REPORT OF EXAMINATION

OF THE

NORCAL MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

Filed on February 23, 2018

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San Francisco, California
December 7, 2017

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

NORCAL MUTUAL INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 575 Market Street, Suite 1000, San Francisco, California 94105.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was as of December 31, 2012. This examination covered the period from January 1, 2013 through December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with California serving as the lead state of the NORCAL Group. It was conducted concurrently with other insurance entities in the holding company group, including FD Insurance Company (Florida), Medicus Insurance Company (Texas), and NORCAL Specialty Insurance Company (Pennsylvania). The Florida Office of Insurance Regulation, Texas Department of Insurance, and Pennsylvania Insurance Department participated in the examination.

COMPANY HISTORY

The Company is a mutual insurer incorporated under the laws of California on September 18, 1975 and began transacting insurance business on November 11, 1975. The Company is the parent company of the NORCAL Group comprising of FD Insurance Company, Medicus Insurance Company, and NORCAL Specialty Insurance Company (formerly PMSLIC Insurance Company), and other entities.

On June 30, 2013, Healthcare Safety & Protection Risk Retention Group, Inc. (HSPRRG), a controlled affiliate of NORCAL Management Company as a result of a management agreement, was dissolved. As part of the dissolution, the Company and HSPRRG entered into a series of transactions. The first set of transactions was a commutation of two intercompany reinsurance contracts. The second set of transactions was a Loss Portfolio Transfer to the Company for the entire book of HSPRRG reserves at June 30, 2013. The Articles of Dissolution filed by HSPRRG was approved by the South Carolina Department of Insurance on June 28, 2013.

Effective July 14, 2015, the Company formed NORCAL Specialty Insurance Services, LLC, an insurance brokerage domiciled in the state of Delaware. The Company was approved to transact business in the state of California on October 30, 2015.

Effective December 1, 2015, one of the Company's subsidiaries, PMSLIC Insurance Company, amended its Articles of Incorporation to change its name to NORCAL Specialty Insurance Company. The name change was intended to identify to the market that the company was an excess and surplus lines insurer and to more closely identify it with the NORCAL Group.

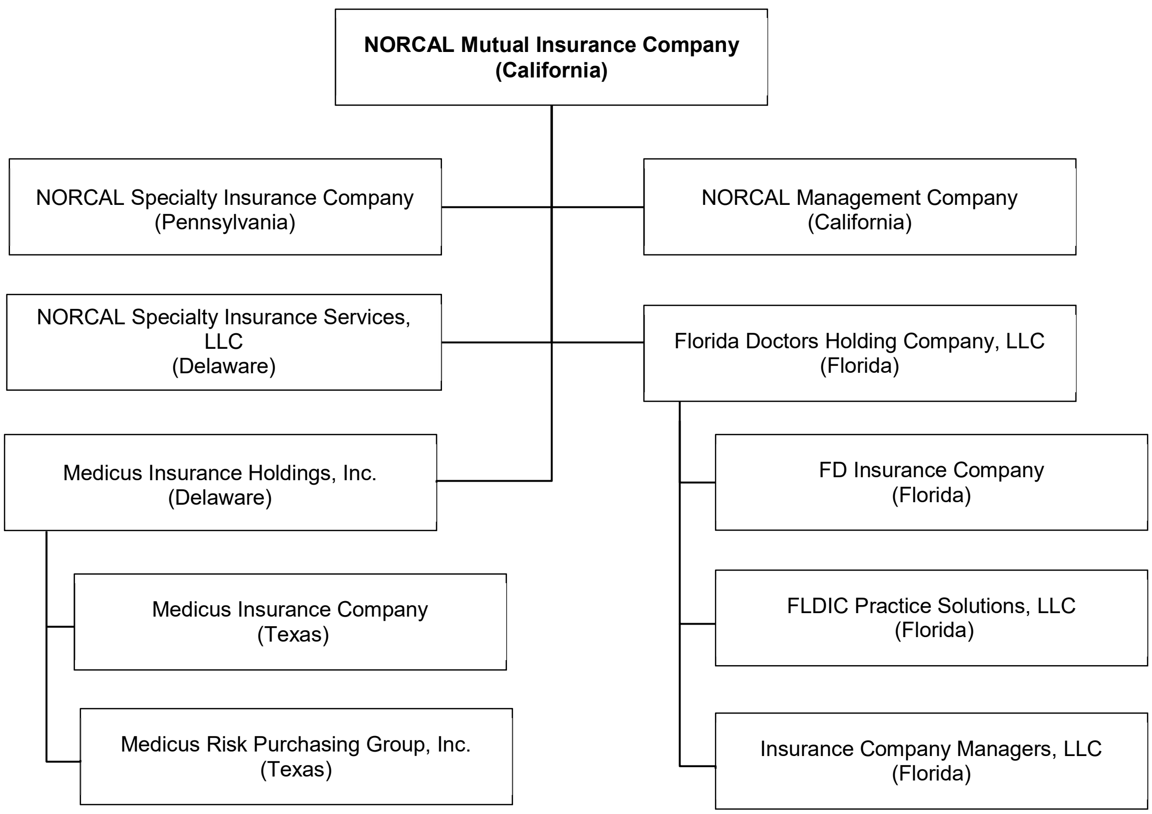
Pursuant to the Agreement and Plan of Merger, the Company purchased 100% of Florida Doctors Holding Company, LLC (FDHC) and its subsidiaries, FD Insurance Company, FLDIC Practice Solutions, LLC, and Insurance Company Managers, LLC on December 31, 2015. The transaction was accounted for as a statutory purchase. The cost of FDHC was $53,276,874, resulting in goodwill of $34,238,266. Goodwill is amortized over 10 years and is recorded as a component of the change in net unrealized capital gains (losses). The transaction was approved by the Florida Office of Insurance Regulation on December 23, 2015.

