



MINUTES OF THE MEETING OF THE THIRTY-EIGHTH ANNUAL MEETING OF THE
NORTH CAROLINA REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT
AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH
CAROLINA, OCTOBER 20, 2011

MEMBERS PRESENTREPRESENTED BY

Allstate Indemnity Company
 Allstate Insurance Company
 Allstate Property & Casualty Insurance Company
 Encompass Indemnity Company
 Northbrook Indemnity Company
 Atlantic Casualty Insurance Company
 Coastal Casualty Insurance Company
 Auto Owners Insurance Company
 Owners Insurance Company
 Builders Mutual Insurance Company
 Builders Premier Insurance Company
 Farmers Insurance Exchange
 21st Century Advantage Insurance Company
 21st Century Assurance Company
 21st Century Casualty Company
 21st Century Centennial Insurance Company
 21st Century Insurance Company
 21st Century North America Insurance Company
 21st Century Premier Insurance Company
 American Guarantee & Liability Insurance Company
 American Zurich Insurance Company
 Assurance Company of America
 Colonial American Casualty & Surety Company
 Empire Fire & Marine Insurance Company
 Fidelity & Deposit Company of Maryland
 Foremost Insurance Company Grand Rapids MI
 Foremost Property & Casualty Insurance Company
 Foremost Signature Insurance Company
 Maryland Casualty Company
 Mid Century Insurance Company
 Northern Insurance Company of New York
 Truck Insurance Exchange
 Universal Underwriters Insurance Company
 Zurich American Insurance Company

Theresa Reece

Mark Caughron

Drew Klasing

Jerry Visintine

Bill Tibbens

Zurich American Insurance Company of Illinois	
GEICO Indemnity Company	Joe Jordan
Berkshire Hathaway Homestate Insurance Company	David Nelson
GEICO Casualty Company	Rusty Ward
GEICO General Insurance 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 Krueger
Hartford Accident & Indemnity Company	Mike Apanowitch
Hartford Casualty Insurance Company	
Hartford Fire Insurance Company	
Hartford Insurance Company of the Midwest	
Hartford Underwriters Insurance Company	
Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company Ltd	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
Integon Indemnity Corporation	Art Lyon
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Maiden Reinsurance Company	
Maiden Specialty Insurance Company	
National General Insurance Company	
New South Insurance Company	
Technology Insurance Company	
Wesco Insurance Company	
Liberty Mutual Insurance Company	Mike Grove
American Economy Insurance Company	
American Fire & Casualty Company	
American States Insurance Company	
American States Preferred Insurance Company	
Colorado Casualty Insurance Company	
Employers Insurance Company of Wausau	
Excelsior Insurance Company	
First Liberty Insurance Corporation	
First National Insurance Company of America	
General Insurance Company of America	
Liberty Insurance Corporation	
Liberty Insurance Underwriters Inc	
Liberty Mutual Fire Insurance Company	
Liberty Mutual Mid-Atlantic Insurance Company	
LM General Insurance Company	
LM Insurance Corporation	

LM Property & Casualty Insurance Company	
Midwestern Indemnity Company	
Montgomery Mutual Insurance Company	
Netherlands Insurance Company	
Ohio Casualty Insurance Company	
Ohio Security Insurance Company	
Peerless Indemnity Insurance Company	
Peerless Insurance Company	
SAFECO Insurance Company of America	
SAFECO Insurance Company of Indiana	
Wausau Business Insurance Company	
Wausau Underwriters Insurance Company	
West American Insurance Company	
Nationwide Mutual Insurance Company	Amy Powell
Allied Property & Casualty Insurance Company	Joe Buck
AMCO Insurance Company	
Depositors Insurance Company	
Farmland Mutual Insurance Company	
Freedom Specialty Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company of America	
Nationwide Agribusiness Insurance Company	
Nationwide Insurance Company of America	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
Scottsdale Indemnity Company	
Titan Indemnity Company	
Victoria Fire & Casualty Company	
The Members Insurance Company	James McCafferty
	Mike Cole
	Jonathan Konrad
Travelers Indemnity Company	
Athena Assurance Company	
Automobile Insurance Company of Hartford	
Charter Oak Fire Insurance Company	
Commercial Guaranty Insurance Company	
Discover Property & Casualty Insurance Company	
Farmington Casualty Company	
Fidelity & Guaranty Insurance Company	
Fidelity & Guaranty Insurance Underwriters Inc	
Northland Casualty Company	
Northland Insurance Company	
Phoenix Insurance Company	
Select Insurance Company	
St Paul Fire & Marine Insurance Company	
St Paul Guardian Insurance Company	
St Paul Medical Liability Insurance Company	
St Paul Mercury Insurance Company	
St Paul Protective Insurance Company	

