Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination – **NCRIC, Inc.** as of December 31, 2006

ORDER

Pursuant to Examination Warrant 2007-1, a Financial Condition Examination of NCRIC, Inc. as of December 31, 2006 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 14th day of February, 2008, 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.

Thomas E. Hampton
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

NCRIC, INC.

AS OF

DECEMBER 31, 2006

NAIC COMPANY CODE 41149

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Washington, D.C.
September 5, 2007

Honorable Alfred W. Gross, Commissioner
Chairman, Financial Condition (E) Committee, NAIC
State Corporation Commission
Bureau of Insurance
Tyler Building
1300 East Main Street
Richmond, Virginia 23219

Honorable Julie M. Bowler
Secretary, Northeastern Zone, NAIC
Commissioner
Division of Insurance
Commonwealth of Massachusetts
One South Station, 5th Floor
Boston, Massachusetts 02110

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

Dear Madam and Sirs:

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

NCRIC, INC.

(hereinafter called the Company) at its home office located at 100 Brookwood Place, Birmingham, AL 35209, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

The examination, covering the period from January 1, 2006 to December 31, 2006, and including any material transactions and/or events noted occurring subsequent to December 31, 2006, 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 ("DISB") representing the Northeastern Zone of the NAIC.

The Company is a member of the ProAssurance Group which includes affiliates, The Medical Assurance Company, Inc. ("TMAC"), Red Mountain Casualty Insurance Company, Inc. ("RMC") and Woodbrook Casualty Insurance, Inc. ("WCI"). These companies were concurrently examined by DISB and the State of Alabama ("ALDOI") under a coordinated examination approach for the four year period ending December 31, 2006.

The last examination of the Company was a full scope examination, covering the period from January 1, 2004 to December 31, 2005. In accordance with the provisions of the District of Columbia Official Code, Section 31-1402, the Commissioner shall examine each domestic insurer at least once every five years, but may perform examinations as often as deemed appropriate.

Our examination was conducted in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and procedures recommended by the NAIC and, accordingly, included such tests of the accounting records and such other procedures as we considered necessary in the circumstances.

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 an unqualified opinion on the Company's financial statements for calendar year 2006. We concentrated our examination efforts on the year ended December 31, 2006. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2006, 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 four exceptions commented upon in our preceding Report on Examination dated August 1, 2006, which covered the period from January 1, 2004 to December 31, 2005.

During our current examination, we repeated one of the five prior recommendations made in our prior Report on Examination. See the "Accounts and Records" of this report for further comments regarding this recommendation.

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 By-laws 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 District of Columbia Department of Insurance, Securities and Banking, 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. (now 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 By-laws 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.

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, 2006, the Company had issued 1,000,000 shares with a total book value of $1,000,000.

Dividends to Stockholders:

The Company did not declare or pay any dividends to stockholders during the period under examination.

Management:

The following persons were serving on the Company's board of directors as of December 31, 2006:

Name and Address	Principal Occupation
A. Derrill Crowe, M.D. * Birmingham, Alabama	Chairman Chief Executive Officer ProAssurance Corporation
Victor T. Adamo Birmingham, Alabama	President ProAssurance Corporation
Paul R. Butrus Birmingham, Alabama	Vice Chairman ProAssurance Corporation
Howard H. Friedman Timonium, Maryland	President NCRIC, Inc.
Edward L. Rand, Jr. Birmingham, Alabama	Chief Financial Officer ProAssurance Corporation

Darryl K. Thomas Hoover, Alabama	Chief Claims Officer NCRIC, Inc.

Subsequent to the period covered by this examination:

*A. Derrill Crowe, M.D., Chairman retired from the Board on June 30, 2007. W. Stancil Starnes was elected to the Board effective July 1, 2007 to fill the position vacated by Dr. Crowe.

