



MINUTES OF THE FORTY-FIRST ANNUAL MEETING OF THE NORTH CAROLINA
REINSURANCE FACILITY HELD AT THE GRANDOVER RESORT AND CONFERENCE
CENTER, ONE THOUSAND CLUB ROAD, GREENSBORO, NORTH CAROLINA,
OCTOBER 16, 2014

MEMBERS PRESENTREPRESENTED BY

Allstate Insurance Company	John Erickson
Allstate Indemnity Company	Fernando Neal
Allstate Northbrook Indemnity Company	Brian O'Neill
Allstate Property & Casualty Insurance Company	Kevin Steele
Allstate Vehicle and Property Insurance Company	
Encompass Indemnity Company	
Esurance Insurance Company	
American Family Mutual Insurance Company	Sondra Cavanaugh
American Standard Insurance Company of Wisconsin	
Permanent General Assurance Corporation of Ohio	
Amica Mutual Insurance Company	James Sherring
Atlantic Casualty Insurance Company	Robbie Strickland
Little River Insurance Company	
Auto Owners Insurance Company	Drew Klasing
Owners Insurance Company	
GEICO Indemnity Company	Andrea Bradley
GEICO Advantage Insurance Company	
GEICO Casualty Company	
GEICO Choice Insurance Company	
GEICO General Insurance Company	
GEICO Secure Insurance Company	
Government Employees Insurance Company	
Greenville Casualty Insurance Company	Dean F. 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	
Integon Indemnity Corporation	Art Lyon
Agent Alliance Insurance Company	
AmTrust Insurance Company of Kansas, Inc.	
First Nonprofit Insurance Company	
Integon Casualty Insurance Company	
Integon General Insurance Corporation	
Integon National Insurance Company	
Integon Preferred Insurance Company	
Milwaukee Casualty Insurance Company	
National General Insurance Company	
National General Insurance Online, Inc.	
New South Insurance Company	
Security National Insurance Company	
Sequoia Insurance Company	
Technology Insurance Company	
Wesco Insurance Company	
Mid Century Insurance Company	Bill Tibbens
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	
Foremost Insurance Company Grand Rapids MI	
Foremost Property & Casualty Insurance Company	
Foremost Signature Insurance Company	
Nationwide Mutual Insurance Company	Joe Buck
Allied Insurance Company of America	Jenni Stanfield
Allied Property & Casualty Insurance Company	
AMCO Insurance Company	
Crestbrook Insurance Company	
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 Automobile Insurance Company	
Victoria Fire & Casualty Company	
North Carolina Farm Bureau Mutual Insurance Company	Roger Batdorff
Farm Bureau Insurance Company of North Carolina	
Pennsylvania National Mutual Casualty Insurance Company	Pat Lovell
Penn National Security Company	Lynette Prosser
Atlantic Casualty Insurance Company	
Little River Insurance Company	
Travelers Indemnity Company	Stefanie M. Zacchera
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	Dan Pickens
Garrison Property & Casualty Insurance Company	
USAA Casualty Insurance Company	
USAA General Indemnity Company	

Wilshire Insurance Company
Acceptance Casualty Insurance Company
Harco National Insurance Company
Occidental Fire & Casualty Company of NC
Transguard Insurance Company of America Inc

Rebecca Larson
Greg Spray

OTHERS PRESENT

Young, Moore and Henderson

North Carolina Department of Insurance
Wellington Management

ISO
Able Auto Insurance
Green & Wooten Insurance
Pinehurst Insurance
Senn Dunn Marsh & Roland
Wester Insurance Agency
Public Members – NCRF Board of Governors

Staff

199 other companies were presented by proxy

REPRESENTED BY

Glenn Raynor
Mickey Spivey
Mike Strickland
Bob Mack
Chris Holleman
Alyssa Irving
Patrick Woods
Jeff Butler
John E. Wooten, III
Rob McVay
Tim Ward
Hutson Wester
Steve Smith
David Walker
Jannet Barnes
Shelley Chandler
Edith Davis
Ray Evans
Vicki Godbold
Tim Lucas
David Sink
Sue Taylor
Rebecca Williams

The meeting convened as scheduled, Ms. Bradley 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 included in the materials provided. Mr. Spivey briefly commented on the importance of these guidelines.

