



MINUTES OF THE MEETING OF THE FORTIETH ANNUAL MEETING OF THE
NORTH CAROLINA REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT
AND CONFERENCE CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO,
NORTH CAROLINA, OCTOBER 17, 2013

MEMBERS PRESENT

Allstate Insurance Co.
 Allstate Indemnity Co.
 Allstate Property & Casualty Insurance Co.
 Allstate Vehicle and Property Insurance Co.
 Encompass Indemnity Co.
 Esurance Insurance Co.
 Northbrook Indemnity Co.
 Atlantic Casualty Insurance Co.
 Little River Insurance Co.
 Builders Mutual Insurance Co.
 Builders Premier Insurance Co.
 Farmers Insurance Exchange
 21st Century Advantage Insurance Co.
 21st Century Assurance Co.
 21st Century Casualty Co.
 21st Century Centennial Insurance Co.
 21st Century Insurance Co.
 21st Century North America Insurance Co.
 21st Century Premier Insurance Co.
 Foremost Insurance Co. Grand Rapids MI
 Foremost Property & Casualty Insurance Co.
 Mid Century Insurance Co.
 Truck Insurance Exchange
 GEICO Indemnity Co.
 Berkshire Hathaway Homestate Insurance Co.
 GEICO Advantage Insurance Co.
 GEICO Casualty Co.
 GEICO Choice Insurance Co.
 GEICO General Insurance Co.
 GEICO Secure Insurance Co.
 General Star National Insurance Co.
 Genesis Insurance Co.

REPRESENTED BY

Brian O'Neill
 John Erickson
 Kevin Steele

 Mark Caughron
 Sonja Maki
 Jerry Visintine

 Bill Tibbens

 Joe Jordan

Government Employees Insurance Co.	
National Indemnity Co.	
National Liability & Fire Insurance Co.	
Pennsylvania Insurance Co.	
United States Liability Insurance Co.	
Greenville Casualty Insurance Company	Dean Kruger
Hartford Fire Insurance Company	Andy Montano
Hartford Accident & Indemnity Company	
Hartford Casualty Insurance Company	
Hartford Insurance Company of the Midwest	
Hartford Underwriters Insurance Company	
Property & Casualty Insurance Company of Hartford	
Sentinel Insurance Company Ltd	
Trumbull Insurance Company	
Twin City Fire Insurance Company	
Liberty Mutual Insurance Co.	Jared Stuckey
American Economy Insurance Co.	
American Fire & Casualty Co.	
American States Insurance Co.	
American States Preferred Insurance Co.	
Colorado Casualty Insurance Co.	
Employers Insurance Co. of Wausau	
Excelsior Insurance Co.	
First Liberty Insurance Corp.	
First National Insurance Co. of America	
General Insurance Co. of America	
Liberty Insurance Corp.	
Liberty Insurance Underwriters Inc.	
Liberty Mutual Fire Insurance Co.	
Liberty Mutual Mid-Atlantic Insurance Co.	
LM General Insurance Co.	
LM Insurance Corp.	
LM Property & Casualty Insurance Co.	
Midwestern Indemnity Co.	
Montgomery Mutual Insurance Co.	
Netherlands Insurance Co.	
Ohio Casualty Insurance Co.	
Ohio Security Insurance Co.	
Peerless Indemnity Insurance Co.	
Peerless Insurance Co.	
SAFECO Insurance Co. of America	
SAFECO Insurance Co. of Indiana	
Wausau Business Insurance Co.	
Wausau Underwriters Insurance Co.	
West American Insurance Co.	
Integon Indemnity Corporation	Art Lyon
Agent Alliance Insurance Company	Brian Rogers
AmTrust Insurance Company of Kansas, Inc.	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	

Integon National Insurance Company	
Integon Preferred Insurance Company	
Maiden Reinsurance Company	
Maiden Specialty Insurance Company	
Milwaukee Casualty Insurance Co.	
National General Insurance Company	
New South Insurance Company	
Security National Insurance Company	
Technology Insurance Company	
Wesco Insurance Company	
Allied Property & Casualty Insurance Company	Terry Collins
AMCO Insurance Company	Corsan Maley
Depositors Insurance Company	
Farmland Mutual Insurance Company	
Freedom Specialty Insurance Company	
Harleysville Insurance Company	
Harleysville Preferred Insurance Company	
Harleysville Worcester Insurance Company	
National Casualty Company	
Nationwide Affinity Insurance Company of America	
Nationwide Agribusiness Insurance Company	
Nationwide General Insurance Company	
Nationwide Insurance Company of America	
Nationwide Mutual Fire Insurance Company	
Nationwide Property & Casualty Insurance Company	
Scottsdale Indemnity Company	
Titan Indemnity Company	
Victoria Fire & Casualty Company	
Victoria Automobile Insurance Company	
North Carolina Farm Bureau Mutual Insurance Co.	Roger Batdorff
Farm Bureau Insurance Co. of North Carolina	
Pennsylvania National Mutual Casualty Insurance Co.	Pat Lovell
Penn National Security Co.	
Sentry Insurance A Mutual Co.	Peter Sampson
Dairyland Insurance Co.	
Middlesex Insurance Co.	
Peak Property & Casualty Insurance Corp.	
Sentry Casualty Co.	
Sentry Select Insurance Co.	
State Farm Mutual Automobile Insurance Co.	Alan Bentley