Standard Fire Insurance Company
Travco Insurance Company
Travelers Casualty & Surety Company
Travelers Casualty & Surety Company of America
Travelers Casualty Company of Connecticut
Travelers Casualty Insurance Company of America
Travelers Commercial Casualty Company
Travelers Commercial Insurance Company
Travelers Home & Marine Insurance Company
Travelers Indemnity Company of America
Travelers Indemnity Company of Connecticut
Travelers Personal Insurance Company
Travelers Personal Security Insurance Company
Travelers Property Casualty Company of America
Travelers Property Casualty Insurance Company
United States Fidelity & Guaranty Company
United Services Automobile Association
Garrison Property & Casualty Insurance Company
United Services Automobile Association
USAA Casualty Insurance Company
USAA General Indemnity Company
Universal Insurance Company

Dan Pickens

Greg Spray

OTHERS PRESENT

Young, Moore and Henderson

North Carolina Department of Insurance

Wellington Management

Insurance Services Office
Able Auto Insurance
Green & Wooten Insurance
Pinehurst Insurance
Senn Dunn March & Roland
Wester Realty & Insurance Agency
NCRF Board of Governors Public Member
Staff

REPRESENTED BY

Glenn Raynor
Mickey Spivey
Mike Strickland
Bob Mack
Bryan Heckle
Chris Holleman
Eric Tanaka
Patrick Woods
Jeff Butler
John Wooten
Rob McVay
Tim Ward
Hutson Wester
David Walker
Edith Davis
Ray Evans
Vicki Godbold
Fred Hoerl
Tim Lucas
Lois Murphey
David Sink
Sue Taylor
Rebecca Williams

143 other companies voted by proxy.

The meeting convened as scheduled, Mr. Lyon presiding. Mr. Evans announced that there was a quorum.

Reference was made to the Facility's Antitrust Compliance Policy, Conflicts of Interest Statement, and Code of Ethics and Standard of Conduct Statements, copies of which were made available.

1. Annual Report

Copies of the Thirty-Eighth Annual Report for the fiscal year ended September 30, 2011 were distributed. Mr. Evans 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. A motion was made, seconded and unanimously passed to accept the report.

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 and that Nationwide Mutual Insurance Company had been elected 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, Tim Ward of Greensboro, W. Hutson Wester, II of Henderson, John E. Wooten, III of Wake Forest and Rob McVay of Pinehurst; and as domestic member insurers Integon Indemnity Corporation and Universal Insurance Company, also for three year terms. She further advised that public members J. David Walker of Lumberton and Steve Whitley of North Wilkesboro appointed by the Governor continue to serve at the Governor's pleasure; and that Atlantic Casualty Insurance Company had been elected as the representative from the industry at large, for a three year term.

Mr. Evans presented a plaque to outgoing agent Board member Steve Smith in grateful recognition for his years of service. Mr. Mack then presented Mr. Smith a certificate of appreciation from the Commissioner of Insurance for his years of service to the Board.

3. Chairman's Comments

Mr. Lyon shared comments on the numerous activities and events of the preceding year, especially noting the delivery and success of the EDGE information system, reduction in penalties, and strong performance of the Facility's Investment Manager, Wellington. He thanked the Board, the various participating committees, staff, and counsel for their efforts on behalf of the Facility.

4. Adjournment

There being no further business, the meeting was adjourned.

Respectfully submitted,

Edith T. Davis

Director, Reinsurance Facility

ETD/lad
Enclosure
RF-11-16

2011 ANNUAL REPORT



NORTH CAROLINA REINSURANCE FACILITY



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

2011 Annual Meeting

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 20, 2011, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

Management Contacts

Ray Evans	General Manager
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Edith Davis	Director, Reinsurance Facility
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Jannet Barnes	Manager, Compliance
919-582-1022	jbb@ncrb.org
Tim Lucas	Manager, Automobile
919-582-1021	ftl@ncrb.org
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
Shelley Chandler	Director, Information Services
919-582-1057	src@ncrb.org
Jo-Anne Mooney	Supervisor, Member Services
919-582-1036	jdm@ncrb.org

Message from the Chairman

First of all, I would like to thank all the Board members and the NCRF Staff for their support and active participation in finding ways to address the issues that come up throughout the year. The interests of all member companies and of North Carolina consumers are well represented by this Board and the NCRF staff.

