

The Plan of Conversion represents the continuation of a process that began in 1998, when NCRIC (then known as National Capital Reciprocal Insurance Company) reorganized from the reciprocal to the mutual insurance holding company form of organization (such reorganization referred to as the "1998 Reorganization"). Tr. 25. On August 26, 1998, NCRIC filed a Statement Regarding the Acquisition or Control of or Merger with a Domestic Insurer (Form A) with the DISR. In brief, NCRIC proposed to reorganize pursuant to the Reciprocal Insurance Company Conversion Act of 1998, effective May 12, 1998 (D.C. Law 12-112; D.C. Official Code § 31-751 et seq.) (the "RICC Act") by forming a mutual insurance holding company (i.e., the Mutual Holding Company), which would control two downstream intermediate holding companies (i.e., NCRIC Holdings and NCRIC Group). These intermediate holding companies would control a stock insurance company (i.e., NCRIC). Under the terms of the 1998 Reorganization, the Mutual Holding Company would retain ownership and control of at least a majority of the outstanding voting shares of NCRIC, and each NCRIC policyholder would, as a result of the 1998 Reorganization, become a member of the Mutual Holding Company. As a result, each then present member of NCRIC would retain his or her insurance contract rights with NCRIC, while at the same time retaining his or her membership interest in the mutual holding company which, through the intermediate holding companies, would control NCRIC. In re: National Capital Reciprocal Insurance Company, Decision and Order RICC-98-01 (November 25, 1998) (the "1998 Decision and Order"), at 1.

On September 9 and 10, 1998 a public hearing was held before Commissioner Patrick E. Kelly, my predecessor, and Hearing Officer Leslie E. Johnson, for the purpose of considering the 1998 Reorganization of NCRIC, which was at that time a District of Columbia reciprocal insurance company. On November 25th, 1998, Commissioner Kelly issued the 1998 Decision and Order authorizing the proposed reorganization of NCRIC, subject to the satisfaction of certain conditions and undertakings. 1998 Decision and Order, at 12-14.

One of the conditions and undertakings in the 1998 Decision and Order required NCRIC, or any other company in the NCRIC holding company structure, to submit the terms of any proposed initial public offering or subsequent public offering to the DISR for the Commissioner's prior review and written approval. 1998 Decision and Order, at 13, para. 6. Within a few months after the 1998 Decision and Order, NCRIC Group requested the Commissioner's approval of a proposed public offering that would result in approximately 40% of NCRIC Group's issued and outstanding shares of common stock being held by the public, with the remaining approximately 60% of such shares of common stock continuing to be held by NCRIC Holdings. On January 27, 1999, Acting Commissioner Reginald H. Berry approved the terms of the proposed offering of securities as being in compliance with the RICC Act and the 1998 Decision and Order, subject to certain terms and conditions. In re: National Capital Reciprocal Insurance Company, Order RICC-98-01 (January 27, 1999) (the "1999 Order").

On January 28, 2003, the board of directors of the Mutual Holding Company approved the Plan of Conversion. Supp. Ex. A-1; Tr. 61;109. On March 18, 2003, the board of directors of NCRIC Group approved the filing of the Application relating to the Plan of Conversion. Tr. 109. On May 1, 2003, pursuant to Article 23 of the Plan of Conversion as originally adopted and Section 31-902(b) of the Demutualization Act, the board of directors of the Mutual Holding

Company approved certain amendments to the Plan of Conversion.³ Supp. Ex A-2; Ex. 7; Tr. 61, 109.

Under the Plan of Conversion, (i) the Mutual Holding Company and NCRIC Holdings will each be merged into NCRIC Group, with NCRIC Group being the surviving entity in each merger, (ii) a new Delaware corporation, NCRIC Group, Inc. ("NCRIC Group (Delaware)") will be established as a successor to NCRIC Group, (iii) the shares of common stock of NCRIC Group owned by NCRIC Holdings will be offered for sale with priority purchase rights given to the policyholders of NCRIC who are members of the Mutual Holding Company, and (iv) existing shareholders of NCRIC Group other than NCRIC Holdings (the "Minority Stockholders") will receive shares of NCRIC Group (Delaware) based on an exchange ratio that will result in the Minority Stockholders owning in the aggregate the same percentage of the outstanding shares of NCRIC Group common stock immediately upon completion of the Plan of Conversion as the percentage of NCRIC Group common stock owned by them in the aggregate immediately prior to the consummation of the Plan of Conversion. Ex. 7, at 1-2.

On March 26, 2003, Applicants filed the Application with the Commissioner, which included the Plan of Conversion as originally adopted. Pursuant to Section 31-903(a-1), the Commissioner set a public hearing for May 5, 2003. On April 11, 2003, the Mutual Holding Company mailed written notice of the public hearing to its members. Notice of the hearing was published in the *D.C. Register* on April 18, 2003 and was also published in *The Washington Post* on April 25, 26 and 27, 2003. Tr. 9. The notice stated that "interested parties may submit oral or documentary evidence and may appear at the hearing in person or by counsel."

On April 23, 2003, the Commissioner propounded "Interrogatories and Document Request" (the "Interrogatories") regarding the Plan of Conversion, as originally adopted, to the Applicants. On April 28, 2003, the Applicants provided a written response to the Interrogatories. Ex. 9. On May 1, 2003, the Applicants provided a supplemental written response to the Interrogatories. Ex. 10. The original and supplemental responses are referred to collectively herein as the "Responses." Mr. R. Ray Pate, Jr., as President and Chief Executive Officer of the Mutual Holding Company and NCRIC Group, certified to the DISR on behalf of the Applicants that the Responses are accurate and complete to the best of his knowledge and belief. Supp. Ex. A-3; see also Tr. 22.