The following persons were serving as the Company's officers as of December 31, 2006:

Howard H. Friedman	President, Chief Underwriting Officer
Kathryn A. Neville	Secretary, Vice President
James J. Morello	Treasurer, Senior 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:

As of December 31, 2006, the Company's board of directors had established the following committees:

Investment Committee

A. Derrill Crowe, M.D.	Chairman
Howard H. Friedman	
Victor T. Adamo	
Edward L. Rand, Jr.	
Darryl K. Thomas	

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 2006 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.

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, 2006, 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 in over 28 states and the District of Columbia.

The Company has a number of subsidiaries, including American Captive Corporation, an inactive District of Columbia captive insurance company.

The following organizational chart summarizes the Company's significant affiliates as of December 31, 2006:

	Domiciliary Jurisdiction
ProAssurance Corporation	Delaware
Medical Assurance, Inc. (100%)	Delaware
The Medical Assurance Company, Inc. (100%) (NAIC# 33391)	Alabama
Woodbrook Casualty Insurance, Inc. (100%) (NAIC# 23272)	Alabama
ProAssurance Group Services Corporation (100%)	Alabama
NCRIC Corporation (100%)	Delaware
NCRIC, Inc. (100%) (NAIC # 41149)	**District of Columbia**
American Captive Corporation (100%) (NAIC# 11131)	District of Columbia
National Capital Insurance Brokerage, Ltd (100%)	District of Columbia
National Capital Risk Services, LLC (50%)	Nevada
NCRIC Insurance Agency, Inc. (100%)	District of Columbia
HealthCare Compliance Purchasing Group, LLC (100%)	District of Columbia
E-Health Solutions Group, Inc. (18.75%)	Delaware
Professionals Group, Inc. (100%)	Michigan
ProNational Insurance Company (100%) (NAIC# 38954)	Michigan

Red Mountain Casualty Insurance Company, Inc. (100%) (NAIC# 10179)	Alabama
PRA Professional Liability Group, Inc (100%)	Delaware
Physicians Insurance Company of Wisconsin, Inc. (100%) (NAIC # 23400)	Wisconsin
Professional Service Network, Inc. (100%)	Wisconsin
PSA Wisconsin, Inc. (100%)	Wisconsin
PMC of Wisconsin, Inc. (100%)	Wisconsin

INTERCOMPANY AGREEMENTS

During the period under examination, the Company had the following major intercompany agreements with its parent and affiliates:

Tax Sharing Agreement

On September 1, 2005, the Company entered into a tax sharing agreement with its affiliated companies within the ProAssurance 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 DISB and was approved.

On September 1, 2006 the tax sharing agreement was amended to include Physicians Insurance Company of Wisconsin, Inc. This agreement was submitted by the Company to the DISB and was approved.

Administrative Service Agreement

On January 1, 2006, the Company entered into an Expense Sharing and a Management Services Agreement with ProAssurance Corporation and its subsidiaries. Based on these agreements, expenses are allocated among the companies in conformity with customary insurance practices. Under the Management Services Agreement, The Medical Assurance Company, Inc. is responsible for coordinating the delivery of management services. During 2006, ProAssurance Corporation and its subsidiaries provided services to the Company with the allocation totaling $10,166,564. These agreements were submitted by the Company to the DISB and were approved.

On January 1, 2007 the Company amended its Expense Sharing and Management Services Agreements to include Physicians Insurance Company of Wisconsin, Inc. These agreements were submitted by the Company to the DISB and were approved.

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 $3,000,000 with a single loss deductible of $50,000. The coverage meets 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, 2006, 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 participates 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 Agreement.

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 was approximately $249,000.

The Company is also a participant in the ProAssurance Corporation stock purchase plan for full-time employees who have completed minimum service requirements. The plan allows each eligible employee to purchase shares of ProAssurance Corporations' 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 Agreements was approximately $4,000 for 2006.

The Company is also a participant in the ProAssurance group various health insurance and other benefits 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 District of Columbia Department of Insurance, Securities and Banking, United States Treasury Notes with a total par value of $95,000 and a market fund for a combined market value of $104,619, as of December 31, 2006. 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.