Here are some of the highlights of the 2010-2011 fiscal year:

- The EDGE system went live on November 18, 2010. Congratulations to all NCRF staff involved in what was a long and difficult undertaking. I'm happy to report that there have been no system failures or critical defects, and the adoption rate by member companies has been very high.
- There was a significant decrease in the 2011 budget thanks to the completion of the major elements of the new EDGE system before the end of 2010. A large part of that decrease was due to the elimination of outsourced data processing since EDGE is now doing the processing. That alone saved us about \$435,000 in 2011.
- Error and late reporting penalties for member companies have been reduced by almost \$300,000 per year.
- We completed the escrow premium refunds, and most were processed via the accelerated settlement option in order to reimburse companies as soon as possible.
- Commercial Auto liability rates were reviewed for the fourth straight year as we continue to strive to stay on top of market changes.
- We invested significant time and effort to monitor and provide technical input for a variety of legislative proposals that would impact the NCRF and North Carolina consumers.
- We reviewed the NCRF "other-than-clean risk" rate level at the same time as the NCRB voluntary rate level in order to reduce the cost, time and effort for the NCRB auto committee members and our consultants. This also allowed us to provide the October 1, 2011, NCRF rates to member companies several months earlier than in the past.
- Our Investment Manager (Wellington) continued to provide excellent service and is doing a good job for us in a very difficult fixed-rate investment environment.

With that long list of accomplishments, we can continue moving forward with even greater confidence and pride in the role we play in the North Carolina insurance arena.

Art Lyon
Chairman

General Manager's Report



Ray Evans
General Manager

Preparing this message for the annual report provides an opportunity to review what the Board has determined our strategies to be and how we execute them. We view the Board's primary objectives for us as operating as effectively as possible and complying strictly with all statutory obligations. The latter is driven by the insistence at every level that we must always do the right thing. The former metric is "what is the expense contained in the total cost of North Carolina's auto premiums as a result of the operation of the Facility." Right now, that cost is about 0.15%, not including what carriers spend directly on Facility business, of last year's more than \$4 billion in premiums.

Being more effective has more tangible goals. The first is to continue to improve technological resources to process the nearly \$1 billion in revenue and 25 million transactions each year. Bringing our new operating system online, particularly online entry, not only allows us to operate with only 17 full-time associates and limited staff shared with the other organizations, but also enables carriers to reduce their direct costs for staffing, and penalties for data errors have decreased dramatically. A fairly large release of changes to the system in late August ought to increase the Facility's efficiency and effectiveness further.

The second is to manage revenue and investments effectively. As you will see later in the financial report, we are managing the money as we should, resulting in the favorable audit report from our auditors. Additionally, our conservative investment policies have served us well, and the investment results have been very good, especially in these turbulent times.

The third is to promulgate rate changes and surcharges so that they reflect current experience. We are making yearly rate level changes to the other-than-clean risks and commercial risks. Our internal process has been modified to make our rate review for other-than-clean risks more efficient and more economical, and it provides more lead time for programming rate changes for the member companies.

Another ingredient in performing well is having competent, engaged associates, which we have. In fact, as one indication of their enthusiasm, we have several who are completing various college or certification courses, several who have attained college degrees in the past year or so and many have attended in-house and offsite training sessions all geared to helping us perform better.

With the direction, help and support of the Board and Committees, this past year was another good one for the Facility.

Ray Evans
General Manager

Board of Governors

Responsibility for management is vested in a 15 member Board of Governors. There are 12 voting members: seven member insurance companies; five agents appointed by the Insurance Commissioner; two nonvoting public members appointed by the Governor and the Insurance Commissioner, who is a member of the Board ex-officio without vote. Six meetings of the Board were held during the year, including three telephone conferences.

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

Agent Members

Apptd. by the Commissioner of Insurance	W. Hutson Wester, II
Apptd. by the Commissioner of Insurance	John E. Wooten, III
Auto Insurance Agents of North Carolina	Jeffrey W. Butler
Independent Insurance Agents of NC	Steven D. Smith
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

Standing Advisory Committees

The Plan of Operation establishes a number of advisory committees. These committees oversee the activities of the Facility and formulate recommendations for presentation to the Board of Governors. In addition, several additional specialty advisory groups perform similar tasks for the Facility throughout the year.

The following committees met during the report period:

Audit Committee

Members	Representative
Liberty Mutual Insurance Co*	Ronald H. Robertson, Jr., CPA
NC Farm Bureau Mutual Insurance Co	Brian Top
Nationwide Mutual Insurance Co	Greg Kilburn
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

Compliance Committee

Members	Representative
Atlantic Casualty Insurance Company	Mark Gaughran
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Greg Kilburn
Universal Insurance Company*	Greg Spray
Agent	W. Hutson Wester, II

Investment Committee

Members	Representative
Allstate Insurance Co	Douglas Dupont
Nationwide Mutual Insurance Co*	Joel Buck
State Farm Mutual Automobile Ins Co	Robert Stephan

Rating Committee

Members	Representative
Atlantic Casualty Insurance Co*	Mark Caughron
Nationwide Mutual Insurance Co	Kathy Tanner
NC Farm Bureau Mutual Insurance Co	Roger N. Batdorff
Travelers Indemnity Co	Todd Hoivik
Agent	Tim Ward

Task Force on Expense Allowances

Members	Representative
21st Century Insurance Co	Scott Gibson
Allstate Insurance Co	Bill Payne
Nationwide Mutual Insurance Co*	Terry Collins
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	Terry Collins
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	

Management Report

The past fiscal year has been one of transition for the Reinsurance Facility. The hugely successful rollout of our new information system, EDGE, in November 2010 brought with it new roles, processes, challenges and efficiencies. It has been an exciting time, but now that the dust has settled a bit, we can focus on additional operational and process improvements.

