through the Wellness Council of America (WELCOA) in the Step-By-Step program of walking 10,000 steps a day;
- wellness screenings held on-site each July; and
- training in First Aid, CPR, and AED, with one-third of our workforce certified through the American Red Cross.

30+ Year Associates

From left to right: Tim Lucas, Faye Helms, Lois Murphey, David Sink (Not pictured: Patricia Stallings)

Conclusion

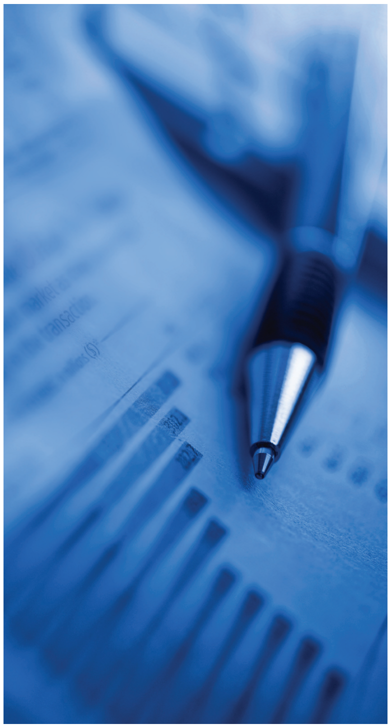
Much of our work is performed behind the scenes. We are here to serve the insurance industry and the consumer. Our focus is always on doing the right thing and in that effort, we receive great support from the members of our Board and Committees; they make themselves available for a great many meetings, and they place the needs of the Facility and the public foremost at all times. Special thanks goes out to the Investment Committee for navigating a very turbulent economic year and to the Rating Committee for their dedication to the numerous commercial auto issues which developed over the past year and for supporting the ongoing re-write of the Commercial Auto Manual (now nearing completion).

We have very competent and dedicated counsel and industry experts who also tirelessly support these efforts and have, more often than you would imagine, been asked to provide data and support on a moment's notice. Finally, our staff deserves credit for processing and auditing a three-quarter of a billion dollar book of business, while at the same time continuing to push toward the completion of the EDGE system.

We look forward to whatever new challenges the coming year brings.

Edith Davis

Edith Davis
Director, Reinsurance Facility



North Carolina Reinsurance Facility

Balance Sheet

Fiscal Year through

	June 30, 2009	June 30, 2008
Assets		
Cash (Checking Account)	$695,836	$694,473
Cash Restricted (Including Escrow)	36,110,377	-
Investments	744,191,647	832,909,536
Accounts Receivable	14,669,726	8,713,134
Accrued Interest Receivable	6,400,758	8,116,123
Other Assets	91,589	39,980
Total Assets	**$802,159,933**	**$850,473,246**
Liabilities & Members' Equity		
Accounts Payable	$23,679,565	$32,421,700
Loss Reserves	467,213,892	468,253,486
Unearned Premium Reserves	220,923,820	218,226,450
Other Liabilities	469,905	318,778
Total Liabilities	**$712,287,182**	**$719,220,414**
Members' Equity	89,872,752	131,252,832
Total Liabilities & Members' Equity	**$802,159,933**	**$850,473,246**

Income Statement

Fiscal Year through

	June 30, 2009	June 30, 2008
Income		
Earned Premiums	$548,660,423	$553,313,406
Clean Risk Recoupment	99,561,833	44,630,587
Investment Income	11,010,393	36,000,184
Membership Fee Income	50,800	49,300
Other Income	598,419	646,432
Total Income	**$659,881,868**	**$634,639,910**
Expenses		
Losses Incurred	$462,593,296	$463,546,226
Ceding & Claims Expenses	222,252,601	212,995,200
Salaries & Administration Expenses	1,392,312	1,330,700
Outside Services Expenses	2,848,918	2,235,874
Other Operating Expenses	1,109,259	1,220,793
Total Expenses	**$690,196,385**	**$681,328,793**
Net Income / (Loss) Before Loss Recoupments	**$(30,314,517)**	**$(46,688,883)**
Loss Recoupments	48,297	(21,465)
Net Income/(Loss) After Loss Recoupments	**$(30,266,219)**	**$(46,710,348)**