Travelers Indemnity 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 Mercury Insurance Company
St Paul Protective Insurance Company
Standard Fire Insurance Company
Travco Insurance Company
Travelers Casualty & Surety Company
Travelers Casualty & Surety Company of America
Travelers Casualty Company
Travelers Casualty Company of Connecticut
Travelers Casualty Insurance Company of America
Travelers Commercial Casualty Company
Travelers Commercial Insurance Company
Travelers Constitution State Insurance Company
Travelers Home & Marine Insurance Company
Travelers 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 Co.
USAA Casualty Insurance Co.
USAA General Indemnity Co.
Unitrin Auto & Home Insurance Company
Merastar Insurance Company
Response Insurance Company
Response Worldwide Insurance Company
Unitrin Direct Property & Casualty Company
Unitrin Safeguard Insurance Company
Universal Insurance Co.

OTHERS PRESENT

Young, Moore & Henderson

North Carolina Department of Insurance

Chad Wilson

Dan Pickens

Jennifer Fredenburg
Christy Jones
Tom Tomlinson

Jim McCafferty
REPRESENTED BY
Glenn Raynor
Mickey Spivey
Mike Strickland
Bob Mack

Wellington Management	Fred Fuller
	Chris Holleman
ISO	Eric Tanaka
Able Auto Insurance	Patrick Woods
Green & Wooten Insurance	Jeff Butler
Pinehurst Insurance	John Wooten
Senn Dunn Marsh & Roland	Rob McVay
Wester Realty & Insurance Agency	Tim Ward
Public Members NCRF Board of Governors	Hutson Wester
	Steve Smith
	David Walker
Honored Guests	Bob Blystone
	Benjy Seagle
	Greg Spray
	Richard Yarbrough
Staff	Jannet Barnes
	Edith Davis
	Ray Evans
	Vicki Godbold
	Fred Hoerl
	Tim Lucas
	Lois Murphey
	David Sink
	Sue Taylor

118 other companies voted by proxy.

The meeting convened as scheduled, Mr. Jordan 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. Mr. Spivey provided a few comments regarding these statements and the importance of complying with them.

1. Recognition of Honored Guests and Long-Term Board Members

Mr. Evans recognized each of the following six honored guests and expressed great appreciation for the length of their service and significant contributions as past members of the Board of Governors during the history of the Facility:

<u>Retired Board Member</u>	<u>Years of Service</u>
Art Ivey *	19 years
Bob Blystone	7 years
Amy Powell	10 years
Gary Sanginario *	6 years
Benji Seagle	30 years
Greg Spray	11 years
Richard Yarbrough	14 years (combined)

*Not present

Ms. Davis then recognized the following current Board members for the significant length of their service:

<u>Current Board Member</u>	<u>Years of Service</u>
Jeff Butler	14 years
Art Lyon	24 years
Steve Smith	15 years
Hut Wester	26 years
John Wooten III	11 years
David Walker	11 years
Tim Ward	8 years

2. Annual Report

Copies of the Fortieth Annual Report for the fiscal year ended September 30, 2013 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.

3. Chairman's Comments

Mr. Jordan shared comments on the numerous activities and events of the preceding year, especially noting the significant Legislative activity in 2013 regarding various proposals that would affect auto liability insurance, the stability of the Facility's size and volume, the carefully managed changes in Clean Risk recoupment, the effective management of the portfolio through anticipated balance decreases by the Investment Manager, Wellington; and the operational efforts throughout the year which focused on greater efficiency. 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

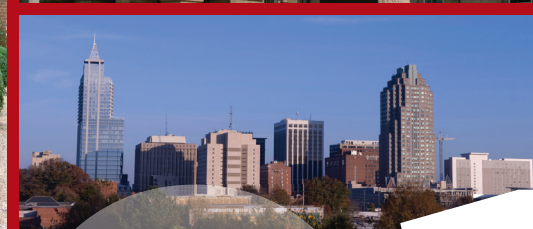
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North Carolina Reinsurance Facility