Operations

During this report period, the North Carolina Reinsurance Facility continued to be the largest residual market mechanism by total written premium volume in the entire United States.

Of the total ceded exposures, 72% were ceded “clean risks,” and 25% were ceded private passenger “other-than-clean” risks, reflecting a 1% shift from “other-than-clean” risks to “clean risks” as compared to the previous fiscal year. The remaining 3% of exposures were commercial risks.

As of June 2011, approximately one million policies were in force — 98% were Private Passenger non-fleet policies and 2% were All Other policies — generating about 27.9 million transactions annually. Overall, total cession notice volume has increased about 4% over the same period last year.

Finally, written premium for the fiscal year ending September 2011 is projected to total around \$765 million, an increase of approximately 3% over the past fiscal year.

Rates and Forms, Escrow and Premium Refunds

Escrow and Premium Refunds

The terms of the settlement of the North Carolina Rate Bureau’s 2008 private passenger automobile rate filing case provided, in part, for refunds to ceded clean risk policyholders. Refunds were ordered to be paid with interest in either of two specified time periods in 2010 and 2011.

The Reinsurance Facility had established and maintained a premium escrow account related to this business. Following the settlement, the Facility advised the ceding carriers to make arrangements to distribute appropriate refunds to clean risk policyholders. In addition, the Facility informed the ceding carriers that they would be reimbursed by the Reinsurance Facility for the difference between the premium ceded to the Facility and the premium that would have been charged using the ultimately settled and approved rates on “clean risk” ceded business, as well as for the interest paid on the amount of premium that was refunded on such business.

The member companies reported the majority of those refunds to the Facility during the fiscal year ended September 30, 2010, and the remainder were reported during the current fiscal year. The premiums refunded totaled approximately \$17.4 million, and the escrow account was closed in March 2011.

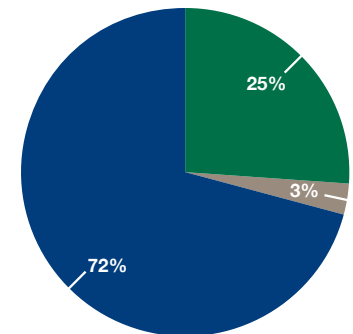
Rates and Forms

In 2011, the Rate Bureau filed a private passenger automobile rate review and did not propose any changes in rates. As a result, there were no rate changes this year for private passenger auto clean risks ceded to the Facility.



Edith T. Davis
Director, Reinsurance Facility

Distribution by Exposures



- Private Passenger – Clean Risks
- Private Passenger – Other-Than-Clean Risks
- All Other (Commercial)

In March 2011, the Facility filed rate level changes for “other-than-clean” risks to become effective for all new and renewal policies effective on and after October 1, 2011. The filing included average rate level changes of +4.0% for bodily injury, +3.5% for property damage and +22.1% for medical payments coverages, averaging +4.5% over rates presently in effect. The filing also included a rate level change of +1.6% for motorcycle liability coverages. This filing was prepared several months earlier this year in an effort to make better and more efficient use of resources and to provide more advance notice to companies for programming.

For the commercial auto business, in December 2010, the Facility filed revised basic limits premium rates for liability insurance for trucks, tractors and trailers, garages, and private passenger types not eligible for rating under the North Carolina Personal Automobile Manual and revised bodily injury and property damage increased limits factors. The various rate level changes averaged -6.1% over the rates previously in effect and applied to all new and renewal policies becoming effective on and after March 1, 2011.

For the fourth year in a row, the Facility commissioned a commercial auto rate review in 2011; the review resulted in a filing for the same coverages as in the previous filing. The various rate level changes averaged -4.4% over the rates previously in effect and will apply to all new and renewal policies becoming effective on and after March 1, 2012.

In October 2010, the Facility published revisions to the Commercial Automobile Policy Program, which had been filed for use on an optional basis. These revisions were designed to track the changes made by Insurance Services Office (ISO) for the Commercial Automobile Policy Program utilized on a voluntary basis and included revisions to the policy forms as well as to the Commercial Auto Manual.

