William P. White
Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination – **ProAssurance National Capital Insurance Company** as of December 31, 2010

ORDER

Pursuant to Examination Warrant 2010-4, an Examination of **ProAssurance National Capital Insurance Company** as of December 31, 2010 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 30th day of April 2012, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

William P. White

William P. White
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

PROASSURANCE NATIONAL CAPITAL INSURANCE COMPANY (FORMERLY "NCRIC, INC.")

AS OF

DECEMBER 31, 2010

NAIC COMPANY CODE 41149

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Washington, D.C.
February 7, 2012

Honorable William White
Commissioner
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, NE, Suite 701
Washington, D.C. 20002

Dear Commissioner:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

ProAssurance National Capital Insurance Company (Formerly "NCRIC, Inc.")

(Hereinafter called the Company) with a statutory home office located at 1250 23rd Street, NW, Suite 250, Washington, DC 20037-1101, but with its books and records located at 100 Brookwood Place, Birmingham, AL 35209, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period from January 1, 2007 to December 31, 2010, including any material transactions and/or events noted occurring subsequent to December 31, 2010, was conducted under the association plan of the National Association of Insurance Commissioners ("NAIC") by examiners of the District of Columbia Department of Insurance, Securities and Banking (the "Department").

The last examination of the Company was a full scope examination, covering the period from January 1, 2006 to December 31, 2006.

Our examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC's *Financial Condition Examiners Handbook* and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for calendar years 2007 through 2010. We placed substantial reliance on the audited financial statements for calendar years 2007 through 2009, and consequently performed only minimal testing for that period. We concentrated our examination efforts on the year ended December 31, 2010. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2010, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of the five recommendations made in our preceding Report on Examination, which covered the period from January 1, 2006 to December 31, 2006.

Each of the five recommendations made in our prior Report on Examination, dated September 5, 2007, were adequately addressed by the Company.

HISTORY

General:

The Company was organized as National Capital Reciprocal Insurance Company on June 24, 1980, and commenced business on October 1, 1980, under the Fire and Casualty Act of Title 35 of the District of Columbia Code. The Medical Society of the District of Columbia (Medical Society) sponsored the Company's formation to provide professional liability and office premises liability insurance to physicians having their principal practice in the District of Columbia and who are members of the Medical Society. In April 1993, the Bylaws were amended to eliminate the requirement that the Company's policyholders (members) must also be members of the Medical Society.

In 1998, the Company was reorganized into a stock insurance company with a mutual insurance holding company parent, named NCRIC, A Mutual Holding Company. In addition, two intermediate holding companies, NCRIC Holdings, Inc. and NCRIC Group, Inc. were formed. NCRIC Group, Inc. owned all of the outstanding shares of the Company, NCRIC Holdings, Inc. owned 100 percent of NCRIC Group, Inc., and NCRIC, A Mutual Holding Company owned 100 percent of NCRIC Holdings, Inc. In addition, during 1998 the Company's name was changed to NCRIC, Inc.

The 1998 reorganization separated the policyholders' contract rights, which remained with NCRIC, Inc., and membership interests, which were in NCRIC, A Mutual Holding Company. Each policyholder with a policy that was in force as of December 31, 1998, and who was a member of National Capital Reciprocal Insurance Company, pursuant to the reorganization, became a member of NCRIC, A Mutual Holding Company.

On July 29, 1999, NCRIC Group, Inc. completed an initial public offering of 3,700,000 shares; 40.1 percent to public shareholders and 59.9 percent retained by NCRIC Holdings, Inc. Based on the District of Columbia law, NCRIC, A Mutual Holding Company must at all times own, directly or indirectly, a majority of the outstanding voting stock of NCRIC, Inc.

On June 24, 2003, a plan of conversion and reorganization was approved by the members of NCRIC, A Mutual Holding Company and by the shareholders of NCRIC Group, Inc. In the conversion and related stock offering, NCRIC, A Mutual Holding Company sold its 59.9 percent ownership interest in NCRIC Group, Inc. for $10.00 per share. As a result of the conversion and stock offering, NCRIC, A Mutual Holding Company ceased to exist, and NCRIC Group, Inc. became a 100 percent publicly held company.

Effective December 31, 2003, the Company's wholly-owned insurance subsidiary, Commonwealth Medical Liability Insurance Company (CML), was merged into the Company.