On May 5, 2003, a public hearing was held on the Plan of Conversion. The Commissioner, along with Ms. Leslie Johnson, Hearing Officer, presided over the public hearing.

At the public hearing, the following individuals presented testimony on behalf of the Applicants: R. Ray Pate, Jr., President and Chief Executive Officer of the Mutual Holding Company, NCRIC Group and NCRIC; Dr. Fredrick Hendricks, MD, a member of the Mutual Holding Company; Dr. Nelson Trujillo, MD, Chairman of the Board of Directors of the Mutual Holding Company, NCRIC Group and NCRIC (which testimony was read by Dr. David Seitzman, a director of NCRIC Group and NCRIC); John J. Gorman, of Luse Gorman Pomerenk

³ Unless otherwise specified, all references herein to the "Plan of Conversion" are to the Plan of Conversion as amended by the board of directors of the Mutual Holding Company on May 1, 2003.

& Schick, P.C., counsel for the Applicants; and James P. Hennessey of RP Financial, LC ("RP Financial"). Tr. 17-18. Also in attendance were the following persons: Rebecca Crunk, Senior Vice President and Chief Financial Officer of the Mutual Holding Company, NCRIC Group and NCRIC; William Burgess, Senior Vice President of the Mutual Holding Company, NCRIC Group and NCRIC; Eric Anderson, Vice President of NCRIC; Beverly White and Joseph M. Ryan, of Luse Gorman Pomerenk & Schick, P.C.; and Lou Paar of Sandler O'Neill & Partners, L.P. Tr. 19.

The DISR was represented in the public hearing by special counsel Phillip E. Stano and Steven Kass, Esqs., of Jordan Burt LLP⁴ and Rhonda K. Davis, DISR Attorney Advisor; Raymond Santora, DISR Attorney Advisor; and Adam Levi, DISR Attorney. Also attending the hearing on behalf of the DISR were Krishna Kunda, Analyst and Robert J. Nkojo, Supervisory Actuary. Tr. 3-4.

At the public hearing, the Commissioner asked whether there was anyone else in attendance who was not with NCRIC, the DISR, or the DISR's lawyers, and no one responded to the Commissioner's question. Tr. 20, 168-69.

The DISR received one written comment regarding the proposed Plan of Conversion by letter dated May 5, 2003 from K. Edward Shanbacker, Executive Director of the Medical Society of the District of Columbia ("MSDC"). In that written comment, Mr. Shanbacker noted that the Chairman of the Board and Chief Executive Officer of NCRIC had met with MSDC on two occasions "to discuss their reasoning for pursuing the Conversion." Mr. Shanbacker further noted that the MSDC "is appreciative of the effort taken by NCRIC to keep it informed."

The public hearing was completed on May 5, 2003. However, the hearing record remained open by Order of the Commissioner through May 8, 2003, except with respect to financial information of NCRIC Group pertaining to the quarter ended March 31, 2003, which was to be submitted for the record on or before May 12, 2003.⁵ Tr. 12, 171-72. Several submissions, including a proposed Decision and Order from the Mutual Holding Company, were submitted before the record closed on May 8, 2003. Tr. 12.

The DISR submitted a revised proposed Decision and Order to the Applicants on May 12, 2003. The Applicants were instructed to submit their comments and related documents, if any, to the DISR on or before 5:00 p.m. on May 13, 2003. The Commissioner received comments and recommended changes from the Applicants. The Commissioner reviewed and considered the comments and recommended changes prior to rendering this final Decision and Order.

Issues Considered

The Demutualization Act authorizes a mutual holding company to convert to a stock company. To effect the conversion, the mutual holding company must comply with all applicable provisions of the Demutualization Act. In addition, Section 31-903(a) states that:

⁴ Attorneys retained by the DISR at the Applicant's expense pursuant to D.C. Official Code § 31-903 (d).

⁵ This financial information was filed with the DISR on May 9, 2003.

The Commissioner shall approve the plan [of conversion] upon finding that:

- (1) The provisions of this section have been complied with;
- (2) The plan will not prejudice the interests of the members; and
- (3) The plan's method of allocating subscription rights is fair and equitable.

Section 31-903(a).

Discussion of the Issues

1. Whether the Mutual Holding Company has complied with the Demutualization Act.

Through the Application, the Responses, and the written and oral testimony presented at the public hearing, the Applicants presented evidence on each of the following issues to demonstrate that the Mutual Holding Company has complied with the requirements of the Demutualization Act.

Section 31-902. Section 31-902 authorizes a mutual holding company, by the affirmative vote of a majority of its board of directors, to adopt a plan of conversion, which plan must be consistent with the requirements of Section 31-906. The plan of conversion may be amended by the affirmative vote of a majority of its board of directors prior to the approval of the plan by the Commissioner. The Plan of Conversion was adopted by the unanimous vote of the board of directors of the Mutual Holding Company on January 28, 2003, and amended by the unanimous vote of its board directors on May 1, 2003. Tr. 61; 109. Certified copies of board resolutions relating to these approvals have been provided to the Commissioner. Supp. Exs. A-1 & A-2.

Section 31-903(b). Section 31-903(b) states that prior to the members' approval of the plan, a mutual company shall file the following documents with the Commissioner:

1. The plan of conversion, including the independent valuation of pro forma market value required by Section 31-906(f) (Ex. 7);
2. The form of notice to eligible members with respect to the meeting to approve the plan, as required by Section 31-904(b) (Ex. 15);
3. Any proxies to be solicited from eligible members pursuant to Section 904(c) (Ex. 15);
4. The form of notice required by Section 31-910(a) for those policies issued after board adoption of the plan but before its effective date (*i.e.*, the date of this Decision and Order approving the Plan of Conversion) (Ex. 11); and
5. The proposed articles of incorporation and bylaws of the converted stock company (Supp. Ex. B; Exhibits A & B to Ex. 7).