Organization Shared Resources

Directors

Shelley Chandler
Director,
Information Services

Vicki Godbold
Director,
Human Resources and
Administrative Services

David Sink
Director, Finance

Managers

Tim Lucas
Manager, Automobile

Mike Newton
Manager, Claims

NCRF Management Staff

Jannet Barnes
Manager, Compliance

North Carolina Reinsurance Facility

Special Purpose Statement of Operations

Year Ended	Sept 30, 2008	Sept 30, 2007
Premiums Earned	$731,018,339	$775,355,621
Clean Risk Subsidies	61,420,998	251,534,429
Total Underwriting Income	**792,439,337**	**1,026,890,050**
Losses Incurred	607,354,318	654,314,245
Ceding Expense Allowances	195,439,936	205,515,311
Claims Expense Allowances	89,052,774	99,171,286
Total Underwriting Expenses	**891,847,028**	**959,000,842**
Net Underwriting (Loss) Income	(99,407,691)	67,889,208
Other Income (Expense):		
Net Investment Income	42,578,754	44,109,065
Net Realized Investment Gains (Losses) Including Impairments	(40,217,422)	(1,071,995)
Late Premium Charges and Penalties	360,283	349,449
Membership Fees	49,900	49,100
Cession Notice Charges	17,320	16,980
General and Administrative Expense	(5,771,985)	(5,924,231)
Other Miscellaneous Expense	-	(2,649)
Total Other Income – Net	**(2,983,150)**	**37,525,719**
Net Operating (Loss) Income	**$(102,390,841)**	**$105,414,927**

Special Purpose Balance Sheet

Year Ended	Sept 30, 2008	Sept 30, 2007
Assets		
Cash and Short-Term Investments	$82,887,691	$95,383,556
Long-Term Investments, At Amortized Cost	685,962,281	769,469,937
Accrued Interest Receivable	6,592,033	7,631,674
Receivables From Member Companies:		
• Settlements	10,752,019	44,706,055
• Late Premium Charges and Penalties	112,943	24,269
	10,864,962	44,730,324
Total Assets	**$786,306,967**	**$917,215,491**
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves:		
• In Course of Settlement	$342,290,072	$373,226,252
• Incurred But Not Reported	116,424,367	116,380,138
Total Loss And Loss Adjustment Expense Reserves	458,714,439	489,606,390
Unearned Premium Reserves	222,254,189	230,358,184
Unearned Clean Risk Subsidies	2,711,992	-
Settlements Payable to Member Companies	26,779,877	19,060,002
Other Liabilities	334,332	227,734
Total Liabilities	**710,794,829**	**739,252,310**
Commitments and Contingencies		
Members' Equity	**75,512,138**	**177,963,181**
Total Liabilities and Members' Equity	**$786,306,967**	**$917,215,491**

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Report of Independent Auditors

The Board of Governors
North Carolina Reinsurance Facility

We have audited the accompanying special-purpose balance sheets of North Carolina Reinsurance Facility (the Facility, a partnership) as of September 30, 2008 and 2007, and the related special-purpose statements of operations, members' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1, the accompanying special-purpose financial statements have been prepared for the purpose of complying with, and on the basis of accounting practices specified in the "Standard Practice Manual," which were approved for use by and within the authority of the Chair of the Facility's Board of Governors and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina Reinsurance Facility at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with accounting practices prescribed the Facility's Standard Practice Manual.

This report is intended solely for the information and use of the Board of Governors, the member companies and the North Carolina Department of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

March 18, 2009

0812-1013010

North Carolina Reinsurance Facility
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