Effective August 3, 2005, with approval of the Commissioner of the Department, the Company's parent, NCRIC Group, Inc. was merged into NCP Merger Corporation, which was a subsidiary of ProAssurance Corporation, a publicly traded Delaware corporation. NCRIC Group, Inc. (then known as NCRIC Corporation) was the surviving company, and ProAssurance Corporation became the Company's ultimate controlling parent.

Effective June 16, 2006 the Company amended and restated its Bylaws to eliminate the following provisions: that the nomination of a board member be filed in writing ten days prior to the election; board appointment of underwriting and claims committees; and inspection of corporate records by shareholders.

Effective December 15, 2008, the Company changed its name from NCRIC, Inc. to ProAssurance National Capital Insurance Company.

On May 1, 2009 the Department approved the merger of American Captive Corporation into the Company. American Captive Corporation was an inactive subsidiary domiciled in the District of Columbia.

Capital Stock:

The Company's Articles of Incorporation authorize the Company to issue 1,000,000 shares of common stock with a par value of $1 per share. As of December 31, 2010, the Company had issued 1,000,000 shares, with a total book value of $1,000,000.

Dividends to Shareholders:

The Company paid dividends to its parent company of $39 million in 2009 and $25 million in 2010. No dividends were paid in either of 2007 or 2008.

Additional Paid In Surplus:

The Company received a $5.5 million capital contribution from NCRIC Corporation (the Company's then parent) on May 11, 2009.

Management:

Board of Directors

The following persons were serving on the Company's board of directors as of December 31, 2010:

Name and Address	Principal Occupation
W. Stancil Starnes Mountain Brook, Alabama	Chairman and Chief Executive Officer ProAssurance Corporation
Victor T. Adamo Birmingham, Alabama	President ProAssurance Corporation
Howard H. Friedman Timonium, Maryland	Chief Underwriting Officer ProAssurance Corporation
Edward L. Rand, Jr. Birmingham, Alabama	Chief Financial Officer ProAssurance Corporation
Darryl K. Thomas Hoover, Alabama	Chief Claims Officer ProAssurance Corporation

Officers

The following officers have been appointed by the Board of Directors and were serving at December 31, 2010:

Howard H. Friedman	President, Chief Underwriting Officer
W. Stancil Starnes	Chairman
Victor T. Adamo	Vice Chairman
Kathryn A. Neville	Secretary, Vice President
Edward L. Rand, Jr.	Senior Vice President
Frank B. O'Neil	Senior Vice President
Hayes V. Whiteside, M.D.	Senior Vice President
Jeffery L. Bowlby	Senior Vice President
Darryl K. Thomas	Chief Claims Officer

Committees:[1]

The Company had the following committee at year-end 2010:

Investment Committee

W. Stancil Starnes	Howard H. Friedman
Victor T. Adamo	Darryl K. Thomas
Edward L. Rand, Jr.	

Conflicts of Interest:

Directors, officers and responsible employees of the Company regularly responded to conflict of interest questionnaires. If possible conflicts were disclosed, Company officials scrutinized them further. Our review of the responses to the questionnaires completed for 2010 disclosed no conflicts that would adversely affect the Company. Furthermore, our examination did not disclose any additional conflicts of interest.

Corporate Records:

We reviewed the minutes of the meetings of the shareholders, board of directors and committees for the period under examination. Based on our review, it appeared that the minutes documented the Company's significant transactions and events, and that the directors approved those transactions and events.

[1] Some of the ultimate parent company committees function as the de facto committees for its subsidiaries. These committees include an audit committee. The audit committee is comprised of three independent directors, one of whom is qualified as a financial expert.

AFFILIATED COMPANIES

The Company is a member of the ProAssurance holding company system, and is ultimately owned by ProAssurance Corporation (ProAssurance), a publicly traded holding company. As of December 31, 2010, no stockholders owned or controlled 10 percent or more of the outstanding shares of ProAssurance.

Companies in the ProAssurance group are specialty insurers, writing primarily medical professional liability insurance. The group is licensed to write business in all 50 states and the District of Columbia.