1. Annual Report

Copies of the Forty-First Annual Report for the fiscal year ended September 30, 2014 were distributed, 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. Mr. Evans directed attention to a PowerPoint

presentation which outlined the objectives from the Board, offered general observations from the past year and reported on progress made towards the current year's goals, highlighting the focus on an enterprise risk management initiative.

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 Smith of Raleigh 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.

3. Chairman's Comments

Ms. Bradley shared comments on the numerous activities and events of the preceding year, especially noting the activity regarding the Clean Risk recoupment, the decline in the investment portfolio balance, the strong performance of the Facility investment manager, Wellington Management and the efforts focused on efficiency, security and internal controls. She 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

Chief Operating Officer

Reinsurance Facility

ETD/lad
Enclosure

RF-14-9



NORTH CAROLINA **REINSURANCE FACILITY**

2014 ANNUAL REPORT



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MANAGEMENT CONTACTS

Ray Evans General Manager
 919-783-9790 rfe@ncrb.org
 Edith Davis Chief Operating Officer, 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
 Mike Newton Manager, Claims
 919-582-1018 rmn@ncrb.org
 David Sink Chief Financial Officer
 919-582-1012 des@ncrb.org
 Vicki Godbold Chief Administrative Officer
 919-645-3170 vcg@ncrb.org
 Shelley Chandler Chief Information Officer
 919-582-1057 src@ncrb.org

GENERAL ORGANIZATIONAL INFORMATION

NCRF Main Phone Number 919-783-9790
 Facsimile 919-783-0355
 Website Address. www.ncrb.org/ncrf/
 Physical Address 2910 Sumner Blvd.
 Raleigh, NC 27616

2014 ANNUAL MEETING

The annual meeting for member companies of the North Carolina Reinsurance Facility will be held October 16, 2014, at the Grandover Resort and Conference Center, Greensboro, North Carolina.

GENERAL MANAGER'S REPORT



Ray Evans
GENERAL MANAGER

Last year's annual report contained two detailed lists, one of the Facility's goals for the coming year, and a second with many of the specific parts of what had been accomplished for the preceding year. Another year has passed and while the specifics of what we do have evolved greatly, the Facility's objectives behind the goals really do not.

Let me explain. Last year's report contained a number of goals which revolved around: providing information to whomever needs it accurately and in real time; moving all aspects of our operations into an electronic environment; continuing to manage the money and investments generated by operations effectively; maintaining adequate rates, recoupments and allowances; and managing an efficient compliance program. This is not very different from our planned agenda for the year prior. And, they are not very different from what I will report on this year.

But, for the year of this report, the details are much different. If we look at the basic areas of what we do, the electronic environment, effective operations and enhanced customer experience, there are some major changes involving a great deal of sophisticated activity. Our electronic environment changed in a number of ways. First, we upgraded our desktop operating system to Windows 7 as changing security needs required a more robust platform. For the server environment used in our work it was necessary to upgrade the operating system to Windows Server 2012. This last piece was extremely complex as every server had to be rebuilt and many core processing and ancillary programs had to be updated to work with the newer versions. In terms I understand this was necessary to maintain our state of the art environment.

As part of our notion of effective operations there is a mandate to operate at neither a loss nor gain. Staff and several of the Board's committees worked on the balance between rates, recoupments, loss experience and member's equity, making adjustments to recognize past experience and predict future experience so that ultimately this balance is continued. In another area of effective operations the auditing group managed by Jannet Barnes has evaluated how they audit cession and claims activity to better monitor premium and claims payments and to incorporate more statistical analysis in this process. They will, by the end of the year, have a significantly different approach to audits, with the ultimate aim of saving carriers time and effort, yet maintaining the current quality. And, lastly, we published a document for our external users with more explicit and useful details for them to take advantage of many time saving features of our system.