Dividends

On November 10, 2016, NORCAL Specialty Insurance Company declared a stockholder dividend of $205 million to the Company. The dividend was paid in full on December 29, 2016, and the Company reported $112.1 million as investment income and $92.9 million as a return of capital. The dividend was approved by the Pennsylvania Insurance Department on December 20, 2016.

MANAGEMENT AND CONTROL

As a mutual insurer, the Company is owned by its policyholders. As of December 31, 2016, the Company is the ultimate parent of a holding company system with five directly owned and five indirectly owned subsidiaries. Following is the organizational chart as of the examination date (all ownership is 100%):



Management of the Company is overseen by an 11- member board of directors elected annually. The following are members of the board and principal officers of the Company serving at December 31, 2016:

Directors

Name and Location	Principal Business Affiliation
Sandra L. Beretta, M.D.[(a)] Hillsborough, California	Physician Sandra Beretta, MD, Inc. & Medical Arts Obstetrics & Gynecology
Fabiola Cobarrubias, M.D. [(a)] San Francisco, California	Physician Pacific Inpatient Medical Group
Patricia A. Dailey, M.D. Hillsborough, California	Physician Anesthesia Care Associations Medical Group
Theodore S. Diener Greenbrae, California	President and Chief Executive Officer NORCAL Mutual Insurance Company
Alice H. Gannon San Antonio, Texas	Actuary (Retired)
Roger M. Hayashi, M.D. Los Gatos, California	Physician (Retired)
Mary D. Koken Lancaster, Pennsylvania	Attorney and Consultant Nationwide Mutual Insurance Company
Steven J. Packer, M.D. [(b)] Monterey, California	President and Chief Executive Officer Community Hospital Foundation
Rebecca J. Patchin, M.D. [(b)] Clinton, Washington	Physician (Retired)
Jaan E. Sidorov, M.D. [(a)] Harrisburg, Pennsylvania	Chair, Board of Directors NORCAL Mutual Insurance Company
Scott C. Syphax Elk Grove, California	President and Chief Executive Officer Nehemiah Companies

Principal Officers

Name	Title
Theodore S. Diener	President and Chief Executive Officer
Mark D. Johnson	Senior Vice President and Chief Financial Officer
Kara M. Ricci	Senior Vice President, Chief Legal Officer, Corporate Secretary, and Chief Compliance Officer
Timothy J. Friers [c]	Senior Vice President and Chief Operating Officer
Ronald C. Rumin [c]	Senior Vice President and Chief Business Development Officer

The following changes in management occurred subsequent to the examination date:

[a] Jaan E. Sidorov, M.D. resigned as a Director and Board Chair, effective June 2, 2017, and Sandra L. Beretta, M.D. assumed the role of Board Chair, effective June 3, 2017. On the same date, Fabiola Cobarrubias, M.D. assumed the position of Vice Chair of the Board, replacing Sandra L. Beretta, M.D as Vice Chair of the Board.