Annual Report

Celebrating our 40th Anniversary



2013

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Management Contacts

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 919-582-1057 src@ncrb.org

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 Facsimile 919-783-0355
 Website Address. www.ncrb.org/ncrf/
 Physical Address 2910 Sumner Blvd.
 Raleigh, NC 27616

2013 Annual Meeting

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 17, 2013, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

GENERAL MANAGER'S REPORT



Ray Evans
GENERAL MANAGER

The past year has been one of steady progress towards goals designed to make the Reinsurance Facility an outstanding (not just good) organization. Generally speaking, the Facility management's goals revolve around providing information and educating whoever is interested; reviewing rates and the clean risk recoupment at least annually; moving all data into an efficient electronic environment; managing monies, including investments, effectively; and managing an efficient compliance program. Later parts of this report will detail how we have done this past year.

That is the view from 50,000 feet. In examining these ideas more closely, the details of being able to accomplish our goals, given the scope and diversity of our activities, are impressive.

For example, continuing to process 30,000,000 accounting transactions supporting the 2 million cessions each year, with the goal of zero errors, requires a very sophisticated system operated by well-trained associates. This sophistication just this year required virtualization (almost complete); a more robust co-location with response and recovery protocols to continue processing in the event of business interruptions (now being tested); all kinds of accounting support; upgrading and updating of the website for usability and security as it is the portal for entry into the system; and now in the final stages, the designing of an electronic compliance program that is a large part of an expanded internal control program. To help manage this task, we have installed a SAS analytic program and are implementing a refined data-retention policy.

What really impresses me is that our folks are up to the challenges of working with the development, implementation, and execution of a system that manages nearly \$1 billion in cash flow and millions of discrete transactions in a secure cyber-environment at a cost of pennies per transaction.

This is the 40th year of the Facility, and two things come to mind when I peruse this. One is that the authors of the plan were really good, as there have been few changes in what is being done. How it is done has changed enormously, but not the what. The other is that, during these 40 years, the percentage of Facility cessions compared to the total statewide policy count has remained almost constant, as is pointed out a little later in this report.

My thanks to our associates for their work, the Board of Governors for their support and advice, and the many committee members for their work and for their confidence in what we do.

Ray Evans
General Manager

MESSAGE FROM THE CHAIRMAN

This year marks the 40th anniversary of the inception of the Facility! While much has changed in our world over the past 40 years, changes to the design of the NCRF program have been relatively minor during that time.

Highlights of the 2012-2013 fiscal year:

- The size, volume and activity of the Facility remained very stable.
- Our investment portfolio balance currently exceeds \$800 million, but has begun to decline. This shift is due in part to a lower clean risk recoupment surcharge, an increase in settlements due to member companies and a small rise in interest rates in the financial markets. Our investment manager, Wellington Management, continued to outperform its benchmarks and effectively manage our portfolio during a continued low-interest-rate environment for fixed income investments.
- Rate reviews were performed for both Other-Than-Clean Private Passenger and Commercial Auto lines of business.
- Clean Risk recoupment results have been monitored very closely and revised twice in this report period.
- The 2012-2013 operating budget is less than 1% of the Facility annual premium. Operating expenses were under budget through June 2013.
- Staff and counsel monitored the 2013 NC General Assembly long session for all activity that would affect auto liability insurance. Our role is to educate interested parties on matters that pertain to the auto residual market. No legislation was passed that impacts the NCRF.
- 2012-2013 operational efforts focused on efficiency:
 - Improved business interruption planning
 - Improved security for data transmissions
 - Improved customer service efforts
 - Purchased and implemented SAS data analytic software to enhance the use of EDGE system data
 - Entered the design phase of an audit-tracking module to be implemented in the EDGE system

I would like to express my appreciation to the Board members and the NCRF staff for their support and participation during the past year. The member companies, agents and consumers are well served by this Board and the NCRF staff.

Joe Jordan
GEICO Indemnity Co.
Chairman

BOARD OF GOVERNORS

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

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

Members	Representative
Allstate Insurance Co	Brian O'Neill
Atlantic Casualty Insurance Co	Robbie Strickland
GEICO Indemnity Co*	Joe Jordan
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Mendi Riddle
Travelers Indemnity Co	Sylvia Kyle
Universal Insurance Co	Jim McCafferty

Public Members
J. David Walker, Lumberton, NC
Steven Smith, North Wilkesboro, NC

Ex-officio Member
Wayne Goodwin, 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. In addition, several additional specialty advisory groups perform similar tasks for the Facility throughout the year.