It is worth repeating from last year that what we do changes little, but how we do it changes a lot. None of this change happens without Edith Davis' great associates, great oversight and guidance from the Board and a lot of work from the various committees in listening and critiquing our proposals.

Ray Evans
General Manager

MESSAGE FROM THE CHAIRMAN

The Facility has continued to serve the member companies, agents and consumers of North Carolina with little change over the past 41 years. Over 2013-2014, again we saw no significant changes to the function of the program, while making some necessary investments in modernization and security to promote the continued successful operations of the NCRF for years to come.

Highlights of the 2013-2014 fiscal year:

- Calendar year 2013 saw increases in cession volume, premiums and paid losses towards the end of year but the pace had slowed by mid-year 2014.
- 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 2013-2014 operating budget is again less than 1% of the Facility annual premium. Operating expenses are under budget through June 2014.
- Our investment portfolio balance continues to decline but still exceeds \$800 million. This has been influenced by lower clean risk recoupment surcharge income, 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.
- 2013-2014 operational efforts focused on efficiency, security and internal controls:
 - Completed virtualization of all systems
 - Upgraded operating systems for support and security
 - Performed Business Impact Analysis of critical processes
 - New EDGE training tools and reference materials published
 - Continued review of the compliance processes and the design of an audit-tracking module to be implemented in the EDGE system
 - Strengthened process documentation for training and succession planning

The NCRF staff and Board Members have been instrumental in providing direction and service to the Facility over the past year and I wish to express my appreciation for everyone's collective efforts. The consumers, agents and member companies continue to be well served by the availability of the NCRF.

Eric Stafford
GEICO Indemnity Company
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. Seven meetings of the Board were held during the year, including three 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*	Eric Stafford
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

* 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.

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 Ins Co	Alan Bentley
Travelers Indemnity Co	Jennifer Baurle
Agent	Robert M. McVay

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
Integon Indemnity Corporation	Brian Rogers
Nationwide Mutual Insurance Co	Jeff Register
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*	Jennifer Stanfield
Sentry Insurance A Mutual Co	Peter Sampson
State Farm Mutual Automobile Ins Co	Alan Bentley
Agent	Tim Ward

TASK FORCE ON RECOUPMENT	
Members	Representative
Integon Indemnity Corporation	Art Lyon
Nationwide Mutual Insurance Co	Jennifer Stanfield
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 Ins Co*	Alan Bentley
Agent	Robert M. McVay

Edith T. Davis
CHIEF OPERATING OFFICER,
REINSURANCE FACILITY



MANAGEMENT REPORT

Introduction

Over 90% of the Reinsurance Facility staff have been employed here for over 10 years, many of those folks much longer. These people are key contributors to the improvements and evolution of our organization. In recent years, we have upgraded our data processing and support systems, created extensive documentation of our processes, and upgraded to a new physical location. Our focus now is on efficiency, security, and internal controls. This year we also continued to focus on enhancing the customer experience. Staff developed and published “At a Glance” EDGE training documents and an “EDGE Quick Reference Guide to Emails and Reports” on the website, designed to help member companies to prioritize various email alerts and leverage an array of reports available from the EDGE system to assist them with data reporting to the Facility. This information can be accessed under the EDGE Training tab at www.ncrb.org/ncrf/EDGE/.

Virtualization of the EDGE system was completed by the end of 2013, followed by all of the EDGE servers being upgraded to Windows 2012 to ensure continued performance, security, and support. A security audit was performed, and improvements are currently underway to further secure our data and environment. Our business continuity plan was revisited, and new business impact analyses were created and are currently under review.

Following significant efforts to document what we do for both training and succession planning purposes, we have identified opportunities to streamline certain processes and apply more attention to internal controls.

In support of this effort, an external assessment of our internal control environment has been commissioned and will take place late in the fiscal year. To increase awareness of internal controls, several specialized training sessions related to business ethics were conducted this year for all associates by university-level instructors.

During this report period, the North Carolina Reinsurance Facility was the largest residual market mechanism for automobile insurance 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 and is illustrated in a chart on the following page.