The following organizational chart summarizes the Company's significant affiliates as of December 31, 2010:

	Domiciliary Jurisdiction
ProAssurance Corporation	Delaware
ProAssurance Group Services Corporation	Alabama
American Physicians Service Group, Inc.	Texas
American Physicians Insurance Company (NAIC# 32557)	Texas
PRA Professional Liability Group, Inc (100%)	Delaware
ProAssurance National Capital Insurance Company (100%) (NAIC # 41149)	**District of Columbia**
ProAssurance Casualty Company (100%) (NAIC# 38954)	Michigan
ProAssurance Specialty Insurance Company, Inc. (100%) (NAIC# 10179)	Alabama
ProAssurance Indemnity Company, Inc. (100%) (NAIC# 33391)	Alabama
ProAssurance Wisconsin Insurance Company (100%) (NAIC # 23400)	Wisconsin
PACO Assurance Company, Inc. (100%) (NAIC# 10222)	Illinois
Podiatry Insurance Company of America (100%) (NAIC # 14460)	Illinois

INTERCOMPANY AGREEMENTS

As of December 31, 2010, the Company was a party to the following significant intercompany agreements:

Management Services Agreement

On May 1, 2009, the Company entered into a Management Services Agreement with ProAssurance Corporation and its subsidiaries. (This agreement was subsequently amended on July 1, 2009). Based on the agreement, such services are defined to include expenses incurred relating to accounting services, underwriting, reinsurance, sales and service, claims administration, information systems, human resources and risk management are allocated among the companies in conformity with customary insurance practices. During 2010, ProAssurance Corporation and its subsidiaries provided services to the Company with allocations totaling $2,571,000. This agreement, as amended, was submitted by the Company to the Department and was approved by the Department on July 28, 2009.

Expense Allocation Agreement

On May 1, 2009, the Company entered into an Expense Allocation Agreement with ProAssurance Corporation and its subsidiaries. (This agreement was subsequently amended on July 1, 2009). Based on the agreement, certain direct and indirect expenses are to be proportionately allocated among the group companies. This agreement, as amended, was submitted by the Company to the Department and was approved by the Department on July 28, 2009.

Tax Sharing Agreement:

On December 1, 2010, the Company entered into a tax sharing agreement with its affiliated companies within the ProAssurance group holding company system. Based on the agreement, the consolidated tax liability of the Group will be allocated among the Members in accordance with the ratio which that portion of the consolidated taxable income attributable to each Member having taxable income bears to the consolidated taxable income. The payments or intercompany account adjustments should be made no later than the date such payments would have been required by the Internal Revenue Service if the Member had filed a separate return, or as soon thereafter as possible. This agreement was submitted by the Company to the Department and was approved by the Department on December 23, 2010.

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured under a fidelity bond issued to its ultimate parent, ProAssurance Corporation. The fidelity bond provides coverage in the amount of $10,000,000 with a single loss deductible of $100,000. The coverage met the minimum amount of fidelity bond coverage recommended by the National Association of Insurance Commissioners for the Company and its affiliates on a consolidated basis.

In addition, the Company is covered under other insurance coverage in-force at December 31, 2010 including property and liability, workers' compensation, umbrella liability, general liability and directors' and officers' liability policies. Based on our review, the Company's other insurance coverage appeared to be adequate.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees of its own. The Company is part of a consolidated group of companies which participate in one defined contribution plan. The defined contribution plan is held at ProAssurance Group Services Corporation which is an affiliate of the Company. The Company does incur charges for both employees and pension related expenses under its Management Services Agreement and/or its Expense Allocation Agreements.

Under the ProAssurance Group defined contribution plan, eligible employees receive a base contribution of 5 percent of eligible wages. In addition, the Plan matches employee's contributions dollar for dollar up to a maximum of 5 percent. The Company's expense allocated under the Agreements for the defined contribution plan for the year ended December 31, 2010 was approximately $234,000.

The Company is also a participant in the ProAssurance Corporation stock ownership plan for full-time employees who have completed minimum service requirements. The plan allows each eligible employee to purchase shares of ProAssurance Corporation's common stock in the public market and the Plan will match each participant's contribution at the rate of (a) 100 percent of the first $2,000 of the sum of the Cash Deposits and the Value of Share Deposits made by a participant during a calendar year, plus (b) 50 percent of the next $8,000 of the sum of the Cash Deposits and the Value of Share Deposits made by a participant during the calendar year. The Company's expense for the plan under the stock ownership plan was approximately $97,000 for the year ended December 31, 2010.

The Company is also a participant in the ProAssurance Group various health insurance and other benefits offered to its employees. ProAssurance group provides group health and dental benefits for eligible full-time regular employees and their eligible dependents. In addition, the ProAssurance group provides life and long-term disability insurance to its eligible full-time regular employees.

STATUTORY DEPOSITS

The Company is not required to maintain a statutory deposit in the District of Columbia. However, the Company has established such a deposit, and had deposited in trust with the Department, United States Treasury Notes with a carrying (book) value of $126,148 and a market value of $125,983, as of December 31, 2010. These funds were held for the protection of all policyholders.