Audit Committee	
Members	Representative
Liberty Mutual Insurance Co*	Ronald H. Robertson, Jr
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	Jennifer Baurle
Agent	Robert M. McVay

Compliance Committee	
Members	Representative
Atlantic Casualty Insurance Co	Mark Caughron
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Greg Kilburn
Universal Insurance Co*	Jim McCafferty
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	Edward A. Bosk
Agent	Tim Ward

Task Force on Expense Allowances	
Members	Representative
21st Century Insurance Co	Scott Gibson
Allstate Insurance Co	Brian O'Neill
Nationwide Mutual Insurance Co*	Terry Collins
Sentry Insurance A Mutual Co	Peter Sampson
State Farm Mutual Automobile Insurance Co	Alan Bentley
Agent	Tim Ward

Task Force on Recoupment	
Members	Representative
Integon Indemnity Corporation	Art Lyon
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
Agent	Robert M. McVay

* Chair

Edith T. Davis

DIRECTOR, REINSURANCE FACILITY



MANAGEMENT REPORT

Introduction

This year the Facility is 40 years old. Our purpose has not changed since our inception in 1973. Some things are remarkably different and others remarkably the same. Here is a quick look back at then and now:

	1973	2013
NC Auto Liability Written Premium	\$263.9M*	\$3.1B*
NCRF Written Premium	\$7.9M**	\$787M*
NCRF Share of NC Market	23.1%***	25.5%
Expense Allowances		
Ceding Expense Allowance	26.2	26.7
Claims Expense Allowance	10.1	10.8
PPA Cedable Limits	100/300/50	100/300/50
Number of Member Companies	205	549
Reporting Method	Paper, magnetic tape	Electronic transfer, online
Data Processing	Outsourced mainframe	In-house web application
Settlement turnaround time	approx. 90+ days	approx. 30 days

*At prior year-end figures

** partial year

***used 1975, earliest available figures

This year we focused on enhancing the customer experience. Staff improved the website content by creating and posting documents designed to assist

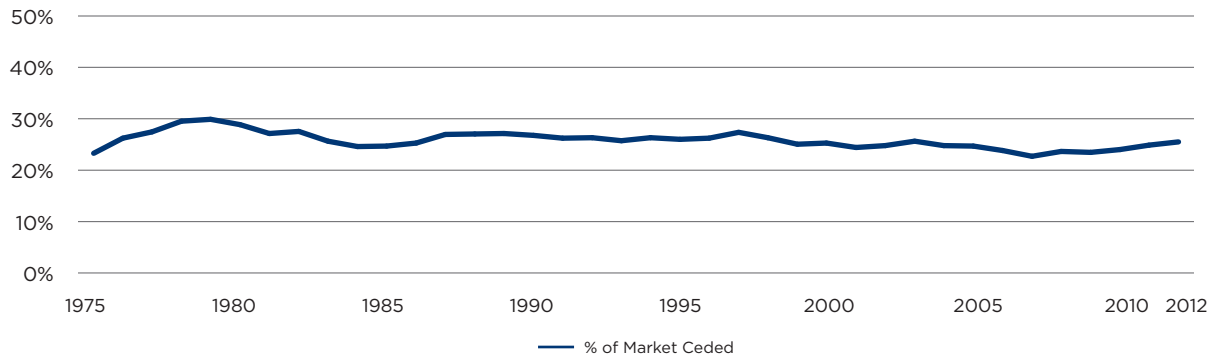
member companies with various points of interaction with the Facility and to streamline the setup for new member companies. Our business recovery plan was enhanced through the development of improved FTP special handling protocols to insure the quickest possible response and handling following business interruptions. Virtualization of the EDGE system should be complete by year-end and is anticipated to offer improved stability and new business continuity options for the future.

A data analytics software system has been implemented to enable us to leverage the EDGE system data for more focused audits, and more work was performed to enhance the EDGE system for greater functionality. Significant progress was made toward the electronic archival of records and the elimination of paper documents, but now with a greater focus on the organization and appropriate retention of these records. The Facility continues to operate with a budget that totals less than 1% of the annual written premium volume of the Facility.

During this report period, the North Carolina Reinsurance Facility was the largest residual market mechanism by total written premium volume in the United States. The Facility provides reinsurance for approximately one quarter of the automobile liability business written in North Carolina. This figure has remained notably stable since the Facility was created in 1973.

Of the total ceded exposures, 74% were private passenger “clean risks, and 23% were private passenger “other-than-clean” risks, consistent with the previous fiscal year. The remaining 3% of ceded exposures were commercial auto risks.