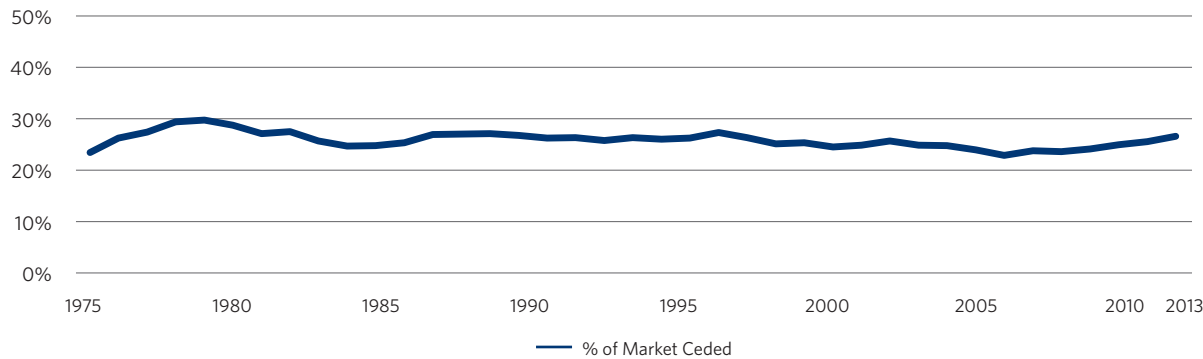
Of the total ceded exposures during this fiscal period, 75% were private passenger “clean risks,” and 23% were private passenger “other-than-clean” risks, consistent with the previous fiscal year. The remaining 2% of ceded exposures were commercial auto risks.

As of June of 2014, approximately 1.2 million policies were in force—98% were private passenger non-fleet policies, and 2% 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 2014 is projected to exceed \$850 million, which is approximately 3.5% higher than the previous fiscal year.



Share of NC Auto Liability Market Ceded — By Calendar Year



Rates and Forms

In 2014, 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 2014, so rates also remained the same for those risks throughout this year.

For the commercial auto business, the Facility performed an annual rate review in 2013 but did not file any rate level changes, so rates remained the same this year for commercial auto as well. In September, following the 2014 annual review, the Facility filed revised basic limits premium rates for liability insurance for trucks, tractors, and trailers, private passenger types not eligible for rating under the North Carolina Personal Automobile Manual, and zone rated classes and revised bodily injury and property damage increased limits factors. The various rate level changes averaged +13.8% over the rates previously in effect and will apply to all new and renewal policies becoming effective on and after March 1, 2015.

As a result of a revision to the General Statutes amending the weight limitation for private passenger automobiles

from 10,000 lbs. to 14,000 lbs., the Facility filed a revision to the North Carolina Reinsurance Facility Commercial Auto Manual which became applicable to all new and renewal policies written to become effective on or after January 1, 2014.

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.

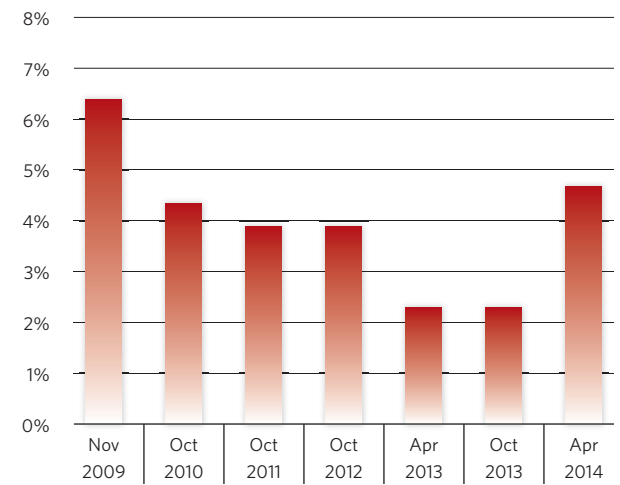
Recoupment surcharges are reviewed at least annually and adjusted as deemed appropriate and necessary. Effective October 1, 2013, the Board of Governors implemented a clean risk recoupment surcharge of 2.25% (before inclusion of agent compensation). This surcharge percentage was

equal to the percentage implemented in the prior period and continued to reflect the application of a significant portion of the Facility’s members’ equity balance as an offset against the indicated clean risk shortfall.