[b] Steven J. Packer, M.D. assumed the position of Secretary of the Board, replacing Rebecca J. Patchin, M.D., effective June 3, 2017.

[c] Timothy J. Friers, Senior Vice President and Chief Operating Officer (COO), left the Company in January 2017. Ronald C. Rumin took over as Senior Vice President and COO, effective November 1, 2017.

Management Agreements

Amended and Restated Intercompany Affiliate Service Agreement: Effective January 1, 2016, the Company entered into an Amended and Restated Intercompany Affiliate Service Agreement (Agreement) with the following subsidiaries: NORCAL Specialty Insurance Company; NORCAL Management Company; NORCAL Specialty Insurance Services, LLC; Medicus Insurance Holdings, Inc.; Medicus Insurance Company; Medicus Risk Purchasing Group, Inc.; Florida Doctors Holding Company, LLC; FD Insurance Company; Insurance Company Managers, LLC, and FLDIC Practice Solutions, LLC. This Agreement replaced a previously Amended and Restated Intercompany Affiliate Service Agreement that went into effect on October 6, 2011. Under the terms of this Agreement, all the entities may share in the use of the day to day operations of certain property, equipment, and facilities of the NORCAL Group. The services rendered under this Agreement may include accounting, taxes, auditing, underwriting, claims, investment, and functional support services. Compensation for providing the services and facilities is based on actual cost. Indirect and shared expenses are allocated in accordance with a method of cost allocation in conformity with the Statements of Statutory Accounting Principles No. 70 – Allocation of Expenses. The California Department of Insurance (CDI) issued a non-disapproval letter to the Company for the latest amended Agreement on February 9, 2016. The total fees reimbursed to the Company for services rendered under this Agreement in 2013, 2014, 2015, and 2016 were $21,572,293, $28,146,708, $23,192,545, and $15,508,496, respectively.

Amended and Restated Tax-Sharing Agreement: Effective January 1, 2016, the Company and its subsidiaries: NORCAL Specialty Insurance Company; NORCAL Management Company; NORCAL Specialty Insurance Services, LLC; Medicus Insurance Holdings, Inc.; Medicus Insurance Company; Medicus Risk Purchasing Group, Inc.; Florida Doctors Holding Company, LLC; FD Insurance Company; Insurance Company Managers, LLC and FLDIC Practice Solutions, LLC; entered into an Amended and Restated Tax-Sharing Agreement (Agreement). This Agreement replaced a previous Amended and Restated Tax-Sharing Agreement that went into effect on October 6, 2011. Under the terms of this Agreement, the subsidiaries pay the Company the amount, if any, of federal income taxes allocable to the subsidiaries where such amount is an amount equal to the tax liability of the NORCAL Group multiplied by a fraction, the numerator of which is the taxable income of the subsidiaries computed on a separate company basis, and the denominator of which is the sum of the taxable incomes of all members so determined. The CDI issued a non-disapproval letter to the Company for the latest amended Agreement on February 9, 2016.

Related Party Transactions

Effective December 31, 2015, the Company and NORCAL Specialty Insurance Company entered into a Commutation and Release Agreement (Agreement) to terminate the

Pooling Agreement between the two parties that went into effect on January 1, 2007. In accordance with the Agreement, each party, as of the effective date, desires fully, finally and forever to terminate, settle and commute all their respective past, present and future obligations and liabilities and to release the other party from all obligations or liabilities arising out of, resulting from, or in any way related to the Pooling Agreement. The CDI issued a non-disapproval letter to the Company for the filed Agreement on November 24, 2015.