Share of NC Auto Liability Market Ceded — By Calendar Year



As of June of 2013, approximately 1.2 million policies were in force — 97% were private passenger non-fleet policies, and 3% were all other policies — generating over 30 million transactions annually. Overall, total cession notice volume is about 5% higher than the same period last year.

Finally, written premium for the fiscal year ending September 2013 is projected to total over \$800 million, which is approximately 5% higher than the previous fiscal year.

Rates and Forms

In 2013, 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.

The Facility performed a rate review for “other-than-clean” risks but did not file any rate level changes in 2013, so rates remained the same for all new and renewal policies becoming effective on and after October 1, 2013.

For the commercial auto business, in October 2012, 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 +1.7% over the rates previously in effect and applied to all new and renewal policies becoming effective on and after March 1, 2013. The Facility performed an annual commercial auto rate review in 2013 but did not file any rate level changes, so rates will remain the same for all new and renewal policies becoming effective on and after March 1, 2014.

Insurance Services Office (ISO) filed a new optional Commercial Auto Policy Program for the voluntary market that became effective on October 1, 2013. The Facility adopted certain of these policy forms applicable to ceded coverage and new Commercial Auto Manual rules to address this new policy program for business ceded to the Facility, also effective on an optional basis effective on October 1, 2013.

Clean Risk Recoupment

North Carolina law requires carriers to “take all comers” on automobile liability insurance, and carriers can cede to the Facility the risks they choose not to insure voluntarily. While the Facility establishes actuarially sound rates for

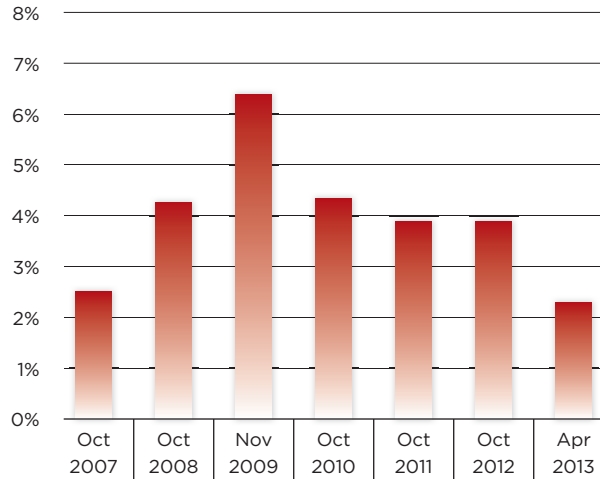
“other-than-clean” risks (except that no profit is included), the rates for “clean risks” are statutorily capped at the voluntary rate level, which is inadequate to pay the losses and expenses of the clean risks ceded to the Facility. The shortfall between what this group pays and what it should pay is made up through the statutorily authorized clean risk recoupment surcharge applied to the liability premiums of all private passenger non-fleet policies.

Recoupment surcharges are reviewed at least annually and adjusted as deemed appropriate and necessary. Effective October 1, 2012, the Board of Governors implemented a clean risk recoupment surcharge of 3.87% (before inclusion of agent compensation). This surcharge percentage was equal to the percentage implemented in the prior period and also reflected the application of a portion of the Facility’s members’ equity balance as an offset against the indicated clean risk shortfall.

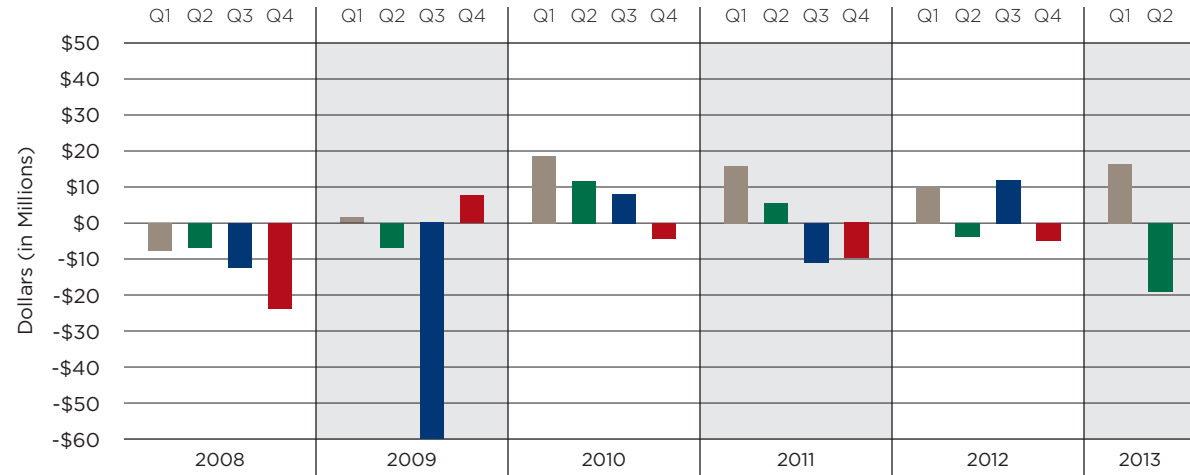
In December 2012, the Board of Governors authorized a new lower clean risk recoupment surcharge of 2.25% (before inclusion of agent compensation) to be applicable to all new and renewal private passenger policies effective on and after April 1, 2013, through September 30, 2013, and a significant portion of the Facility’s members’ equity balance was again applied as an offset against the indicated clean risk shortfall. For the current fiscal year through June 2013, income from clean risk surcharges has generated approximately \$17.3 million.