In satisfaction of these requirements, on March 26, 2003, the Mutual Holding Company filed an Application with the Commissioner, which application included the Plan of Conversion

(as originally adopted), together with the independent valuation, the proxy statement, the form of proxy to be distributed to the members in connection with solicitation of the approval of the members, and the proposed certificate of incorporation and bylaws of NCRIC Group (Delaware). The articles of incorporation and bylaws of the stock insurance company, NCRIC, will not change as a result of the proposed transactions. The Form S-1 Registration Statement, as filed by NCRIC Group (Delaware) with the Securities and Exchange Commission on March 25, 2003, which included the prospectus relating to the conversion stock offering, was included with the Application. Applicants have also provided to the DISR a draft of the certificate of incorporation of NCRIC Group (Delaware), as amended to reflect the inclusion of the liquidation account. Supp. Ex. B.

Applicants testified that they initially considered the Section 910 notice as inapplicable to a mutual holding company that was formed by a reciprocal insurance company, as opposed to a life insurance company. Tr. 110-11. However, Applicants have submitted the Section 910 notice to the Commissioner and have represented that it will be provided to members whose policies were issued after the adoption of the Plan of Conversion but before the Commissioner's approval of the Plan of Conversion. Ex. 11.

Section 31-903(c). After the members have approved the plan, the converted stock company shall file with the Commissioner the minutes of the meeting of the members at which the plan was voted upon, and the revised articles of incorporation and bylaws of the converted stock company. Applicants have represented that NCRIC Group (Delaware), as successor in interest to the converted stock company, will file these minutes. Ex. 5, at 6.

Section 31-904. Eligible members are required to be given notice of and an opportunity to vote on the plan. A copy or summary of the plan must accompany the notice. The notice is required to be mailed to members within 45 days of the Commissioner's approval and the meeting at which the plan will be voted upon shall not be less than 10 nor more than 60 days after mailing of the notice.

In the Application, Applicant provided copies of a form of proxy statement, proxy card and prospectus to be mailed to each eligible member. Eligible members will be given the opportunity to vote on the Plan of Conversion. Eligible members will be those members with a policy in force as of the date of the adoption of the Plan of Conversion (*i.e.*, January 28, 2003). Exs. 7, at 4 & 8. Applicants' represent that the date of the meeting of members will be June 24, 2003, which is not less than 10 and not more than 60 days after the notice of the meeting is to be mailed (on or about May 19). Ex. 5, at 5. The Plan of Conversion is summarized in the prospectus that will be provided to each eligible member.

Reporting endorsement holders are not eligible members under the Plan of Conversion because they are not members of the Mutual Holding Company. Members are defined in the Bylaws of the Mutual Holding Company to include physicians who are actively engaged in the practice of medicine in the District of Columbia or Maryland and who are insured by NCRIC. Ex. 10, at 1. Many people who hold reporting endorsements are either retired from the practice of medicine or no longer practice in the District of Columbia or Maryland and so do not qualify as members. A small portion of the reporting endorsement holders are physicians who actively practice medicine in the District of Columbia or Maryland but no longer have insurance coverage

with NCRIC. Tr. 124-25. In these situations, reporting endorsements are held by physicians to provide coverage where the medical procedure giving rise to the claim occurred while the physician was insured by NCRIC. Tr. 124-25. Holders of reporting endorsements, while not insured by NCRIC, hold an option to report claims for events that occurred during coverage but that were reported after the NCRIC policy expired. Holders of reporting endorsements are not, therefore, members of the Mutual Holding Company and are not entitled to vote under the Demutualization Act.

In the 1998 Decision and Order, reporting endorsement holders were given subscription rights but not voting rights. Reporting endorsement holders were treated in this manner because that transaction was governed by the RICC Act, and not the Demutualization Act. Ex. 10, at 1. Mr. Gorman stated that because the terminology utilized in the RICC Act refers to policyholders, the Commissioner required that endorsement holders receive subscription rights. They did not have voting rights because they were not members. Tr. 121-22. Mr. Gorman testified that the Plan of Conversion is governed by the Demutualization Act, which refers to members and the "interests of members" and not to policyholders. Because reporting endorsement holders are not members of the Mutual Holding Company, they will not be entitled to either voting or subscription rights under the Plan of Conversion. Tr. 123-25.

Section 31-905. To the extent that this section is applicable to the Plan of Conversion, it is addressed in connection with the requirements of Section 31-903(b), pursuant to which the articles of incorporation of NCRIC Group (Delaware), as successor in interest to the Mutual Holding Company, will be adopted. Supp. Ex. B.

Section 31-906. Section 31-906 requires that certain provisions be included in the plan of conversion, as follows:⁶

- (a) As required, the Plan of Conversion states reasons for the conversion: to enhance NCRIC Group's strategic and financial flexibility by furthering its access to capital markets, which will facilitate the Mutual Holding Company's goal of serving the needs of physicians by maintaining NCRIC as an effective and competitive insurer. Ex. 7, at 2.
- (b) The Plan of Conversion provides in Section 15 that on and after the effective date of the Conversion (as defined in the Plan of Conversion), every policy issued by NCRIC that is in force shall continue as a policy of NCRIC, and all policy and contract rights of all such policies shall be and remain as they existed prior to the effective date, except that as a result of the Conversion, the membership interests in the Mutual Holding Company associated with a policy shall be extinguished. Ex. 7.
- (c) Paragraph (c) of Section 31-906 relates to participating policies and is not applicable because NCRIC does not issue participating policies.

⁶ Each letter below corresponds to the same lettered paragraph of Section 31-906.