TERRITORY AND PLAN OF OPERATION

The Company provides professional liability insurance coverage for damages caused by a medical incident directly resulting from professional health care services or professional committee activities. The Company also offers Prior Acts (Nose Coverage) and Death, Disability and Retirement (Tail Coverage) and provides Information and Network Security Coverage as part of their policy at no additional cost. These products are primarily marketed on a direct basis as well as through agents and brokers.

The Company is licensed in 48 states, except for New Hampshire and New York. The Company is also licensed in the District of Columbia. Most of the Company's business is written in California (41.2%) followed by Pennsylvania (17.2%) and Illinois (7.7%).

Direct premium written in 2016 totaled $257 million. Of that amount, $238.5 million (92.8%) were comprised of medical professional liability – claims made and $18.5 million (7.2%) for medical professional liability – occurrence lines of business.

The Company is the lead insurer within the NORCAL Group (Group) with three insurance subsidiaries. The Group provides medical professional liability insurance to physicians, health care extenders, medical groups, hospitals, community clinics and allied health care facilities throughout the country. As of December 31, 2016, the Group is licensed in all 50 states and the District of Columbia on an admitted or non-admitted Excess and Surplus Lines basis.

As a strategic initiative to become a national insurance carrier, the Group began in 2014 to standardize their underwriting practices across all the companies within the Group and bind all admitted policies under NORCAL Mutual Insurance Company. The initiative to streamline the methodology and operational policies for the Group was identified by management as the Common Underwriting Platform (CUP). The Group is expected to bind all policies under the standardized CUP framework by the end of 2017.

REINSURANCE

Assumed

At December 31, 2016, the Company reported $89.7 million in assumed reinsurance. The entire amount is comprised of reinsurance assumed from affiliates under the various intercompany reinsurance contracts in place. The Company did not assume premium from non-affiliated insurance companies in 2016.

Quota Share Reinsurance Contract: Effective October 6, 2011, and concurrent with the Company's acquisition of Medicus Insurance Holdings, Inc. and its wholly-owned subsidiary, Medicus Insurance Company (MIC), the Company entered into two reinsurance contracts with MIC: a Quota Share Reinsurance Contract (Historic Contract) and a Quota Share Reinsurance Contract (Prospective Contract). Under the Historic Contract, the Company assumes 100% of MIC's net liability on policies issued or renewed before the closing date of the acquisition. Under the Prospective Contract, the Company assumes 100% of MIC's net liability on policies issued or renewed on or after the closing date of the acquisition. In return, MIC will receive a ceding commission of 28% on all premiums ceded to the Company under this contract. Both Contracts were approved by the California Department of Insurance (CDI) on October 20, 2011 pursuant to California Insurance Code (CIC) Section 1215.5(b)(3).

Quota Share Reinsurance Contract: Effective January 1, 2016, the Company and NORCAL Specialty Insurance Company (NORCAL Specialty) entered into a Quota Share Reinsurance Contract (Contract). In accordance with the terms of the Contract, NORCAL Specialty will cede to the Company and the Company will assume on a 100% quota share basis, NORCAL Specialty's ultimate net loss. In return, NORCAL Specialty will receive a ceding commission of 33% on all premiums ceded to the Company. The premium and liabilities under the Contract were projected to be below the threshold filing requirement detailed in CIC Section 1215.5(b)(3).

Quota Share Reinsurance Agreement: Effective January 1, 2016, the Company and FD Insurance Company (FDIC) entered into a 100% Quota Share Reinsurance Contract (Contract). In accordance with the terms of the Contract, FDIC will cede to the Company and the Company will assume, on a 100% quota share basis, FDIC's ultimate net loss. In return, FDIC will receive a ceding commission of 28% on all premiums ceded to the Company. The premium and liabilities under the Contract are below the threshold filing requirement detailed in CIC Section 1215.5(b)(3).