	Par Value	Market Value
Maryland	$ 100,000	$ 121,875
Virginia	550,000	536,422
Total	$ 650,000	$ 658,297

TERRITORY AND PLAN OF OPERATION

As of December 31, 2006, the Company was licensed to transact business in Maryland, Delaware, Virginia, West Virginia, and the District of Columbia. During 2006, the Company wrote premiums totaling approximately $42.8 million. The Company wrote approximately $24.7 million in premiums in the District of Columbia, $3.5 million in Virginia, $2.1 million in Delaware, $11.7 million in Maryland, and $752,803 in West Virginia.

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

The Company markets its products directly and through independent agents/brokers. The Company’s underwriting department directly services most of the District of Columbia business, and the Company utilizes independent agents/brokers services for most of the Company’s business in jurisdictions other than the District of Columbia.

Effective January 1, 2006, the Company stopped writing new business in West Virginia; effective March 1, 2006 the Company stopped writing new business in Virginia and Delaware; and effective September 5, 2006 the Company stopped writing new business in Maryland. After these dates in the respective states, all polices renewed in these states have been rewritten by ProAssurance affiliates.

INSURANCE PRODUCTS AND RELATED PRACTICES

The District of Columbia'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, 2006, the Company had no assumed business.

Ceded Reinsurance:

The Company entered into reinsurance agreements with various reinsurers. The reinsurance program is comprised of two contracts and the Company's maximum net retention on any one loss is $1 million. The reinsurance program provides the Company with ability to offer limits up to $16 million, as follows:

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

A second excess loss treaty provides the Company the ability to issue policy limits in excess of $5 million. The treaty covers policy limits up to $11 million for each insured, each claim made in excess of $5 million.

During 2006, the Company ceded premiums totaling approximately $4,558,518. As of December 31, 2006, the Company had recorded loss and loss expense reserve credits related to estimated amounts recoverable from reinsurers totaling approximately $34,845,453 and unearned premium reserve credits from reinsurers totaling approximately $712,713. 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 appears to provide 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. However, our examination disclosed four areas in which the electronic data processing controls could be improved. These conditions are discussed further in the "Comments and Recommendations" section of this Report, under the caption "Information System General Controls".

In 2006, as a result of the merger, the Company's management and finance/accounting functions were centralized from its District of Columbia office to the ProAssurance Corporation headquarters in Birmingham, Alabama. Consequently, the majority of the personnel including upper level management personnel within the Company's administration, accounting, and IT department at its District of Columbia office left the Company in the first half of 2006, in accordance with severance and retention agreements. With management functions centralized at the ProAssurance Alabama office, the Company's operations were reorganized. The Company's District of Columbia office now functions as an underwriting/claim and risk management operation center for the Mid-Atlantic region for the ProAssurance holding company group including the Company. Beginning January 1, 2006, the Company's information systems, including the general ledger accounting system and premium/claim management system were converted into ProAssurance's information systems. By the end of September 2006, the system conversion was complete and all data was transferred to, and managed in ProAssurance's information system.

FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Company as of December 31, 2006, as determined by this examination:

The accompanying "Notes to Financial Statements" are 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 **(NOTE 1)**	$ 232,336,726	$ 0	$ 232,336,726	$ 0	$ 232,336,726
Common Stocks	403,578		403,578		403,578
Cash ($973,731), cash equivalents $8,771,594 and short term investments $9,664,429	17,462,292		17,462,292		17,462,292
Subtotals, cash and invested assets	$ 250,202,596	$ 0	$ 250,202,596	$ 0	$ 250,202,596
Investment income due and accrued	2,889,445		2,889,445		2,889,445
Uncollected premiums and agents' balances in the course of collection	472,472	267,923	204,549		204,549
Deferred premiums, agents' balances and installments booked but deferred and not yet due	940,693	68,449	872,244		872,244
Amounts recoverable from reinsurers	1,456,364		1,456,364		1,456,364
Other amounts receivable under reinsurance contracts	35,476		35,476		35,476
Current federal and foreign income tax recoverable and interest thereon	423,773		423,773		423,773
Net deferred tax asset	17,720,834	13,459,476	4,261,358		4,261,358
Guaranty funds receivable or on deposit	86,272		86,272		86,272
Electronic data processing equipment and software	1,048,157	942,156	106,001		106,001
Furniture and equipment, including health care delivery assets	286,275	286,275	0		0
Receivables from parent, subsidiaries and affiliates	87,359		87,359		87,359
Aggregate write-ins for other than invested assets	664,168	93,185	570,983		570,983
Totals	$ 276,313,884	$ 15,117,464	$ 261,196,420	$ 0	$ 261,196,420