- (d) Paragraph (d) of Section 31-906 relates to participating policies and is not applicable because NCRIC does not issue participating policies.
- (e)(1) Section 5 of the Plan of Conversion provides that each eligible member shall receive, without payment, a non-transferable subscription right to purchase up to 100,000 shares of common stock of NCRIC Group (Delaware), which is the ultimate successor to the Mutual Holding Company by merger. An eligible member is a member on January 28, 2003, that had a policy in force on the date of adoption of the Plan of Conversion. Ex. 7.
- (e)(2) Section 2.D. of the Plan of Conversion provides that existing shareholders shall receive new shares based on an exchange ratio pursuant to which existing shareholders will own, after the conversion, the same percentage of the outstanding shares of NCRIC Group Common Stock owned by them immediately prior to the consummation of the Conversion. Ex. 7.
- (f) Under Section 31-906(f), subscription rights are required to be allocated in whole shares among eligible members using a fair and equitable method. In compliance with this requirement, the Plan of Conversion provides that each eligible member will be offered the opportunity to purchase up to \$1,000,000 worth of common stock (100,000 shares at a per share purchase price of \$10.00). Ex. 7, at 11. Mr. Gorman testified that this method (i.e., initially providing each eligible member with an opportunity to purchase an equal amount of whole shares) is identical to that utilized in mutual to stock conversions (including second step conversions) involving banks and thrifts, and that this method is also identical to that utilized by NCRIC Group in its initial public offering in 1999, which was approved by the Commissioner (under the same "fair and equitable" standard). Ex. 5, at 7-8. Mr. Gorman also testified that the Mutual Holding Company believes this method to be fair and equitable because each eligible member is given an equal right to purchase a whole number of shares. Ex. 5, at 7-8.
- (g) The plan is required to provide a fair and equitable means for the allocation of shares in the event of an oversubscription by eligible members. Section 5 of the Plan of Conversion provides that in the event of an oversubscription, each Member will be allocated 100 shares, and then the lesser of his/her order or 1,000 shares, and then in proportion that each unfilled order bears to all unfulfilled orders. Ex. 7. Mr. Pate testified that the Applicants believe that this method is fair and equitable in that it recognizes that not every member will be prepared financially to make a very large purchase, so that first orders will be filled for the minimum 100 share purchase amount, and then orders will be filled up to the lesser of

the order or 1,000 shares. Tr. 90-91; see also Ex. 5, at 8. Thereafter, the Plan of Conversion allocates orders proportionately on the basis of the investment interest expressed (that is, the size of the order submitted). Tr. 91.

- (h) The plan is also required to provide for the sale of unsubscribed shares in a public offering through an underwriter. Sections 8 and 9 of the Plan of Conversion provide for the sale of all shares that have not been sold in the subscription offering to be sold in a community offering “in a manner that will achieve the widest distribution of [the shares].” Ex. 7 at 12-13. To assist in the public offering of shares through the community offering, the Applicants have retained Sandler O’Neill & Partners L.P. to serve as an “underwriter” on a “best efforts” basis. Tr. 19; Ex. 7.
- (i) In satisfaction of Section 31-906(i), Section 4 of the Plan of Conversion provides that the total price of the common stock to be issued shall be based on an independent valuation of the estimated pro forma market value of the fully converted entity. Mr. Hennessey testified in detail as to the methodology employed by RP Financial, the independent appraiser, to arrive at the estimated pro forma market value of the converted stock company. Tr. 133-66. The valuation is stated as a range. Shares must be sold in an amount within the range, or at an aggregate amount that is no more than 15% above the maximum of the range. Tr. 151-52.
- (j) As required by Section 31-906(j), the Plan of Conversion provides for a uniform price per share - \$10.00 - for all purchasers of stock. This is disclosed to members and investors in the prospectus. The per share price of \$10.00 is commonly used in mutual to stock offerings, and should not inhibit the purchase of stock by members. Ex. 5. The minimum purchase is 100 shares, or \$1,000. Ex. 7, at 14.
- (k) Paragraph (k) is inapplicable because NCRIC does not issue participating life policies.
- (l) Section 20.A of the Plan of Conversion provides that no person individually or in concert with others, other than a tax-qualified Employee Plan, shall directly or indirectly offer to acquire or acquire the beneficial ownership of more than 5% of any class of an equity security of NCRIC Group without the prior written consent of the Commissioner. Ex. 7 & 14; Tr. 31.

Section 31-907, Optional Provisions. In accordance with Section 31-907, certain optional provisions are included in the Plan of Conversion. Under Section 6 of the Plan of

Conversion, subscription rights for up to 12% of the shares are provided to "employee plans," which includes tax-qualified and non-tax-qualified plans. Ex. 7, at 12. The purpose of these plans is to provide further incentive for employees, officers and directors to achieve successful operations, which will benefit NCRIC Group and NCRIC, which is the primary operating unit of NCRIC Group. Ex. 7. Mr. Gorman testified that tax-qualified plans intend to purchase up to 8% of the shares in the offering, including the purchase of 5% of the shares by an employee stock ownership plan, and a non-tax qualified plan intends to purchase 4% of the shares. Ex. 5, at 9-10.

Section 31-907(a)(1) states that a plan may provide that officers and directors shall receive subscription rights to purchase a percentage of the offering. In the case of NCRIC Group, this percentage would be approximately 34%. Section 7 of the Plan of Conversion provides for subscription rights for directors, officers and employees. Section 10.B of the Plan of Conversion limits purchases by directors and officers in the aggregate to 25% of the shares offered. Ex. 7. Mr. Gorman testified that the non-tax qualified plan will purchase shares on behalf of officers and directors (4% of the shares offered). Ex. 5, at 9-10.