In June 2013, 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, 2013, through March 31, 2014. This surcharge was also set at 2.25% (before inclusion of agent compensation), and a significant portion of the Facility’s members’ equity balance was again applied as an offset against the indicated clean risk shortfall.

Clean Risk Recoupment Surcharges



Net Results of Operations (After Recoupments)



Operating Results

Similar to last year, the Facility had realized operating losses in two of three consecutive quarters for the fiscal year through June 30, 2013. Despite an increase in written premiums, increases in incurred losses and significant decreases in recoupment income generated net losses for this period. As a result of the operating losses, the members' equity balance decreased from \$95.5 million in September 2012 to \$88 million in June 2013.

Compliance Activity

More than 100 member company groups report to the Facility, and each is reviewed at least annually. Our compliance staff's 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 group. The files are reviewed for, among other items, proper reporting of premiums and losses, claims handling, proper application

of underwriting rules, eligibility, experience modification rating, and recoupment. The compliance staff also performs audits on non-ceding companies to ensure that recoupment amounts are correctly determined and collected.

The compliance team continued work on documentation of current processes and proposed processes and entered the design phase of an audit-tracking module to be implemented in the EDGE system to further increase the timeliness and efficiency of the audits.

Legislative Changes

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

During the 2013 legislative long session, a variety of proposals were introduced which would have changed the way automobile rates are set in North Carolina and how risks are

ceded to the Facility. While the Facility does not lobby for or against any idea or position, the Facility is often called upon to provide information to various groups that wish to study these complex matters. Throughout the year, Facility staff and counsel met with interested parties and provided information to various legislative, media, and industry groups. The only legislation enacted during the 2013 legislative session that directly impacts the Facility is a change to the definition of private passenger auto (increases GVW to 14,000 lbs).

Conclusion

We are grateful for the support and encouragement we receive from our Board and Committee members, many of whom have served over a great number of years and who invest significant time and expertise in overseeing the Facility operations. We are thankful for the quality work received from our counsel and advisors, and we are most grateful for the opportunity to serve the automobile insurance industry in North Carolina.

Edith Davis

Director, Reinsurance Facility

SHARED SERVICES

Information Services

In the Information Technology area, we remain focused on improving our security posture in an ever-increasing culture of cyber-risk. We are in the process of having an outside firm conduct a security assessment to assist us with prioritizing our next steps in our ongoing security strategy. An internal security team was established to evaluate and improve our security measures continually, including re-writing security policies and developing a security education and awareness program. Additionally, we have implemented a monitoring service for vulnerability management and are also implementing a device to evaluate and prevent Advanced Persistent Threats (APTs) that cannot be stopped by AntiVirus software or “next-generation” firewalls. Across both the IT Services and Software Development areas, we continue to upgrade to newer technologies to help ensure long-term viability of our technology-rich environment. Our goal is to pursue opportunities that help drive IT efficiencies. By positioning our staff to react swiftly and intelligently to potential vulnerabilities, we can mitigate any direct losses or exposure to our organizations while maintaining support to our customers.