Ceded

The following is a summary of ceded reinsurance agreements in effect as of December 31, 2016:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurers Limits
Excess Cessions Excess of Loss	Multiple Reinsurers	Coverage A: $2 million per Occurrence	Coverage A: $8 Million xs $2 Million per Occurrence
Loss Event Excess of Loss	Multiple Reinsurers	Coverage B: $3 Million per Occurrence	Coverage B: $7 Million xs $3 Million per Occurrence
Second Loss Event Excess of Loss	Multiple Reinsurers	$10 million per occurrence	$20 million xs $10 million per occurrence

Loss Portfolio Transfer Agreements

Effective June 28, 2013, as part of the dissolution of its affiliate, Healthcare Safety & Protection Risk Retention Group, Inc. (HSPRRG), the Company entered into a Loss Portfolio Transfer Agreement (Agreement) with HSPRRG. In accordance with the Agreement, the Company agrees to accept from HSPRRG, all open, existing, and future claims for all insurance policies entered into on or prior to the effective date, totaling $23 million. No gain or loss would result from this transaction. The Agreement was below the threshold for prior approval filing per California Insurance Code (CIC) Section 1215.5(b)(3).

Effective December 31, 2015, the Company and NORCAL Specialty Insurance Company (NORCAL Specialty) entered into a Loss Portfolio Transfer Agreement (Agreement). In accordance with the Agreement, the Company agrees to accept from NORCAL Specialty, all open, existing, and future claims for all insurance policies entered into on or prior to December 31, 2015, totaling $78,557,243. No gain or loss would result from this transaction. The California Department of Insurance (CDI) issued a non-disapproval letter to the Company for the filed Agreement on November 24, 2015.

Effective January 1, 2016, the Company entered into a Loss Portfolio Transfer Agreement (Agreement) with its newly acquired subsidiary, FDIC. In accordance with the Agreement, the Company agrees to accept from FDIC, all open, existing, and future claims, under an insurance policy, as defined within the Agreement, made prior to January 1, 2016, totaling $37,021,275. No gain or loss would result from this transaction. The CDI issued a non-disapproval letter to the Company for the filed Agreement on February 5, 2016.

ACCOUNTS AND RECORDS

During the course of the examination, a review was made of the Company's unclaimed property filings with the California State Controller's Office (SCO). California Code of Civil Procedure (CCP) Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532 -

Unclaimed Property Law requires that all tangible personal property located in the State of California, that is held or owing in the ordinary course of business and has remained unclaimed by the owner for more than three years after it became payable or distributable, is escheated to the SCO.

During our review of the Company's outstanding check list as of December 31, 2016, it was noted that several checks were more than three years old and should have been escheated to the SCO. It is recommended that the Company escheat unclaimed property to the SCO and implement procedures to ensure future compliance with CCP Sections 1530 and 1532.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2016. There were no examination adjustments made to surplus as a result of the examination. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2012
through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 975,461,397	$	$ 975,461,379	
Preferred stocks	6,896,864		6,896,864	
Common stocks	393,733,619		393,733,619	
Cash and short-term investments	29,261,060		29,261,060	
Other invested assets	5,268,325		5,268,325	
Aggregate write-ins for invested assets	17,605,704		17,605,704	
Investment income due and accrued	10,385,586		10,385,586	
Uncollected premium and agents' balances in course of collection	131,382	131,382		
Deferred premiums and agents' and installments booked but deferred and not yet due	83,092,260		83,092,260	
Amounts recoverable from reinsurers	418,389		418,389	
Net deferred tax asset	38,312,691	6,631,717	31,680,974	
Electronic data processing equipment and software	3,870,629	3,296,988	573,641	
Furniture and equipment	910,995	910,995		
Receivables from parent, subsidiary and affiliates	5,378,909		5,378,909	
Aggregate write-ins for other than invested assets	3,501,505	1,198,600	2,302,905	
Total assets	$ 1,574,229,315	$ 12,169,682	$ 1,562,059,633	