Liabilities,Surplus and Other Funds

	Liabilities per Company	Examination Adjustments	Liabilities per Examination
Losses **(NOTE 2)**	$ 108,083,628		$ 108,083,628
Loss adjustment expenses **(NOTE 2)**	51,275,833		51,275,833
Commissions payable, contingent commissions & other similar charges	20,405		20,405
Other expenses (excluding taxes, licenses and fees)	421,210		421,210
Taxes, licenses and fees (excluding federal and foreign income taxes)	215,953		215,953
Unearned premiums (after deducting ceded reinsurance unearned premiums of $712,713) **(NOTE 3)**	16,771,338		16,771,338
Advanced premiums	1,775,242		1,775,242
Ceded reinsurance premiums payable (net of ceding commissions)	3,060,542		3,060,542
Amounts withheld or retained by company for account of others	367,814		367,814
Provision for reinsurance	83,400		83,400
Payable to Parent, Subsidiaries and affiliates	163,236		163,236
Aggregate write-ins for liabilities **(NOTE 4)**	19,500,000		19,500,000
Total liabilities	$ 201,738,601		$ 201,738,601
Common capital stock	$ 1,000,000		$ 1,000,000
Gross paid in and contributed surplus	50,434,666		50,434,666
Unassigned funds (surplus)	8,023,153		8,023,153
Surplus as regards policyholders	$ 59,457,819		$ 59,457,819
Total liabilities and surplus	$ 261,196,420		$ 261,196,420

Statement of Income

Premiums earned		$ 56,447,782
Underwriting deductions:		
Losses incurred	$ 14,985,627	
Loss expenses incurred	29,960,719	
Other underwriting expenses incurred	6,301,089	
Total underwriting deductions		$ 51,247,435
Net underwriting gain (loss)		$ 5,200,347
Investment Income		
Net investment income earned	$ 11,175,745	
Net realized capital gains (losses) less capital gains tax of $(29,316)	(54,444)	
Net investment gain		$ 11,121,301
Other Income		
Net gain (loss) from agents' or premium balances charged Off (amount recovered $2,568; amount charge off $36,137)	$ (33,569)	
Finance and service charges not included in premium	117,055	
Aggregate write-ins for miscellaneous income	(14,807)	
Total other income		$ 68,679
Net income after dividends to policyholders and before federal and foreign income taxes		16,390,327
Federal and foreign income taxes incurred		4,749,602
Net Income		$ 11,640,725

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005	$	47,083,532
Net Income, 2006	$	11,640,725
Change in net unrealized capital gains or (losses)		(691,597)
Change in net deferred income tax		(527,760)
Change in nonadmitted assets		947,319
Change in provision for reinsurance		1,005,600
Net change in surplus as regards policyholders		12,374,287
Surplus as regards policyholders, December 31, 2006	$	59,457,819

Analysis of Examination Changes to Surplus

There were no changes to the Company's surplus as a result of our examination.