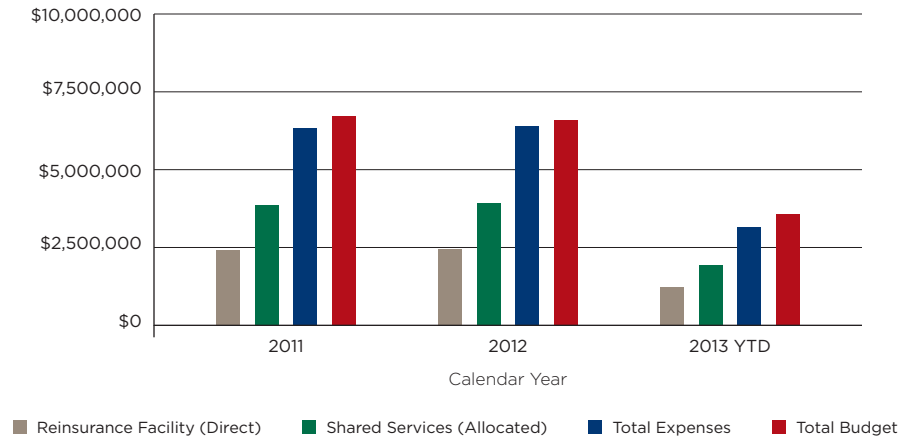
The Software Development area remains heavily involved in all aspects of maintaining and enhancing the EDGE system to meet the needs of Facility customers, including initiatives to automate and transition the Facility audit processes to a more paperless and streamlined business model already implemented into the Facility data processing operations. This web-based system receives ceded business, validates the quality of the data, handles the appropriate accounting transactions, and performs monthly settlement processing, while offering real-time online access for companies to ensure all business is handled in a timely, accurate manner. The EDGE team is also in the process of transferring this system to a “virtual” server environment, along with other technology upgrades, which will allow more flexibility for technical support in the future.

Finance

Investments

The Facility’s investment account balance has been recently impacted by the increase in settlements due to our member companies and an increase in interest rates in the financial markets. The market value of the portfolio as of June 30, 2013, was \$856.4 million compared to \$873.8 million a year ago, despite operating gains for much of the report period. As of June 30, 2013, unrealized gains totaled \$20.6 million — down from \$48.9 million 12 months ago. During the past year, the portfolio returned 0.63% (net of fees), outperforming the benchmark by 15 basis points. The net investment income from the Facility’s investment program has contributed approximately \$32.9 million toward the Facility’s operating results.

North Carolina Reinsurance Facility Administrative Expenses



Despite the challenges of managing a fixed-income portfolio in a low but slowly rising interest rate environment, Staff continues to be pleased with the performance of Wellington Management Company.

Operating Expenses

The operating expenses of the Facility totaled \$6.4 million during calendar year 2012, an increase of about 1% from the previous year and 97% of the approved budget for the period. External support and development costs related to the EDGE system represented about \$532,000 of the operating expenses last year, up 13% from \$469,000 in 2011. Through the first six months of 2013, operating expenses are down 2% compared to the same period a year ago and under the respective budget by almost 13%. As reported on numerous occasions, we believe the implementation and investment in the Facility’s data exchange system has resulted in savings and efficiencies for our member companies and Staff. The table and chart that follow reflect a summary of the direct and allocated expenses for the prior two years and the first half of 2013.

Administrative Expenses	2011	2012	Thru June 2013
Reinsurance Facility (Direct)	\$ 2,448,675	\$ 2,466,313	\$ 1,225,335
Shared Services (Allocated)	3,887,000	3,937,527	1,903,553
Total Expenses	\$ 6,335,675	\$ 6,403,840	\$ 3,128,888
Total Budget	\$ 6,715,053	\$ 6,580,732	\$ 3,587,209

Human Resources

Human Resources (HR) is the strategic and comprehensive approach to managing our organization's most valued assets — its 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. Administrative Services provides facility management of our building, mail services, and receptionist responsibilities.

Six professional development classes and two financial workshops were held onsite for management and associates during this report period. Wellness training this year consisted of 24 exercise classes held on-site along with six wellness classes.

We have a strong wellness initiative, including

- WeightWatchers at Work,
- a partnership with WakeMed Hospital,
- a partnership with the Performance Athletic Center,
- a partnership with the NC Prevention Partners,
- annual participation in the Wellness Council of America's (WELCOA) Step-By-Step program of walking 10,000 steps a day,
- flu shots provided for associates on-site, and
- 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 United Way and the NC Food Bank.