Section 31-907(b) states that a plan may grant subscription rights to tax-qualified plans to purchase up to 10% of the shares in a conversion offering.

Under the Plan of Conversion, tax-qualified plans will purchase up to 8% of the shares offered pursuant to subscription rights. Ex. 5, at 9 & 7, at 12. Officers and directors are provided subscription rights, and are limited in their aggregate purchases pursuant to subscription rights, including purchases through non-tax qualified plans, to a percentage within the limits set forth in Section 31-907(a)(2). Ex. 5, at 10. In this regard, Mr. Gorman testified that the Plan of Conversion gives eligible members first priority subscription rights to all shares up to the maximum of the offering range, and only if there is an oversubscription do benefit plans and officers and directors and employees receive priority subscription rights, and only to the extent of an increase in the offering range of up to 15%. Exs. 5, at 11 & 7, at 14-15.

As required by Section 907(a)(3), Section 16 of the Plan of Conversion also provides that shares purchased by officers and directors in the offering may not be sold for a period of one year following completion of the Conversion. Ex. 7. Section 17 of the Plan of Conversion provides that for a period of three years following the Conversion, no officer or director shall purchase, without the prior written approval of the Commissioner, any outstanding shares of NCRIC Group Common Stock except from a broker-dealer registered with the SEC. Ex. 7. Section 31-907(a)(4) permits these restrictions.

Section 31-910. In accordance with the requirements of Section 31-910, the Mutual Holding Company has provided to the Commissioner the notice, in a form that conforms to the requirements of Section 31-910, which will be given to members whose policies were issued after the board of directors of the Mutual Holding Company adopted the Plan of Conversion (i.e.,

January 28, 2003) but before the effective date of the Plan of Conversion (i.e., the date of this Decision and Order). Tr. 110-11; Ex. 11.

Section 31-912. Mr. Pate testified that no director, officer, agent or employee of the mutual holding company, or any other person, shall receive any fee, commission, or other valuable consideration, other than his or her usual regular salary and compensation, for in any manner aiding, promoting, or assisting in the Conversion. Tr. 45, 67, 130-32.

2. Whether the Provisions of Section 31-903 have been complied with.

Section 31-903(a-1). If the Commissioner orders that a hearing on a plan be held, that hearing shall be conducted in accordance with the contested case procedures set forth in Section 2-509 of the Administrative Procedure Act. The Commissioner conducted the public hearing under said Section 2-509. Tr. 8.

Section 31-903(a-2). A decision and order of the Commissioner, after a hearing conducted in accordance the contested case procedures as set forth in subsection (a-1) of this section, may be reviewed as provided in Section 2-510 of the Administrative Procedure Act. See Tr. 8.

Section 31-903(b). See discussion of Section 31-903(b) under Issue 1 above.

Section 31-903(c). See discussion of Section 31-903(c) under Issue 1 above.

Section 31-903(d). The Commissioner may retain, at the mutual company's expense, any qualified expert not otherwise a part of the Commissioner's staff to assist in reviewing the plan and the independent evaluation of the pro form market value which is required by Section 31-906. The Commissioner has retained the Jordan Burt LLP law firm as special counsel in this matter. Tr. 20. The Mutual Holding Company has agreed to pay Jordan Burt LLP's fees and costs for its services as special counsel to the Commissioner.

3. Whether the Plan of Conversion prejudices the interests of the members of the Mutual Holding Company.

At the hearing, Mr. Pate, President and Chief Executive Officer of the Mutual Holding Company and Dr. Trujillo, Chairman of the Board of the Mutual Holding Company testified that the Plan of Conversion was in the best interests of the members and not prejudicial to their interests. Ex. 2, at 4 & 4, at 7-8. Dr. Hendricks, a member of the Mutual Holding Company who is not otherwise affiliated with the Applicants as an officer, director or employee, also testified at the hearing that the Plan of Conversion is in the best interests of the members of the Mutual Holding Company. Tr. 36-42.

Both Mr. Pate and Dr. Trujillo explained the benefits of adopting the Plan of Conversion, and as a result of the conversion, the capital of the insurance company will increase immediately

and significantly. Tr. 29-30, 53-55, 75-77. Following the Conversion, NCRIC Group will have better access to the capital markets thereby increasing the capital available to the insurance company for purposes of writing more medical professional liability insurance policies and to increase risk retention. Tr. 33, 55-57. Mr. Pate further testified that the increased capital will enable NCRIC to better serve medical practitioners in the District of Columbia by ensuring continued access to affordable medical professional liability insurance in NCRIC's market area. Tr. 56-58.

Mr. Pate and Dr. Trujillo also testified that many states have been adversely affected by the turmoil in the medical malpractice insurance marketplace, as insurance companies have withdrawn from writing medical malpractice insurance or have failed due to financial difficulties. Tr. 28-29. Contrary to many states in the areas surrounding NCRIC's market area, Dr. Trujillo testified that there has not been a crisis in medical malpractice in the District of Columbia. Tr. 28-29. Mr. Pate and Dr. Trujillo stated their belief that the steps taken by NCRIC to date, including forming the mutual holding company and publicly issuing stock, are largely responsible for this. Tr. 28-29; 57-58. They further stated their belief that the Plan of Conversion is a continuation of the steps previously taken, and will further enable NCRIC to remain a viable and effective insurance company. Tr. 27-28; 55-56. Mr. Pate testified that in his opinion, if the Plan of Conversion does not proceed and if the additional capital is not raised and contributed to the insurance company, NCRIC's ability to grow will be limited. Tr. 50.