In December 2013, the Board of Governors authorized an increase to the full indicated clean risk recoupment surcharge of 4.67% (before inclusion of agent compensation) to be applicable to all new and renewal private passenger policies becoming effective on and after April 1, 2014, through September 30, 2014. For the current fiscal year through June 2014, income from clean risk surcharges has generated approximately \$74 million.

In June 2014, the Board of Governors authorized a new clean risk recoupment surcharge of 4.86% (before inclusion of agent compensation), which will be applicable to all new and renewal private passenger policies becoming effective on and after October 1, 2014, through September 30, 2015.

Clean Risk Recoupment Surcharges



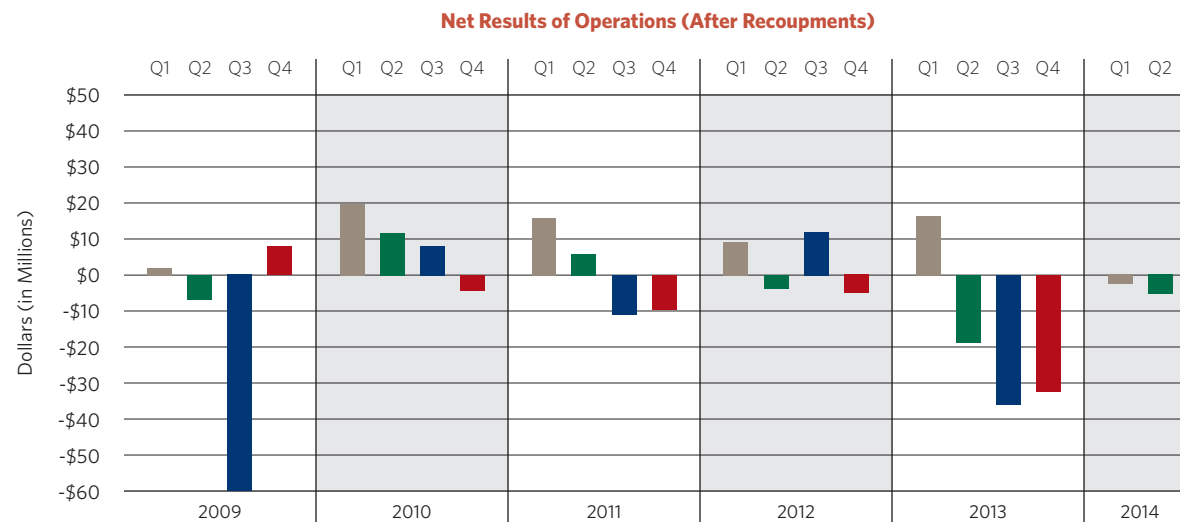
Operating Results

The Facility had realized operating losses in all three quarters for the fiscal year through June 30, 2014. Written premiums increased, but 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 \$52.5 million in September 2013 to \$12.6 million in June 2014.

While the operating results from 2009 to 2014 appear to be volatile, the largest swings in the third quarter of 2009 and in 2013 have simple explanations. During 2009, changes were made to the Facility's financial statements in an effort to present the Facility's financials in a manner more comparable to the presentation used by its member companies. In the quarter ended September 2009, accounts for Premiums Escrowed and Premium Refund Liability were created as a result of the Rate Bureau auto rate cases and Other-Than-Temporarily-Impaired Investment Assets were introduced for the first time in the statements. Together these accounts contributed approximately \$50 million to the operating loss for that quarter. The experience for 2010, 2011 and 2012 was reasonably stable. For 2013, the losses were generated by a planned rebalancing of members' equity as a result of the earlier more stable and consistent years' experience. The Facility continues to operate with a budget that totals less than 1% of the annual written premium volume of the Facility.

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. In the various types of audits



performed by the compliance staff, member company 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. This year, the compliance team also worked on designing more detailed audit reporting to be incorporated into an audit-tracking module of 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 2014 legislative short session, no proposals were introduced which would have changed the way 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.