Comparative Financial Position of the Company

The comparative financial position of the Company for the five-year period ended December 31, 2006, is as follows:

	2006	2005	2004	2003	2002
Assets	$261,196,420	$259,628,167	$229,863,043	$197,014,566	$140,298,083
Liabilities	201,738,601	212,544,635	166,868,556	126,642,880	96,028,780
Capital and Surplus	59,457,819	47,083,532	62,994,487	70,371,686	44,269,303
Premiums earned	56,447,782	67,868,875	66,461,860	47,264,094	30,089,634
Net underwriting gain (loss)	5,200,347	(13,693,969)	(17,632,697)	(13,898,983)	(4,078,931)
Investment gain	11,121,301	11,412,576	7,260,947	7,606,738	5,695,786
Net income **(Note 5)**	11,640,725	(19,915,951)	(8,984,166)	(4,900,441)	(1,510,554)

Amounts in the preceding financial statements for the years ended December 31, 2004 were taken from the Company's Annual Statements as filed with the Department. Amounts for the years ended December 31, 2002, 2003, 2005 and 2006 are amounts per examination.

NOTES TO FINANCIAL STATEMENTS

1. Pledged Assets:

The Company reported "Bonds" totaling $232,336,726. As of December 31, 2006, bonds comprising approximately $9.5 million of this amount were pledged as collateral. Under applicable statutory accounting guidelines, the pledged bonds are admitted assets. These pledged assets were properly disclosed in the Notes to Financial Statements and Schedule E of the Annual Statement.

2. Loss Reserves

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling $108,083,628 and $51,275,833, 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, 2006, are shown net of estimated amounts recoverable from various reinsurance companies under the Company's reinsurance treaties. Reserve credits taken as of December 31, 2006 for cessions to reinsurers totaled approximately $34,845,433 ($27,078,000 for Losses and $7,767,000 for Loss adjustment expenses). 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, 2006, 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. The independent actuary also reviewed the recommendation made in the 2005 examination report regarding the reliance on state-specific factors in future actuarial analyses. In the independent actuary opinion, the Company and their opining actuary are in compliance with the prior examination recommendation.

3. Unearned Premium Reserve:

The Company reported "Unearned premiums" totaling $16,771,338. This amount was net of ceded unearned premiums totaling $712,713. Of the $16,771,338 net unearned premium reserve balance, $10,100,000 represents 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, 2006, were reviewed by our independent actuary and were determined to be reasonable and adequate.

4. Litigation Liability and Expenses:

The Company reported "Aggregate write-ins for liabilities" totaling $19,500,000, which is related to the $18.2 million verdict by a District of Columbia Superior Court jury on February 13, 2004, on the case of NCRIC, Inc. V. Columbia Hospital for Women Medical Center, Inc. During the examination, the Company's internal legal counsel representation letter disclosed that this case was fully briefed to the District of Columbia Court of Appeals in 2006. The Company is seeking to overturn the verdict on appeal. If the verdict is upheld, NCRIC, Inc.'s exposure will be increased by interest calculated from the original verdict date of February 13, 2004.

5. Recent Financial Result:

As indicated in the “Comparative Financial Position of the Company” section of this Report, in 2006, the Company experienced significant increases in surplus and net underwriting gain and a decrease in total net losses. Management attributes this to implementing a new procedure to transfer business in states other than the District of Columbia to affiliated insurance companies during the year.

In the first half of 2006, the Company reported significantly improved operating results. Management attributes the improved operating results to the measures outlined above, and believes future operating results will continue to be positively impacted by these measures. In addition, the Company’s reported surplus increased by over $5.16 million from December 31, 2006 ($59,457,819) to June 30, 2007 ($64,621,766), and management believes that going forward, the above measures, coupled with more stable reinsurance, interest rate and premium environments in the medical malpractice industry, will continue to have a positive impact on the Company’s surplus.

COMMENTS AND RECOMMENDATIONS

Information System General Controls:

The Company utilized an electronic data processing system to process the majority of its significant functions (e.g., reserving, claims processing, general ledger, etc.) During our review of the procedures and controls over the Company's electronic data processing system, we noted the following areas where controls could be improved.