Dr. Trujillo testified that the Board of Directors of the Mutual Holding Company extensively considered the Plan of Conversion to reorganize the company from the mutual holding company form to the fully public stock form in connection with its approval and adoption of the plan. Tr. 27-28. The Board reached its decision after extensive deliberation and with the assistance of financial and legal experts. Tr. 27-28. Similar to Mr. Pate's testimony, Dr. Trujillo believes that the Mutual Holding Company will be able to better serve the needs of medical professionals in the District of Columbia and compete effectively and successfully in the fully public stock form. Tr. 30.

Mr. Pate also testified that following the completion of the Conversion, the operations of the insurance company would continue to be managed by the same professional management team and practicing physicians would continue to comprise a majority of the board of directors. Tr. 98-100.

As part of the Conversion, the mutual insurance holding company and NCRIC Group will cease to be corporation organized under District of Columbia law, and will be merged with and into NCRIC Group (Delaware), which is organized under Delaware law. Mr. Pate, in his testimony, stated that the reincorporation of NCRIC Group as a Delaware corporation is intended to provide greater flexibility to the public company. Tr. 58-59. As a Delaware corporation, NCRIC Group (Delaware) will be able to take advantage of the greater predictability offered by extensive case law that has developed in Delaware. Tr. 58-59. The significant degree of predictability facilitates corporate planning from a strategic and operational standpoint. The Applicants provided testimony and documents showing that both the Plan of Conversion and the certificate of incorporation for NCRIC Group (Delaware) have provisions that make a hostile takeover more difficult. Tr. 79-80; Supp. Ex. B. Mr. Pate testified that such protections will better enable the company to focus on its long-term strategy. Tr. 58-59.

Mr. Pate also addressed the issue of regulatory oversight for both the insurance holding company and the insurance company, and the effect of the Conversion on existing insurance policies. Mr. Pate testified that although the holding company is to be incorporated in Delaware following the Conversion, the Commissioner will continue to have regulatory jurisdiction over NCRIC Group (Delaware) as an insurance holding company. Tr. 72-75. There is no present intent on the part of the Mutual Holding Company to move any personnel, facilities, or books and records of NCRIC away from the District of Columbia following the merger of NCRIC Group with NCRIC Group (Delaware). Tr. 96-98. In addition, the corporate structure of NCRIC, the insurance company, will not change as part of the Conversion. NCRIC will, therefore, continue to be a District of Columbia insurance company following the completion of the Conversion. Tr. 99-100. Under the terms of the Plan of Conversion, and as stated in Mr. Pate's testimony, the Conversion will not affect NCRIC directly and all insurance policies issued by NCRIC will continue according to the terms of the individual policies. Ex. 7; Tr. 132-33.

James Hennessey of RP Financial testified regarding the pro forma valuation prepared for NCRIC Group (Delaware), which takes into account the value of NCRIC Group (Delaware) assuming the completion of the Conversion. Mr. Hennessey is a founding member of RP Financial and has completed pro forma valuation services for numerous demutualization transactions since the founding of RP Financial in 1988. This experience includes numerous second step transactions similar to the transactions called for in the Plan of Conversion. Tr. 134-35; Ex. 9, at 9-10. In addition, Mr. Hennessey testified that RP Financial conducted the pro forma valuation services for the last three demutualization transactions involving insurance companies. Tr. 135. The Applicants provided evidence showing that Mr. Hennessey and RP Financial are independent of the Applicants in accordance with Section 31-906(i). Ex. 9, at 9-10.

Mr. Hennessey gave extensive testimony regarding the methods he used to determine the pro forma valuation for NCRIC Group (Delaware). Mr. Hennessey analyzed several aspects of the financial condition and financial performance of NCRIC Group as well as compared NCRIC Group to other publicly traded insurance companies. Tr. 136-143. Mr. Hennessey also testified that his firm has worked with the Applicants since the initial organization of the Mutual Holding Company. Tr. 135. Mr. Hennessey also addressed the per share price for NCRIC Group (Delaware) shares. He testified that the \$10 per share purchase price has gained acceptance in the marketplace and will help the effort to market the sale of shares in both the subscription and community offerings. Tr. 161-66. After the hearing was completed, the record remained open to allow the Applicants to supplement the record with certain documents, including an updated pro forma valuation of NCRIC Group prepared by RP Financial. Supp. Ex. C-1. The updated pro forma valuation reflects an increase in the estimated market value of NCRIC Group by approximately 10% as compared to the March 11, 2003 pro forma valuation report. Supp. Ex. C-1. Prior to the closing of the Conversion, RP Financial will update its appraisal using the same methodology. Tr. 166-67.

Mr. Gorman addressed the issue of the liquidation account to be established in NCRIC Group (Delaware). Tr. 112-14. The liquidation account is established in recognition of the liquidation rights that members currently have in the Mutual Holding Company. Under the terms of the liquidation account, in the event of a liquidation of NCRIC Group (Delaware), and after the payment of the claims of all creditors (including, if applicable any claims by a receiver for NCRIC under District of Columbia law), eligible members would have certain rights to

receive a distribution of the remaining equity of NCRIC Group (Delaware) prior to any distribution to common stockholders. The liquidation account would be an aggregate amount that represents the Mutual Holding Company's ownership interest in the stockholders' equity of NCRIC Group as of the date of the latest balance sheet contained in the prospectus. Each eligible member would have a proportionate interest (based on the annualized rate of premiums as of the eligibility record date) in the liquidation account in the event of a liquidation of NCRIC Group (Delaware). The liquidation account will remain in effect for a period of five years. A member's interest in the liquidation account would terminate earlier if the member no longer maintains a policy of insurance with NCRIC. Supp. Ex. B, at 4. Mr. Gorman testified that the liquidation account confers an additional benefit upon the members. Tr. 112-14.