In addition, the Company had statutory deposits, consisting of United States Treasury Notes and Bonds with the following jurisdictions. These deposits were held for the protection of the policyholders in those jurisdictions.

	Book Value	Market Value
Maryland	$ 116,240	$ 131,531
Virginia	549,133	548,223
Total	$ 665,373	$ 679,754

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed to transact business in Delaware, Maryland, Virginia, West Virginia, and the District of Columbia. During 2010, the Company wrote premiums totaling approximately $15.9 million, all of which was in the District of Columbia.

Over 99 percent of the Company’s business was medical professional liability coverage, written for groups, as well as for individual physicians, and other healthcare providers.

The Company marketed its products directly and through independent agents/brokers.

The Company’s Washington, DC office also functions as an underwriting, claim and risk management operation center for the Mid-Atlantic region for the ProAssurance holding company group, including the Company.

INSURANCE PRODUCTS AND RELATED PRACTICES

The Department's Market Conduct Unit has never conducted an examination of the market conduct affairs of the Company, and as of the date of this Report, the Unit was not planning to conduct a market conduct examination of the Company. In addition, no other market conduct examinations of the Company by other jurisdictions have ever been performed. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, underwriting and rating, claims processing and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

REINSURANCE

Assumed Reinsurance:

As of December 31, 2010, the Company had no assumed business.

Ceded Reinsurance:

The Company entered into reinsurance agreements with various reinsurers. The reinsurance program was comprised of two contracts and the Company's maximum net retention on any one loss was $1 million. The reinsurance program provided the Company with ability to offer limits up to $5 million, as follows:

A primary excess loss treaty provided $4 million coverage in excess of the $1 million retention on an individual basis.

During 2010, the Company ceded premiums totaling $1,329,901. As of December 31, 2010, the Company had recorded loss and loss expense reserve credits related to estimated amounts recoverable from reinsurers totaling $4,492,000 and unearned premium reserve credits from reinsurers totaling $592,129. If the reinsurers were not able to meet their obligations under these agreements the Company would be liable for any defaulted amounts.

Our review of the Company's reinsurance treaties disclosed no unusual provisions. The Company's reinsurance program provided adequate coverage for amounts above the Company's stated retention limits.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any significant deficiencies in these records.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of December 31, 2010, as determined by this examination:

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The accompanying "Note to Financial Statements" is an integral part of these financial statements.

BALANCE SHEET

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets	Examination Adjustment Increase (Decrease)	Net Admitted Assets Per Examination
Bonds	$161,186,438	$ 0	$161,186,438	$ 0	$161,186,438
Cash ($4,050,543), cash equivalents ($-0-) and short term investments ($850,371)	4,900,914		4,900,914		4,900,914
Other invested assets (Schedule BA)	491,700		491,700		491,700
Subtotals, cash and invested assets	$166,579,052	0	$166,579,052	0	$166,579,052
Investment income due and accrued	1,721,594		1,721,594		1,721,594
Uncollected premiums and agents' balances in course of collection	545,543		545,543		545,543
Deferred premiums and agents' balances and installments booked but deferred and not yet due	2,890,369		2,890,369		2,890,369
Amounts recoverable from reinsurers	31,368		31,368		31,368
Net deferred tax asset	4,114,613	930,364	3,184,249		3,184,249
Electronic data processing equipment and software	29,889		29,889		29,889
Furniture and equipment	67,149	67,149	0		0
Receivables from parent, subsidiaries and affiliates	9,189		9,189		9,189
Aggregate write-ins for other than invested assets	96,923	86,257	10,666		10,666
Totals	$176,085,689	$1,083,770	$175,001,919	$0	$175,001,919

BALANCE SHEET (CONTINUED)

LIABILITIES, SURPLUS AND OTHER FUNDS

	Amounts Per Annual Statement	Examination Adjustments	Amounts Per Examination
Losses	$54,547,679	$0	$54,547,679
Loss adjustment expenses	30,664,795		30,664,795
Commissions payable, contingent commissions and other similar charges	293,733		293,733
Other expenses (excluding taxes, licenses and fees)	287,724		287,724
Taxes, licenses and fees (excluding federal and foreign income taxes)	102,698		102,698
Current Federal income tax	476,814		476,814
Unearned premiums	15,803,882		15,803,882
Advance Premium	591,057		591,057
Ceded reinsurance premiums payable	3,900,920		3,900,920
Amounts withheld or retained by company for account of others	1,714		1,714
Provision for reinsurance	11,000		11,000
Payable to parent, subsidiaries, and affiliates	350,996		350,996
Aggregate write-ins for liabilities	251,916		251,916
Total liabilities	$107,284,928	0	$107,284,928
Aggregate write-ins for special surplus funds	1,028,383		1,028,383
Common capital stock	1,000,000		1,000,000
Gross paid in and contributed surplus	55,934,666		55,934,666
Unassigned funds (surplus)	9,753,942		9,753,942
Surplus as regards policyholders	$67,716,991		$67,716,991
Total liabilities and surplus as regards policyholders	$175,001,919	$0	$175,001,919