Monitoring of Administrative Level Access:

Due to their job responsibilities, certain employees in the Company's information systems department had been granted "administrator" privileges, which allowed unlimited access to the systems, including applications, data and system security. In order to allow management to monitor system activity, the Company's systems have the ability to track user activity by users with "administrator" privileges. However, the Company had not utilized this security feature to monitor activity by employees with "administrator" privileges. As a result, unauthorized changes could go undetected.

The examination identified that this was a prior examination report comment without compliance by the Company. As a result, to improve control over its data processing operations, we again recommend that the Company generate system activity reports that track user activity by users with "administrator" access, and that these reports be reviewed for unauthorized activities by management not having administrator level authority.

Accounts and Records

Documentation of the IS Steering Committee's discussions, decisions, and subsequent actions are not available to verify that IS functions are following management decisions. Without documentation of action and guidance, it is impossible to determine the IS Steering Committee's involvement in management of the Company's IS departments. Without top level management control, the IS departments could expend resources contrary to Company goals.

It is recommended that the IS Steering Committee document discussions, decisions, and subsequent actions to verify IS functions are keeping with management decisions.

Contingency Planning:

The Company does not have a corporate level "Business Continuity Plan". Without a plan, senior management's ability to efficiently respond to contingencies could be impaired.

It is recommended that the Company develop and maintain a corporate level "Business Continuity Plan".

Oasis Passwords

The Company's financially significant application, Oasis, does not force users to change their passwords periodically. Without forcing users to change their passwords, the potential exists for unauthorized access to the Company's financial information.

It is recommended that the Company enforce password changes on the Oasis system at least every 90 days.

Access to Production Data:

The Company has seven individuals with access to the production data. Project Managers should not have access to production data. No one should have access to production data all day every day. Access to the production data should be limited and tracking of the use of super user accounts should be performed and audited.

The Company should review the list of employees with super user access and limit to those with an absolute need. Secondary accounts should be created for those remaining on the list for use only when production data must be accessed.

Additional Comments and Recommendations

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Company with regard to record keeping and other procedures related to its operations. These additional suggestions and recommendations were not deemed significant for purpose of our Report on Examination, and not included in our Report on Examination.

CONCLUSION

Our examination disclosed that as of December 31, 2006, the Company had:

Admitted assets	$ 261,196,420
Liabilities	$ 201,738,601
Common capital stock	$ 1,000,000
Gross paid in and contributed surplus	50,434,666
Unassigned funds (surplus)	8,023,153
Surplus as regards policyholders	$ 59,457,819
Total liabilities, capital and surplus	$ 261,196,420

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2006, 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.

ACKNOWLEDGMENT

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:

Ed Fossa, CFE, Huff Thomas
Tim Oglesby, CFE Huff Thomas
Chidinma Ukairo, D.C. Department of Insurance, Securities and Banking
Mary Packard, CFE, CPA Department of Insurance State of Alabama
Lori Wright, Department of Insurance State of Alabama
Toni Bean, Department of Insurance State of Alabama
Janice Palmer, CPA, CFE, Bostick & Crawford Consulting

The electronic data processing review and computer assisted data analysis were performed by Chuck Turner, Department of Insurance State of Alabama, Joe Detrick, CFE and Jenny Jeffers, AES, CISA, from Jennan Entrerprises.

The actuarial portion of this examination was completed by Randall D. Ross, FSA, MAAA, from Taylor-Walker Associates, Inc.

Respectfully submitted,

David L Daulton, CFE
Examiner-In-Charge
Representing the District of Columbia
Department of Insurance, Securities and
Banking

Under the Supervision of,

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

Government of the District of Columbia
Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

December 21, 2007

Howard H. Friedman
President
NCRIC, Inc.
1115 30th Street N.W.,
Washington, DC 20007

Dear Mr. Friedman:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination of the affairs and financial condition of **NCRIC, Inc.** as of December 31, 2006.

Please call our attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled "Comments and Recommendations" that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company's position on any of these points is contrary to the Examiner's findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no "Comments and Recommendations" requiring a response, please submit a statement that the Company accepts the Report.