In addition to tracking the revisions ISO made in the voluntary market, the Facility identified which policy forms are eligible for cession. This filing afforded many of our member companies the opportunity to utilize the same forms in insuring risks ceded to the Reinsurance Facility that they utilize in connection with their voluntary commercial automobile insurance business. These changes were applicable to all policies becoming effective on or after December 1, 2010, on an optional basis.

Clean Risk Recoupment

North Carolina law requires carriers to “take all comers” on automobile liability insurance, and carriers can cede to the Facility the risks they choose not to insure voluntarily. While the Facility establishes actuarially sound rates for “other-than-clean” risks, the rates for “clean risks” are statutorily capped at the voluntary rate level, which is inadequate to pay the losses and expenses of the clean risks ceded to the Facility. The shortfall between what this group pays and what it should pay is made up through the statutorily authorized “clean risk” recoupment surcharge applied to the liability premiums of all private passenger non-fleet policies.

Recoupment surcharges are reviewed at least annually and adjusted as appropriate. Effective October 1, 2010, the Board of Governors implemented a clean risk recoupment surcharge of 4.33% (before inclusion of agent compensation). For the current fiscal year through May 2011, income from the clean risk surcharges has generated approximately \$86.3 million.

In June 2011, the Board of Governors authorized a new clean risk recoupment surcharge which will be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2011. This surcharge was set at 3.87% (before inclusion of agent compensation) after a significant portion of the Facility’s members’ equity balance was applied as an offset against the indicated clean risk shortfall, and is projected to generate approximately \$114.9 million.

Operating Results

For the fiscal year through June 30, 2011, the Facility had realized operating gains in two of the first three consecutive quarters compared to three consecutive quarterly gains for the same period in the prior year. Written premiums, paid losses, and investment income all experienced increases but were partially offset by a significant decrease in recoupment. As a result of the operating gains, the members’ equity balance increased from \$77.5 million in September 2010 to \$98.5 million in June 2011.

Compliance Activity

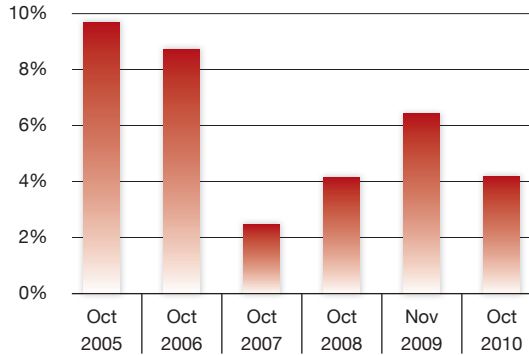
More than 100 member company groups report to the Facility, and each is reviewed at least annually. Our focus is on compliance with statutes, rules and regulations, as well as eligibility for ceded coverage and reimbursement, as part of our responsibility to ensure that the Facility collects the right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

Throughout the year, the compliance staff performs audits on each ceding company. 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. The compliance staff also performs audits on non-ceding companies to ensure that recoupment amounts are correctly determined and collected. In addition to the regular audits, this year the premium refunds were also reviewed. The Compliance team also spent a great deal of time designing and implementing improvements to the tracking of audit results in preparation for the implementation of an audit-tracking function included in a future phase of the EDGE system.

Legislative Changes

The Facility was created by the Legislature in 1973 and replaced an Assigned Risk Auto Plan. At that time, there was

Clean Risk Recoupment Surcharges



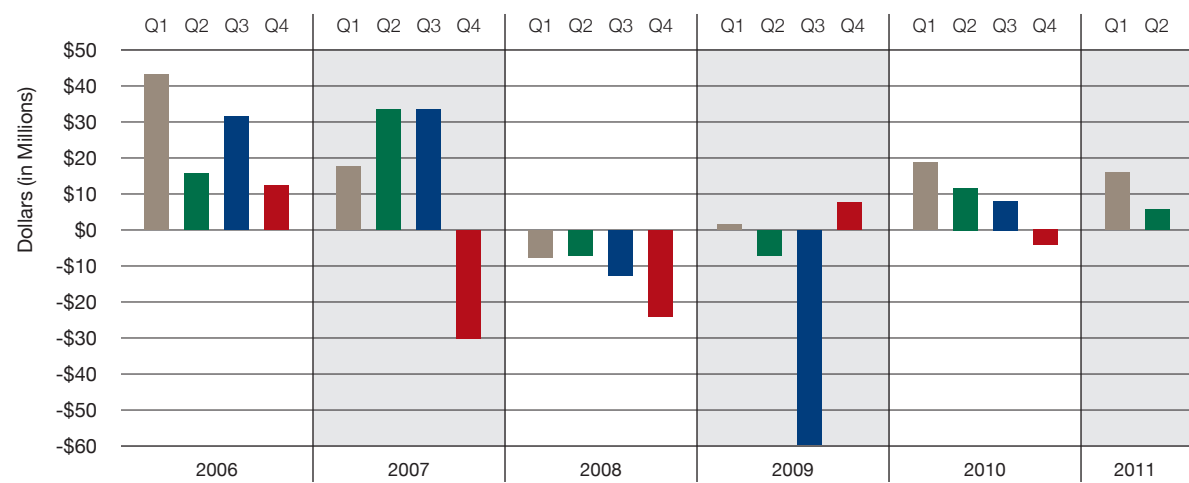
a perceived stigma of being included in a bad risk pool, so this new mechanism enabled drivers to select the company of their choice. Since then, the legislature has made alterations over time to address changing conditions in the marketplace.