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned		$15,335,993
DEDUCTIONS:		
Losses incurred	$(134,396)	
Loss adjustment expenses incurred	734,294	
Other underwriting expenses incurred	4,226,796	
Total underwriting deductions		4,826,694
Net underwriting gain (loss)		10,509,299

INVESTMENT INCOME

Net investment income earned	$6,820,673	
Net realized capital gains (losses) less capital gains tax of $908,286	2,043,396	
Net investment gain (loss)		8,864,069

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	$(34,161)	
Aggregate write-ins for miscellaneous income	105,019	
Total other income		70,858
Net income before federal and foreign income taxes		19,444,226
Federal and foreign income taxes incurred		3,918,515
Net income		$15,525,711

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2006	$59,457,819
Net income, 2007	15,330,603
Change in net unrealized capital gains or (losses)	(82,482)
Change in net deferred income tax	(4,445,756)
Change in nonadmitted assets	3,633,505
Change in provision for reinsurance	(4,685,200)
Net change in surplus as regards policyholders, 2007	9,750,670
Surplus as regards policyholders, December 31, 2007	69,208,489
Net income, 2008	14,349,480
Change in net unrealized capital gains or (losses)	(515,430)
Change in net deferred income tax	381,024
Change in nonadmitted assets	5,421,783
Change in provision for reinsurance	4,724,000
Net change in surplus as regards policyholders, 2008	24,360,857
Surplus as regards policyholders, December 31, 2008	93,569,347
Net income, 2009	21,329,553
Change in net unrealized capital gains or (losses)	1,667,482
Change in net deferred income tax	(7,907,990)
Change in nonadmitted assets	4,682,401
Change in provision for reinsurance	13,800
Surplus Adjustments: Paid in	5,500,000
Dividends to stockholders	(39,000,000)
Aggregate write-ins for gains and losses in surplus	(1,347,471)
Net change in surplus as regards policyholders, 2009	(15,062,225)
Surplus as regards policyholders, December 31, 2009	78,507,122
Net income, 2010	15,525,711
Change in net unrealized capital gains or (losses)	1,203
Change in deferred income taxes	(1,632,851)
Change in nonadmitted assets	856,738
Change in provision for reinsurance	19,800
Dividends to stockholders	(25,000,000)
Aggregate write-ins for gains and losses in surplus	(560,732)
Net change in surplus as regards policyholders, 2010	(10,790,131)
Surplus as regards policyholders, December 31, 2010	$67,716,991

ANALYSIS OF EXAMINATION CHANGES TO SURPLUS

Surplus as regards policyholders per Annual Statement, December 31, 2010	$67,716,991
Change in unassigned funds:	
	0
Surplus as regards policyholders per examination, December 31, 2010	$67,716,991

COMPARATIVE FINANCIAL POSITION OF THE COMPANY

The comparative financial position of the Company for the four-year period ended December 31, 2010, is as follows:

	2007	2008	2009	2010
Assets	$252,581,573	$267,094,917	$199,432,091	$175,001,919
Liabilities	183,373,084	173,525,570	120,924,969	107,284,928
Policyholders surplus	69,208,489	93,569,347	78,507,122	67,716,991
Premiums earned	25,390,195	15,700,108	13,927,764	15,335,993
Net underwriting income	5,656,238	8,893,937	12,243,195	10,509,299
Net investment gain	10,650,790	10,618,441	7,823,886	8,864,069
Net income	15,330,603	14,349,480	21,329,553	15,525,711

Note: Amounts for the years ended December 31, 2007 through 2009 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2010 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

1. Loss Reserves

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $54,547,679 and $30,664,795, respectively. These reserves, which represent management's best estimate of the amounts necessary to pay all claims and related expenses that had been incurred but still unpaid as of December 31, 2010, are shown net of estimated amounts recoverable from various reinsurance companies under the Company's reinsurance treaties. Reserve credits taken as of December 31, 2010 for cessions to reinsurers totaled $4,492,000. If the reinsurers were not able to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2010, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the methodologies and reserves appeared to be sufficient. In addition, the methodologies utilized by the Company to compute these reserves, and the adequacy of the loss reserves and loss adjustment expense reserves were reviewed by an independent actuary engaged as part of our examination. This independent actuary engaged as part of our examination also concluded that the methodologies and reserves appeared to be sufficient.