While there was substantial testimony in support of the Plan of Conversion, there were no written submissions or oral testimony against the Plan of Conversion. There was no evidence provided that would contradict the assertion by the Applicants that the Plan of Conversion and the transactions incident thereto will further the best interests of the members of the Mutual Holding Company and not "prejudice the interests of the members." Under District of Columbia law, members of the Mutual Holding Company currently have voting and liquidation rights in the mutual holding company, and will be provided interests in a liquidation account to be established in NCRIC Group (Delaware). Supp. Ex. B, at 4; Tr. 112-24. The establishment of the liquidation account will confer an additional benefit on eligible members. While there was substantial testimony that the valuation report of RP Financial adequately estimates the pro forma market value of the converted entity, there were no written submissions or oral testimony contesting this point.

4. Whether the method of allocating subscription rights under the Plan of Conversion is fair and equitable to the members of the Mutual Holding Company.

The Applicants provided testimony that the allocation of subscription rights was equitable to the members of the Mutual Holding Company for several reasons. Eligible members are to receive equal subscription rights. Tr. 80-82. Under the Plan of Conversion, each member of the Mutual Holding Company will receive a priority subscription right to purchase a minimum of 100 shares and a maximum of 100,000 shares of common stock of NCRIC Group (Delaware). Tr. 90-91. This method of distribution has the effect of giving each member the same right to become a stockholder of the fully converted stock holding company that will be the holding company for the insurance company. Tr. 90-91.

Granting identical subscription rights to all eligible members of the Mutual Holding Company is also consistent with other types of demutualization transactions. Mr. Gorman testified that allocating subscription rights equally to all members is commonly used in mutual to stock conversions involving banks and thrifts and has gained general acceptance in the marketplace. Ex. 5; Tr. 166. Lastly, this method of allocating subscription rights was approved by the Commissioner in the initial public offering of NCRIC Group completed in 1999. See the 1998 Decision and Order and the 1999 Order.

Findings of Fact

After a careful evaluation and analysis of the evidence, the Commissioner makes the following findings of fact:

1. The Applicants filed an application for approval of the Conversion. Tr. 109.
2. The Plan of Conversion was unanimously approved by the Mutual Holding Company's Board of Directors on January 28, 2003 and amended by unanimous resolution of the Board of Directors on May 1, 2003. Supp. Exs. A-1 & A-2.
3. The Applicants have provided the Commissioner with the Plan of Conversion (Ex. 7), including the independent evaluation of pro forma market value prepared by RP Financial (Ex. 17; and Supp. Ex. C), the form of notice to members of their right to vote on the Plan of Conversion (Ex. 15), the form of proxy to be used to solicit members' approval (Ex. 15), the form of notice to the members of the Mutual Holding Company whose NCRIC policies were issued after January 28, 2003 (and before the date of this Order) of their right to terminate their policy and receive a pro rata refund (Ex. 11), and the proposed certificate of incorporation and bylaws of NCRIC Group (Delaware), as amended to reflect the liquidation account (Supp. Ex. B).
4. The Applicants mailed notice of the hearing to all members of the Mutual Holding Company on April 11, 2003, and published notice of the hearing in *The Washington Post* on April 25-27, 2003. Tr. 9. Notice of the public hearing was also published in the *D.C. Register* on April 18, 2003.
5. At the hearing, the Applicants presented five (5) witnesses to testify and be cross-examined. One witness was unable to appear in person and had his testimony read into the record. No other members or representatives appeared at the hearing to present testimony. Exs. 1-5.
6. The record contains substantial testimony from Applicants' witnesses and documentary support, all of which is un rebutted, that the Plan of Conversion will permit NCRIC Group to obtain additional capital, no less than 75% of which will be invested in NCRIC, and as a result NCRIC will be better positioned to remain a viable and competitive insurance company. Tr. 55, 75-77, 102. The members of the Mutual Holding Company are policyholders of NCRIC. Ex. 7, at 5.
7. The Mutual Holding Company has acknowledged and agreed that its successor in interest, NCRIC Group (Delaware), shall be subject to the regulatory jurisdiction of the Commissioner. Tr. 73-75.
8. The record contains substantial testimony from Applicants' witnesses and documentary support, all of which is un rebutted, that the Mutual Holding Company has complied with the provisions of Section 31-903. Ex. 5. See also Discussion of the Issues above at Issues 1 and 2.
9. The record contains substantial testimony from Applicants' witnesses and documentary support, all of which is un rebutted, that the Plan of Conversion will not prejudice the interests of

the members of the Mutual Holding Company. Tr. 80-85. See also Discussion of the Issues at Issue 3.

10. The record contains substantial testimony from Applicants' witnesses and documentary support, all of which is unrebutted, that the Plan of Conversion's method of allocating subscription rights is fair and equitable. Tr. 81. See also Discussion of the Issues at Issue 4.

Conclusions of Law

After careful evaluation of the evidence and the Findings of Fact, the Commissioner makes the following Conclusions of Law:

The Provisions Of Section 31-903 Have Been Complied With. D.C. Code § 31-903 (a)(1)

The Commissioner concludes that, subject to compliance with the Conditions and Undertakings section of this Decision and Order, each of the provisions of Section 31-903 have been complied with, as required by Section 31-903(a)(1). In this regard, the Commissioner has taken into account the fact that the Mutual Holding Company will provide notice to members whose policies in NCRIC were issued after January 28, 2003 and before the date hereof, of their right to terminate their policies and receive a pro rata refund.