During the 2011 legislative session, there was no legislation enacted which directly impacted the Reinsurance Facility; however, there were numerous proposals which would have impacted the Facility in various ways and which we monitored very closely. At the time of this writing, a number of proposals had been deferred for further study during the off-season of the legislature.

EDGE System Live!

After years of planning and development, we are thrilled to report that our new information system, EDGE, went live on November 18, 2010. This marked a major milestone in the history of the Facility as we migrated from the mainframe system used since our inception 38 years ago and into the world of online transactions and limited real-time processing. The system rollout has been extremely successful and well adopted by our customers, with more than 600 users having logged into the system to date. As an example, consider that approximately 22,500 transactions (new sessions or modifications) are processed each month through EDGE's online interface, and that more than 2,300,000 transactions are processed monthly via File Transfer Protocol (FTP) transmission.

Net Results of Operations (After Recoupments)



EDGE has eliminated many manual and paper-based processes and, for the first time, given companies a portal to access their ceded data. Now companies not only transmit data files; they can both cede policies and make corrections to ceded data online. As a result, penalty charges for uncorrected data have been reduced 85% over 2009 levels, equating to an estimated annual savings of \$295,000 for member companies, with the additional advantage that we have cleaner data and less staff time spent processing corrections. For the first time, the Facility's data processing is performed and supported in-house, eliminating approximately \$435,000 of data processing vendor charges with limited increases in support staff. Additional functionality will follow in late 2011 and early 2012.

Conclusion

The end of 2010 marked the successful completion of a long journey for the staff, which had demonstrated remarkable dedication and persistence throughout the planning and development of EDGE. With the major portion of the new system delivery behind us, we have had the opportunity to

focus on other aspects of our operation. We have positioned ourselves for the future and can now leverage this technology to achieve greater efficiencies in other areas while continuing to collect the right premium, pay the right losses and minimize the impact on our stakeholders. Other behind-the-scenes activities are also adding stability to our operation, such as more routine rate reviews, increased documentation of our processes, improvements to our Disaster Recovery plan, and enhancements to our website.

We gratefully acknowledge the support and cooperation of our member companies in making EDGE a huge success and the Board of Governors who helped us stay the course. A big "thank you" also goes out to our committees and advisors for the time they have taken from their other duties in order to provide support and input throughout the year.

Edith Davis

Edith Davis

Director, Reinsurance Facility

Shared Services

Information Services

The Information Services department (IS) is responsible for Communications/Customer Service, Process Documentation/Process Improvement, Systems Availability and Systems Development.

The customer service area handles approximately 4,000 support calls and emails per month from external customers via the Information Center, and the Service Desk handles an additional 250 calls and emails from internal associates. In 2011, the Information Center implemented multiple improvements to their existing processes, including call monitoring and quality auditing. Efforts are underway to revamp the customer survey and implement scorecard metrics.

Technology has become an increasingly important tool in enabling our customers to interact with us more efficiently. In late 2010, the EDGE system revolutionized the way that customers interact with the Reinsurance Facility. In 2011, enhancements to this system have focused on improving the internal processes of the Reinsurance Facility.

In 2011, the technology area also focused on redesigning the infrastructure to deploy a multi-layered security strategy. In addition to infrastructure changes, several of our core systems underwent a security audit to assess potential risk exposure in these custom applications. Enhancements are already underway to increase our security posture for these applications.