Associate service milestones this year include:

- 1 associate celebrating 10 years
- 1 associate celebrating 20 years
- 2 associates celebrating 25 years
- 1 associate celebrating 40 years

NCRF MANAGEMENT STAFF



Tim Lucas
MANAGER, AUTOMOBILE



Mike Newton
MANAGER, CLAIMS



Jannet Barnes
MANAGER, COMPLIANCE

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, 2013	June 30, 2012
Assets		
Cash (Checking Account)	\$ 478,701	\$ 518,582
Cash Restricted (Including Escrow)	-	-
Investments	829,778,284	818,780,019
Accounts Receivable	8,628,172	10,763,908
Accrued Interest Receivable	5,955,025	6,137,178
Other Assets	92	92
Total Assets	\$ 844,840,274	\$ 836,199,779
Liabilities & Members' Equity		
Accounts Payable	\$ 31,259,748	\$ 25,143,206
Loss Reserves	481,899,949	499,760,505
Unearned Premium Reserves	243,533,227	227,587,708
Provision for Premium Refunds	-	-
Other Liabilities	112,843	118,653
Total Liabilities	\$ 756,805,767	\$ 752,610,072
Members' Equity	88,034,507	83,589,707
Total Liabilities & Members' Equity	\$ 844,840,274	\$ 836,199,779

INCOME STATEMENT

Fiscal Year through	June 30, 2013	June 30, 2012
Income		
Earned Premiums	\$ 601,033,518	\$ 573,528,529
Clean Risk Recoupment	76,790,490	88,414,150
Investment Income	25,337,174	35,634,663
Membership Fee Income	54,500	53,900
Other Income	191,816	182,474
Total Income	\$ 703,407,498	\$ 697,813,716
Expenses		
Losses Incurred	\$ 486,705,693	\$ 485,114,259
Ceding & Claims Expenses	219,349,924	211,506,706
Premiums Escrowed	-	-
Salaries & Administration Expenses	1,663,365	1,650,821
Outside Services Expenses	1,936,039	2,117,676
Other Operating Expenses	1,262,366	1,197,658
Total Expenses	\$ 710,917,387	\$ 701,587,120
Net Income/(Loss)	\$ (7,509,889)	\$(3,773,404)
Before Loss Recoupments		
Loss Recoupments	(961)	(546)
Net Income/(Loss)	\$ (7,510,850)	\$(3,773,950)
After Loss Recoupments		

NORTH CAROLINA REINSURANCE FACILITY

SPECIAL PURPOSE BALANCE SHEET

Year Ending	Sept 30, 2012	Sept 30, 2011
Assets		
Cash and Short-Term Investments	\$ 29,623,347	\$ 26,129,431
Long-Term Investments, at Amortized Cost	785,544,639	780,807,533
Accrued Interest Receivable	5,821,588	6,404,201
Settlements Receivable From Member Companies:	19,893,882	16,127,826
Total Assets	\$ 840,883,456	\$ 829,468,991
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves:		
• In Course of Settlement	\$ 374,598,420	\$ 366,057,637
• Incurred But Not Reported	118,085,233	125,566,744
Total Loss and Loss Adjustment Expense Reserves	492,683,653	491,624,381
Unearned Premium Reserves	238,248,563	230,917,373
Advanced Clean Risk Subsidies	2,633,083	2,415,030
Settlements Payable to Member Companies	14,281,890	19,411,286
Provision for Premium Refunds	-	-
Other Liabilities	123,994	152,295
Total Liabilities	\$ 747,971,183	\$ 744,520,365
Commitments and Contingencies		
Members' Equity	92,912,273	84,948,626
Total Liabilities and Members' Equity	\$ 840,883,456	\$ 829,468,991

SPECIAL PURPOSE STATEMENT OF OPERATIONS

Year Ending	Sept 30, 2012	Sept 30, 2011
Premiums Earned	\$ 767,622,541	\$ 748,931,294
Clean Risk Subsidies Reported	120,008,654	131,976,542
Total Underwriting Income	\$ 887,631,195	\$ 880,907,836
Losses Incurred	\$ 631,296,465	\$ 627,487,274
Ceding Expense Allowances	194,687,329	195,900,772
Claims Expense Allowances	92,359,884	87,642,206
Premiums Escrowed	-	(6,827,838)
Total Underwriting Expenses	\$ 918,343,678	\$ 904,202,414
Net Underwriting Loss	\$ (30,712,483)	\$ (23,294,578)
Other Income (Expense):		
Net Investment Income	\$ 28,401,612	\$ 33,903,182
Net Realized Investment Gains Including		
Other-Than-Temporary Impairments	15,442,479	5,079,298
Late Premium Charges and Penalties	191,043	283,840
Membership Fees	54,100	53,400
Cession Notice Charges	-	3,564
General and Administrative Expense	(5,403,612)	(5,480,517)
Other Miscellaneous Expense	(8,873)	(185,664)
Total Other Income — Net	\$ 38,676,749	\$ 33,657,103
Net Operating Income	\$ 7,964,266	\$ 10,362,525



North Carolina Reinsurance Facility

2910 Sumner Blvd. Raleigh, NC 27616 www.ncrb.org/ncrf/