Conclusion

We are pleased with the expanded level of engagement from our staff over the past year and look forward to developing newer and more innovative ways to manage the business of the Facility and serving the member companies and the policyholders of North Carolina. The guidance and support we receive from the Board of Governors, committees, counsel, and advisors make this possible.

Edith Davis

Chief Operating Officer, Reinsurance Facility



SHARED SERVICES

Finance

Investments

The net operating results over the most recent quarters have necessitated distributions from the Facility’s investment account to satisfy the Facility’s obligations to member companies. The distributions contributed to the decrease in the Facility’s investment account as the book value of the portfolio has decreased from approximately \$830 million 12 months ago to \$783 million as of June 30, 2014. As of that date, the market value of the account stood at \$814 million, representing net unrealized gains of \$31 million. Despite the distributions and the volatility of interest rates over the past year, the portfolio returned 3.71% for the twelve months ending June 30, 2014, outperforming the benchmark by 37 basis points during that period.

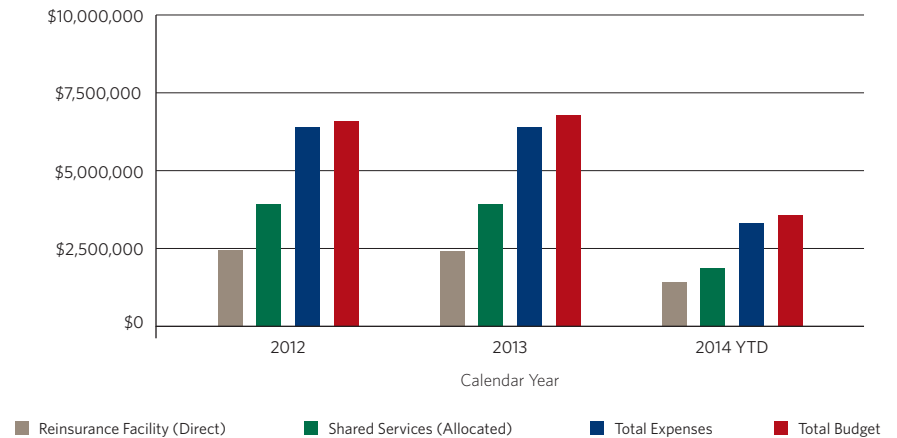
Based on accounting practices adopted and approved by the Board in 2009 following the financial crisis, the Facility recorded investment impairments of \$10.2 million at the end of the fiscal year ending September 30, 2013. At the conclusion of the most recent audit, Ernst & Young informed the Facility of more recent guidance related to recording impairments for fixed income investments, and the Board approved the current practice in July of this year. The more current methodology should minimize the impact on the financial results from market value fluctuations of securities the Facility intends to hold in its portfolio.

Net Operating Results and Administrative Expenses

The net operating loss of the Facility totaled \$39.9 million for the fiscal year to date at June 30, 2014. Those results reduced the Members’ Equity to \$12.6 million, which consists of \$11.4 million private passenger business and \$1.2 million other than private passenger. Less-than-full-indicated clean risk recoupments and higher incurred losses were major contributors to the operating losses sustained over the past three quarters. Full indicated clean risk surcharge percentages became effective April 2014, which should improve net operating results compared to recent periods.

The Facility’s administrative expenses totaled \$6.3 million during calendar year 2013, which represented a decrease of 1% from the previous year and 93% of the approved budget for the respective period. As noted in prior reports, the total expenses of the Facility are comprised of the direct costs related to specific activities of the Facility as well as allocated expenses of the departments whose services are shared with the Rate Bureau and 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 2014. Included in the expenses are external support and development costs related to the EDGE system. During 2013, these system costs approximated \$400,000—down about 25% from these outside services expenses in 2012. The IT staff has been increased during 2014, resulting in less outside expense related to supporting and maintaining the system.