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (January 21, 2008).**

Sincerely,

David A. Palmer
Chief Examiner

Enclosure

NCRIC, Inc.
A ProAssurance Company

800/613-3615
202/969-1866
Fax 202/969-1881
www.ProAssurance.com

January 29, 2008

Mr. David A. Palmer
Chief Examiner
Department of Insurance, Securities and Banking
810 First Street, NE, #701
Washington, DC 20002

RE: NCRIC, Inc.
Report of Examination as of December 31, 2006

Dear Mr. Palmer:

Thank you for your letter to Howard Friedman of December 21, 2007 regarding the above referenced exam.

In response to the Comments and Recommendations contained in the draft examination, we offer the following:

Information System General Controls:

Monitoring of Administrative Level Access:

RECOMMENDATION: The examination identified that this was a prior examination report comment without compliance by the Company. As a result, to improve control over its data processing operations, we again recommend that the Company generate system activity reports that track user activity by users with "administrator" access, and that these reports be reviewed for unauthorized activities by management not having administrator level authority.

> RESPONSE: The Company logs all changes to its system in its TrackIt software so that all changes that are made using the super user account are recorded. The Company will research third party tools to determine if there is a better method for monitoring/reporting administrative changes.
>
> In addition, the Company has assigned secondary login accounts for normal job duties for employees with super user accounts. Periodic reviews of system changes are performed by an outside audit consultant and the Company's independent accountants.

Accounts and Records:

RECOMMENDATION: It is recommended that the IS Steering Committee document discussions, decisions, and subsequent actions to verify IS functions are keeping with management decisions.

RESPONSE: The Company will keep minutes of the IS Steering Committee meetings in order to document discussions, decisions and subsequent actions to verify IS functions are keeping with management decisions.

Contingency Planning:

RECOMMENDATION: It is recommended that the Company develop and maintain a corporate level "Business Continuity Plan".

RESPONSE: The Company is in the process of completing its Corporate Level Business Continuity Plan.

Oasis Passwords:

RECOMMENDATION: It is recommended that the Company enforce password changes on the Oasis system at least every 90 days.

RESPONSE: The Company does not currently have the capacity on its Oasis system to automatically trigger the mandatory changing of passwords. The Company does require employees to change their sign on passwords every 90 days in order to access their computer and thus gain access to Oasis. The Company will explore and evaluate making a programming change in Oasis in order to accommodate mandatory password changes and/or purchasing external software which will tie the network user sign on password to application passwords which would create a separate application password without the necessity of the user knowing that password.

Access to Production Data:

RECOMMENDATION: The Company should review the list of employees with super user access and limit to those with an absolute need. Secondary accounts should be created for those remaining on the list for use only when production data must be accessed.

RESPONSE: The Company periodically reviews its list of employees with super user access and has reduced the number of employees with super user access to those with an absolute need.

We appreciate the Department's efforts in conjunction with this exam and we are available to address any questions and provide additional information if needed.

Thank you.

Sincerely,

Kathryn A. Neville

Kathryn A. Neville
VP, Compliance

Government of the District of Columbia

Department of Insurance, Securities and Banking

Thomas E. Hampton
Commissioner

February 14, 2008

Kathryn A. Neville
Vice President, Compliance
NCRIC, Inc.
1115 30th Street, NW
Washington, D.C. 20007

Dear Ms. Neville:

We are in receipt of your response, dated January 29, 2008, which addresses the corrective action taken by NCRIC, Inc. to comply with the recommendations made in the Report on Examination as of December 31, 2006, dated September 5, 2007.

Your January 29, 2008 letter adequately addresses the recommendation made in the Report. During our next examination of the Company, we will review the implementation of the corrective actions taken.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention here at the Department.

Please contact me at 202-442-7832 or David Palmer at 202-442-7785 if you have any questions.

Sincerely,

Nathaniel Kevin Brown
Senior Financial Examiner

Enclosures