The Process Documentation Services Team is tasked with the responsibility of promoting an environment supported by processes that are identified, documented, measured, managed and improved. Process documentation is the precursor to superior customer satisfaction, overall reduction in errors and lower costs. To date, this team has made significant headway in documenting critical processes for

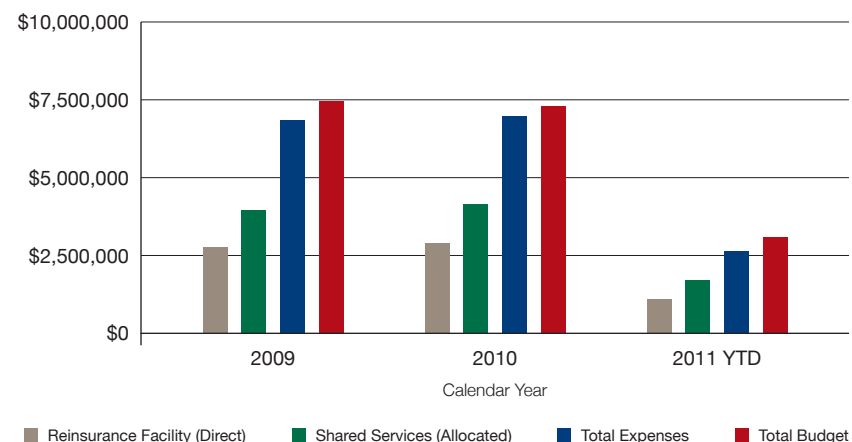
the Reinsurance Facility. Relying on subject matter experts, the business units review and validate this documentation. In the current EDGE environment, documenting process workflows has enabled the business unit to eliminate workarounds and increase process efficiencies.

Finance

Investments

The North Carolina Reinsurance Facility's investment program continued to perform well over the past year via the services of Wellington Management Company, which assumed the role and responsibilities of investment manager in October 2009. Through the quarter ending June 30, 2011, the total return in the portfolio was 5.62% (net of fees), outperforming the benchmark by 47 basis points over the same period. The market value of the Facility's portfolio at that date approximated \$849.3 million compared to \$808.0 million one year ago. During the current fiscal year, the Facility transitioned the custody services of the investment portfolio to State Street Bank; this change will result in lower fees and expenses as well as provide additional accounting report services to assist Staff and improve efficiencies.

North Carolina Reinsurance Facility Administrative Expenses



Operating Expenses

The operating expenses of the Facility totaled \$7.06 million during calendar year 2010, representing approximately 94% of the approved budget last year. The Facility's operating expenses are also under budget through the first six months of 2011 and are projected to be near budget for the remainder of the year based on our current estimates. These expenses include the direct costs incurred by the Facility as well as the allocated costs of the departments whose expenses are shared with the Rate Bureau and the Insurance Guaranty Association. The table and chart on this page show a summary of the direct and allocated expenses for the prior two years and the first half of 2011.

Administrative Expenses	2009	2010	Thru June 2011
Reinsurance Facility (Direct)	\$ 2,869,802	\$ 2,915,802	\$ 1,253,800
Shared Services (Allocated)	4,115,606	4,148,969	1,859,147
Total Expenses	\$ 6,985,408	\$ 7,064,412	\$ 3,112,947
Total Budget	\$ 7,692,121	\$ 7,512,301	\$ 3,481,075

NCRF Management Staff

Human Resources

Human Resources (HR) is the strategic and comprehensive approach to managing our Organization's most valued assets — the people. HR responsibilities include administering HR policies, programs and practices and providing a safe work environment, professional development opportunities and work-life balance for our associates. A main project this year includes the implementation of eAppraisal and eSuccession, strategic talent management software for all associates. eAppraisal will incorporate goal alignment/management, associate appraisals, associate journals, competency management, development planning and talent profiles for associates. eSuccession will offer succession and career planning.

On-site training this year consisted of 12 wellness classes through our partnership with WakeMed Hospital, three Microsoft Office classes, and seven professional development classes.

We have a strong wellness initiative that includes:

- WeightWatchers at Work
- a partnership with the NC Prevention Partners
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10k steps a day
- wellness screenings held on-site each July
- flu shots provided for associates on-site
- certification in First Aid, CPR and AED for a third of our workforce through the American Red Cross.

Community service involvement by our associates this year included the Susan G. Komen Race for the Cure. This event was held on June 11, and we had 40 participants on our team for the race/walk. Various fund-raisers occurred in the first half of the year, and we were pleased to exceed our fundraising goal! In addition, we will be supporting the United Way in various events during our fall campaign.



Tim Lucas
Manager,
Automobile



Mike Newton
Manager,
Claims



Jannet Barnes
Manager,
Compliance



Jo-Anne Mooney
Supervisor,
Member Services

NCRF Shared Services



Vicki Godbold
Director, Human
Resources and
Administrative Services



David Sink
Director,
Finance



Shelley Chandler
Director,
Information Services

North Carolina Reinsurance Facility

BALANCE SHEET

As of	June 30, 2011	June 30, 2010
Assets		
Cash (Checking Account)	\$10,797,791	\$1,188,065
Cash Restricted (Including Escrow)	-	22,447,045
Investments	798,448,008	746,685,876
Accounts Receivable	12,993,225	26,400,530
Accrued Interest Receivable	6,854,679	7,147,402
Other Assets	92	44,459
Total Assets	\$ 829,093,795	\$ 803,913,377
Liabilities & Members' Equity		
Accounts Payable	\$20,884,388	\$22,693,143
Loss Reserves	485,173,367	478,354,815
Unearned Premium Reserves	224,299,144	216,480,402
Provision for Premium Refunds	-	16,053,973
Other Liabilities	257,841	563,497
Total Liabilities	\$ 730,614,740	\$ 734,145,830
Members' Equity	98,479,055	69,767,547
Total Liabilities & Members' Equity	\$ 829,093,795	\$ 803,913,377