North Carolina Reinsurance Facility Administrative Expenses



Administrative Expenses	2012	2013	Thru June 2014
Reinsurance Facility (Direct)	\$ 2,466,313	\$ 2,422,473	\$ 1,429,836
Shared Services (Allocated)	3,937,527	3,916,860	1,878,418
Total Expenses	\$ 6,403,840	\$ 6,339,333	\$ 3,308,254
Total Budget	\$ 6,580,732	\$ 6,789,173	\$ 3,543,573

Ernst & Young met with the Facility’s Audit Committee on February 20, 2014, and presented the audited financial statements for the year ending September 30, 2013, as well as the required communications to the Committee. Ernst & Young issued an unqualified opinion on the special purpose financial statements, noting there were no misstatements or internal control weaknesses identified during the audit and that the significant accounting policies had been consistently applied during the current year.

Information Services

The Information Services (IS) Department is responsible for Information Technology as well as Process Documentation. We strive to provide quality software solutions to our customers and provide safe, secure, efficient technology solutions for our internal staff.

The Information Technology group continues to focus on keeping our technology current and appropriate as well as managing ever-increasing risks from the outside. A third-party company

was commissioned in 2013 and completed a security audit of our environment in early 2014. In 2014 and 2015, effort will be spent working through the remediation plan that will help improve and ensure the security of our environment. All of the remaining Microsoft server operating systems and databases are currently undergoing upgrades to maintain support and security; this effort will extend into 2015. Additionally, all custom software applications are being enhanced for improved compatibility with multiple versions of Microsoft's browser Internet Explorer to ensure that member companies have a satisfactory experience interacting with us electronically.

In 2013, we began an organization-wide effort to revisit our processes and systems for business continuity planning and disaster recovery. In the first half of 2014, we focused our efforts on revisiting our Business Impact Analysis, which is an effort to re-evaluate the business needs surrounding how long processes and systems can be interrupted during a business interruption or disaster, as well as how much data can be lost. In the second half of the year and into 2015, we will focus on re-defining solutions for recovery of technology (Disaster Recovery) and physical space, as well as ensuring workaround processes are in place until standard operations are back up and running.

In addition to technical changes in our environment, we are implementing an education awareness program in our organization to ensure that all associates understand their role and responsibilities regarding security. We are also increasing the education of our internal IT staff so that they are also well equipped to advise and remediate any new needs or security concerns.

As part of our risk management effort, we are continuing to implement ongoing Internal Controls to protect the organization. We regularly evaluate and audit areas such as segregation of duties, rights access, and other control areas to ensure we are doing everything we can to secure our environment.

Human Resources

Our Human Resources is the strategic and comprehensive approach committed to our Organization's most valued assets—our people. Administrative Services provide a secure and comfortable work environment along with mail services and receptionist services.

On-site training this year consisted of 22 fitness classes, four wellness seminars, 30 Wellness lunch-n-learns, and six professional development and four financial workshops.

Our Wellness Program includes:

- 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 10k 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 St. Jude Children's Research Hospital, the United Way, and the NC Food Bank.

NCRF MANAGEMENT STAFF



Tim Lucas
MANAGER, AUTOMOBILE



Mike Newton
MANAGER, CLAIMS



Jannet Barnes
MANAGER, COMPLIANCE

NCRF SHARED SERVICES



Vicki Godbold
CHIEF ADMINISTRATIVE OFFICER



David Sink
CHIEF FINANCIAL OFFICER



Shelley Chandler
CHIEF INFORMATION OFFICER



NORTH CAROLINA REINSURANCE FACILITY

BALANCE SHEET		
As of	June 30, 2014	June 30, 2013
Assets		
Cash (Checking Account)	\$ 887,112	\$ 478,701
Cash Restricted (Including Escrow)	-	-
Investments	782,855,355	829,778,284
Accounts Receivable	16,089,917	8,628,172
Accrued Interest Receivable	4,865,626	5,955,025
Other Assets	92	92
Total Assets	\$ 804,698,102	\$ 844,840,274
Liabilities & Members' Equity		
Accounts Payable	\$ 27,937,480	\$ 31,259,748
Loss Reserves	509,126,142	481,899,949
Unearned Premium Reserves	254,901,646	243,533,227
Provision for Premium Refunds	-	-
Other Liabilities	136,422	112,843
Total Liabilities	\$ 792,101,690	\$ 756,805,767
Members' Equity	12,596,412	88,034,507
Total Liabilities & Members' Equity	\$ 804,698,102	\$ 844,840,274