The Plan of Conversion Does Not Prejudice the Interest of the Members. D.C. Code § 31-903 (a)(2)

The Commissioner concludes that, subject to compliance with the Conditions and Undertakings Section of this Decision and Order, the Plan of Conversion will not prejudice the interests of the members, as required by Section 31-903(a)(2). The Commissioner reaches this conclusion on the uncontradicted testimony of Mr. Pate, Dr. Trujillo and Dr. Hendricks. All testimony received from these three witnesses supports the Mutual Holding Company's contention that the Conversion is in the long-term best interests of the members of the Mutual Holding Company because it is essential to the continued viability of NCRIC. In addition, the testimony of Mr. Hennessey from RP Financial supports the conclusion that the estimated pro forma market value of the converted entity is adequate and fairly calculated. Finally, the Commissioner has taken into account the interest that the members will receive in the Liquidation Account to be established by NCRIC Group (Delaware) in exchange for their membership interests in the Mutual Holding Company.

The Plan's Method of Allocating Subscription Rights Is Fair And Equitable. D.C. Code § 31-903(a)(3)

The Commissioner concludes that, subject to compliance with the Conditions and Undertakings Section of this Decision and Order, the Plan of Conversion's method of allocating subscription rights is fair and equitable, as required by Section 31-903(a)(3). The method

included in the Plan of Conversion grants an equal subscription right to each eligible member, subject to an oversubscription procedure, and in that way is the method that is utilized in many, if not most, mutual to stock transactions. This method is also identical to that utilized in the initial offering of stock by NCRIC Group that was approved by the Commissioner in 1999 under a fair and equitable standard of review.

ORDER

It is ORDERED that the proposed Plan of Conversion of the Mutual Holding Company, pursuant to the Demutualization Act, be and is hereby AUTHORIZED AND APPROVED, subject to the satisfaction of the following Conditions and Undertakings, each of which shall be deemed to be supplementary to, and not in derogation of, existing applicable statutes, regulations, and orders:

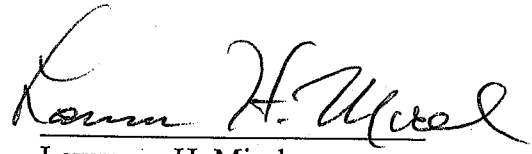
CONDITIONS AND UNDERTAKINGS

1. Applicants will mail a proxy statement, proxy card and prospectus to each eligible member no less than 10 and not more than 60 days before the meeting of members of the Mutual Holding Company.
2. The Plan of Conversion shall be approved by the affirmative vote of at least a majority of the votes cast by the eligible members, and Applicants shall provide a copy of the minutes of the special meeting evidencing such approval of members to the Commissioner.
3. The notice required by Section 31-910 shall be provided to members of the Mutual Holding Company whose policies were issued by NCRIC after January 28, 2003 and before the date of this Order, and the requirements of Section 31-910 as to the right of such members to terminate their policy and receive a pro rata refund shall be satisfied. Evidence of the mailing of the Section 31-910 notice, and information as to any cancelled policies, shall be provided to the Commissioner.
4. No less than 75% of the net proceeds from the sale of additional shares of common stock by NCRIC Group (Delaware) shall be invested in NCRIC.
5. Prior to the closing of the Conversion, the Mutual Holding Company shall cause RP Financial (i) to update its appraisal of the estimated pro forma market value of NCRIC Group as converted based on the same methodology utilized in the appraisal report of RP Financial dated as of March 11, 2003, as updated on May 2, 2003, and (ii) to provide to the Commissioner in writing prior to the closing of the Conversion either (A) confirmation that its opinion of the estimated pro forma market value of the shares of the capital stock of NCRIC Group expressed in its appraisal update of May 2, 2003, remains in effect, or (B) an updated report showing the revised estimated pro forma market value of NCRIC Group as converted.

6. The Liquidation Account described in Section 15A of the Plan of Conversion as amended and adopted by the Mutual Holding Company on May 1, 2003 shall be established by NCRIC Group (Delaware) upon completion of the Conversion transaction, and in connection therewith, the articles of incorporation of NCRIC Group (Delaware) shall be filed with the Secretary of State of the State of Delaware substantially in the form submitted to the Commissioner.
7. Prior to completion of the Conversion, NCRIC Group shall submit a copy of an agreement and acknowledgment executed by each executive officer who is party to an employment agreement with NCRIC Group or NCRIC evidencing such officer's agreement that the Conversion and the transactions incident thereto do not constitute a change in control under the agreement and do not entitle the officer to terminate the contract and/or receive any payments as a result thereof.
8. Promptly following completion of the Conversion and transactions incident thereto, NCRIC Group (Delaware) shall submit (a) a certificate of the company's chief executive officer stating the number of shares sold, the number of shares exchanged for the existing shares, and the aggregate price of the shares sold, which must be no less than the minimum of the offering range set forth in the prospectus and no more than 15% above the maximum of the offering range; (b) certified copies of the certificate of incorporation and bylaws of NCRIC Group (Delaware); and (c) a certificate of an officer of NCRIC Group stating that the Conversion was consummated in accordance with the provisions of the Plan of Conversion, the Demutualization Act, and this Decision and Order.
9. This transaction is subject to further orders and further conditions and undertakings as the circumstances may require.
10. The Commissioner retains full regulatory authority and jurisdiction over NCRIC Group (Delaware), as successor in interest to Mutual Holding Company, until further order of the Commissioner.
11. This Decision and Order is subject to further modification or amendment and further review either *sua sponte* or on petition of NCRIC Group.
12. The Mutual Holding Company and NCRIC Group (as well as NCRIC Group (Delaware) as their respective successors in interest) shall continue to be subject to the jurisdiction of the Commissioner pursuant to the provisions of the Demutualization Act for purposes of implementing the terms of this Decision and

Order and the employing of experts necessary for such purpose, until further order of the Commissioner.

Signed and dated this 14 day of May, 2003.

A handwritten signature in cursive script, appearing to read "Lawrence H. Mirel".

Lawrence H. Mirel
Commissioner