INCOME STATEMENT

Fiscal Year through	June 30, 2011	June 30, 2010
Income		
Earned Premiums	\$ 559,069,181	\$ 548,095,894
Clean Risk Recoupment	97,146,631	140,916,175
Investment Income	33,092,206	22,378,089
Membership Fee Income	53,100	52,400
Other Income	287,183	276,158
Total Income	\$ 689,648,301	\$ 711,718,716
Expenses		
Losses Incurred	\$460,300,530	\$455,187,718
Ceding & Claims Expenses	209,680,240	214,601,156
Premiums Escrowed	(6,827,838)	(3,339,192)
Salaries & Administration Expenses	1,618,343	1,559,232
Outside Services Expenses	2,335,900	2,564,996
Other Operating Expenses	1,330,112	1,369,237
Total Expenses	\$ 668,437,287	\$ 671,943,147
Net Income/(Loss)	\$ 21,211,014	\$ 39,775,569
Before Loss Recoupments		
Loss Recoupments	(304)	(248)
Net Income/(Loss)	\$ 21,210,710	\$ 39,775,321
After Loss Recoupments		

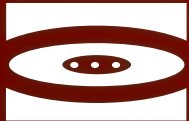
North Carolina Reinsurance Facility

SPECIAL PURPOSE BALANCE SHEET

Year Ending	Sept 30, 2010	Sept 30, 2009
Assets		
Cash and Short-Term Investments	\$ 21,254,788	\$ 126,344,532
Long-Term Investments, at Amortized Cost	756,052,085	609,003,077
Accrued Interest Receivable	7,008,449	5,559,372
Receivables From Member Companies:		
• Settlements	27,985,492	17,921,324
• Late Premium Charges and Penalties	45,418	74,343
	28,030,910	17,995,667
Total Assets	\$ 812,346,232	\$ 758,902,648
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves:		
• In Course of Settlement	\$ 359,365,770	\$ 347,414,844
• Incurred But Not Reported	124,926,322	124,076,785
Total Loss and Loss Adjustment Expense Reserves	484,292,092	471,491,629
Unearned Premium Reserves	229,384,480	227,787,678
Unearned Clean Risk Subsidies	2,681,870	331,383
Settlements Payable to Member Companies	14,230,183	17,666,753
Provision for Premium Refunds	6,827,838	19,393,165
Other Liabilities	343,292	412,663
Total Liabilities	\$ 737,759,755	\$ 737,083,271
Commitments and Contingencies		
Members' Equity	74,586,477	21,819,377
Total Liabilities and Members' Equity	\$ 812,346,232	\$ 758,902,648

SPECIAL PURPOSE STATEMENT OF OPERATIONS

Year Ending	Sept 30, 2010	Sept 30, 2009
Premiums Earned	\$ 723,642,069	\$ 734,634,282
Clean Risk Subsidies	188,421,296	138,266,646
Total Underwriting Income	912,063,365	872,900,928
Losses Incurred	\$ 612,747,410	\$ 621,669,137
Ceding Expense Allowances	201,447,977	198,698,584
Claims Expense Allowances	91,081,177	102,313,192
Premiums Escrowed	(12,565,327)	19,393,165
Total Underwriting Expenses	\$ 892,711,237	\$ 942,074,078
Net Underwriting Income (Loss)	\$ 19,352,128	\$ (69,173,150)
Other Income (Expense):		
Net Investment Income	\$ 32,773,973	\$ 33,220,144
Net Realized Investment Gains (Losses)		
Including Impairments	6,821,130	(12,405,001)
Late Premium Charges and Penalties	289,385	488,230
Membership Fees	52,800	51,000
Cession Notice Charges	13,874	15,255
General and Administrative Expense	(6,072,553)	(5,936,977)
Other Miscellaneous Expenses	(463,337)	--
Total Other Income (Expense) – Net	\$ 33,415,272	\$ 15,432,651
Net Operating Income (Loss)	\$ 52,767,400	\$ (53,740,499)



North Carolina Reinsurance Facility

5401 Six Forks Road Raleigh, NC 27609 www.ncrb.org