2. Unearned Premium Reserve:

The Company reported "Unearned premiums" totaling $15,803,882 as at December 31, 2010. This amount was net of ceded unearned premiums totaling $592,129. Of the $15,803,882 net unearned premium reserve balance, $8,500,000 represented a reserve related to Death, Disability, and Retirement coverage (DD&R) extended reporting endorsements ("free tail coverage"). The Company issues policies which include provisions to extend coverage to its eligible, policyholders in the event of death, disability or retirement. The DD&R extended reporting endorsement covers claims occurring during the periods covered under the Company's policies but not reported until after death, disability or retirement of the policyholder. The Company used actuarial methodologies to allocate a portion of its premium to fund the "free tail" coverage. The methodologies and assumptions used by the Company in its calculation of the DD&R reserve, and the adequacy of the reserve as of December 31, 2010, were reviewed by our independent actuary and were determined to be reasonable and adequate.

3. Litigation Liability and Expenses:

As of December 31, 2008, the Company reported "Aggregate write-ins for liabilities" totaling $19,500,000, which was related to the $18.2 million verdict by a District of Columbia Superior Court jury on February 20, 2004, in the case of NCRIC, Inc. v. Columbia Hospital for Women Medical Center, Inc. The case was concluded and the Company remitted a total of $20,841,639 on April 28, 2009. The additional $1,341,639 was charged as an expense in the second quarter of 2009. An amount of approximately $252,000 (including accrued interest from April, 2009) is still remaining to be paid pending direction from the bankruptcy trustee.

4. Transactions with Affiliated Companies

In March and May of 2009 the Company purchased publicly-traded shares of the ultimate parent, ProAssurance Corporation, for a combined total of $6,180,854. On July 15, 2009 the 141,439 shares, valued at $6,582,571, were transferred to its parent company PRA Professional Liability Group, Inc. as part of a total extraordinary dividend of $29,643,065. The Company recognized a gain of $421,717 related to this transaction.

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COMMENTS AND RECOMMENDATIONS

During our examination we made certain suggestions and recommendations to the Company. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and are not included in our Report on Examination.

SUBSEQUENT EVENTS

The Company filed a Form D (prior notice of a material transaction) with the Department on March 21, 2012 requesting permission to merge the Company with and into its affiliate, ProAssurance Indemnity Company, Inc. effective July 1, 2012. Further, the Company also filed a Form D on March 28, 2012 with the Department requesting permission to pay a $25 million extraordinary dividend to its parent prior to the pending merger with ProAssurance Indemnity Company, Inc.

CONCLUSION

Our examination disclosed that as of December 31, 2010, the Company had:

Admitted assets	$ 175,001,919
Liabilities	$ 107,284,928
Unassigned funds (surplus)	9,753,942
Surplus as regards policyholders	$ 67,716,991
Total liabilities, capital and surplus	$ 175,001,919

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2010, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

Chapters 20 (“RISK-BASED CAPITAL”) and 25 (“FIRE, CASUALTY AND MARINE INSURANCE”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code specify the level of capital and surplus required for the Company. We concluded that the Company’s capital and surplus funds exceeded the minimum requirements during the period under examination.

ProAssurance National Capital Insurance Company
Report on Examination
December 31, 2010

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Chauvin Alleman, CFE, HuffThomas
Mary Packard, CFE, CPA Department of Insurance, State of Alabama
Lori Wright, CFE, Department of Insurance, State of Alabama
Charles J. Turner III, CISA, Department of Insurance, State of Alabama

The actuarial portions of this examination were completed by Rebecca E. Freitag, FCAS, MAAA, Jeremy Hoch, ACAS, MAAA and David Shepherd, FCAS, MAAA, all of Merlinos & Associates, Inc.

Respectfully submitted,

David C. Schleit, CFE, CPA
Examiner-In-Charge
Representing the District of Columbia
Department of Insurance, Securities and
Banking

Under the Supervision of,

Nathaniel Kevin Brown, CFE, CPA
Supervising Examiner
District of Columbia Department of
Insurance, Securities and Banking