INCOME STATEMENT		
Fiscal Year through	June 30, 2014	June 30, 2013
Income		
Earned Premiums	\$ 631,287,951	\$ 601,033,518
Clean Risk Recoupment	73,561,268	76,790,490
Investment Income	22,445,331	25,337,174
Membership Fee Income	54,500	54,500
Other Income	122,854	191,816
Total Income	\$ 727,471,904	\$ 703,407,498
Expenses		
Losses Incurred	\$ 528,205,761	\$ 486,705,693
Ceding & Claims Expenses	234,147,682	219,349,924
Premiums Escrowed	-	-
Salaries & Administration Expenses	1,740,904	1,663,365
Outside Services Expenses	1,927,567	1,936,039
Other Operating Expenses	1,318,211	1,262,366
Total Expenses	\$ 767,340,125	\$ 710,917,387
Net Income/(Loss) Before Loss Recoupments	\$ (39,868,221)	\$ (7,509,889)
Loss Recoupments	(44)	(961)
Net Income/(Loss) After Loss Recoupments	\$ (39,868,265)	\$ (7,510,850)

NORTH CAROLINA REINSURANCE FACILITY

SPECIAL PURPOSE BALANCE SHEET

Year Ending	Sept 30, 2013	Sept 30, 2012
Assets		
Cash and Short-Term Investments	\$ 22,577,114	\$ 29,623,347
Long-Term Investments, at Amortized Cost	771,247,045	785,544,639
Accrued Interest Receivable	5,286,638	5,821,588
Settlements Receivable From Member Companies:	13,182,553	19,893,882
Total Assets	\$ 812,293,350	\$ 840,883,456
Liabilities & Members' Equity		
Loss and Loss Adjustment Expense Reserves:		
• In Course of Settlement	\$ 375,415,187	\$ 374,598,420
• Incurred But Not Reported	111,927,054	118,085,233
Total Loss and Loss Adjustment Expense Reserves	487,342,241	492,683,653
Unearned Premium Reserves	254,605,083	238,248,563
Advanced Clean Risk Subsidies	735,950	2,633,083
Settlements Payable to Member Companies	17,739,099	14,281,890
Other Liabilities	142,249	123,994
Total Liabilities	\$ 760,564,622	\$ 747,971,183
Commitments and Contingencies		
Members' Equity	51,728,728	92,912,273
Total Liabilities and Members' Equity	\$ 812,293,350	\$ 840,883,456

SPECIAL PURPOSE STATEMENT OF OPERATIONS

Year Ending	Sept 30, 2013	Sept 30, 2012
Premiums Earned	\$ 807,312,392	\$ 767,622,541
Clean Risk Subsidies Reported	96,892,669	120,008,654
Total Underwriting Income	\$ 904,205,061	\$ 887,631,195
Losses Incurred		
Losses Incurred	\$ 662,699,960	\$ 631,296,465
Ceding Expense Allowances	209,434,949	194,687,329
Claims Expense Allowances	89,101,782	92,359,884
Total Underwriting Expenses	\$ 961,236,691	\$ 918,343,678
Net Underwriting Loss	\$ (57,031,630)	\$ (30,712,483)
Other Income (Expense):		
Net Investment Income	\$ 24,301,882	\$ 28,401,612
Net Realized Investment Gains Including		
Other-Than-Temporary Impairments	(3,302,260)	15,442,479
Late Premium Charges and Penalties	150,199	191,043
Membership Fees	55,000	54,100
General and Administrative Expense	(5,353,638)	(5,403,612)
Other Miscellaneous Expense	(2,122)	(8,873)
Total Other Income — Net	\$ 15,849,061	\$ 38,676,749
Net Operating Income (Loss)	\$ (41,182,569)	\$ 7,964,266



NORTH CAROLINA REINSURANCE FACILITY

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