Liabilities, Surplus and Other Funds				
Losses			$ 442,401,865	(1)
Reinsurance payable on paid losses and LAE			(1,251)	
Loss adjustment expenses			183,077,817	(1)
Commissions payable, contingent commission and other similar charges			2,910,578	
Other expenses			14,070,228	
Taxes, licenses and fees			2,216,862	
Current federal and foreign income taxes			727,940	
Unearned premiums			136,724,957	(1)
Advance premium			26,081,377	
Ceded reinsurance premiums payable			2,365,952	
Funds held by company under reinsurance treaties			2,492,312	
Amounts withheld or retained by company for account of others			19,551,644	
Remittance and items not allocated			1,247,650	
Provision for reinsurance			574,382	
Payable to parent, subsidiaries and affiliates			94,331	
Payable for securities			113,856	
Aggregate write-ins for liabilities			22,303,975	
Total liabilities			856,954,475	
Unassigned funds (surplus)		$ 705,105,158		
Surplus as regards policyholders			705,105,158	
Total liabilities, surplus and other funds			$ 1,562,059,633	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Underwriting Income		
Premiums earned		$ 327,117,023
Deductions:		
Losses incurred	$ 155,357,854	
Loss adjustment expenses incurred	98,771,993	
Other underwriting expenses incurred	76,979,846	
Total underwriting deductions		331,109,693
Net underwriting loss		$ (3,992,670)
Investment Income		
Net investment income earned	$ 135,485,092	
Net realized capital gains	3,629,671	
Net investment gain		139,114,763
Other Income		
Net (loss) from agents' or premium balances charged off	(198,348)	
Aggregate write-ins for miscellaneous income	$ 4,389,542	
Total other income		4,191,194
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		139,313,287
Dividends to policyholders		(62,615)
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		139,375,902
Federal and foreign income taxes incurred		3,312,357
Net income		$ 136,063,545

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015		$ 670,148,074
Net income	$ 136,063,545	
Change in net unrealized capital losses	(94,263,458)	
Change in net deferred income tax	4,203,972	
Change in nonadmitted assets	1,049,149	
Change in provision for reinsurance	138,618	
Aggregate write-ins for losses in surplus	(12,234,742)	
Change in surplus as regards policyholders		34,957,084
Surplus as regards policyholders, December 31, 2016		$ 705,105,158

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2016

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2012			$ 607,557,984
Net income	$ 210,301,025	$	
Change in net unrealized capital losses		108,784,083	
Change in net deferred income tax	14,567,099		
Change in nonadmitted assets	8,662,495		
Change in provision for reinsurance		518,559	
Aggregate write-ins for losses in surplus		26,680,803	
Total gains and losses	$ 233,530,619	$ 135,983,445	
Net increase in surplus as regards policyholders			97,547,174
Surplus as regards policyholders, December 31, 2016			$ 705,105,158

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Casualty Actuary from the California Department of Insurance reviewed the Summary of Estimated Unpaid Indemnity (Losses) and Loss Adjustment Expense (LAE) as of December 31, 2016 and the Provision for Future Utilization of Death, Disability and Retirement (DD&R) Benefit as of December 31, 2016 prepared by the Company's independent actuary and concurred that the Company's reserves for Losses, LAE and DD&R as of December 31, 2016 are reasonable and have been accepted for the purpose of this examination.

SUBSEQUENT EVENTS

On January 1, 2017, the Company acquired 100% of PPM Services, Inc. (PPM). PPM is a non-insurance holding company that controlled approximately $36.5 million of premium written by Preferred Physicians Medical Risk Retention Group, Inc. (PPM RRG), a mutual insurance company domiciled in the state of Missouri. Pursuant to a Management Services Agreement, PPM RRG will be controlled by the Company through the management of PPM. The transaction was accounted for as a statutory purchase. The total cost of PPM was $46.1 million (including acquisition costs), resulting in gross goodwill of $46.1 million (as the stand alone value of PPM was deemed to be zero at the date of acquisition). An audit of PPM will occur as of December 31, 2017 in order for the Company to admit the goodwill associated with the purchase of PPM. The Company's total goodwill in 2017 is subject to admissibility limitations; therefore a portion of the goodwill associated with PPM's acquisition will be non-admitted. The goodwill is amortized over 10 years beginning January 1, 2017. The acquisition was approved by the Missouri Department of Insurance, Financial Institutions and Professional Registration (MO DIFP) on December 28, 2016.

The Company purchased a surplus note from PPM RRG for $5,000,000 on January 1, 2017 to improve capitalization of PPM RRG post acquisition. The investment in the surplus note was initially impaired to $0 by the Company as of January 1, 2017 and may change pending further investigation of the new Statements of Statutory Accounting Principles No. 41R guidance in place for 2017. The MO DIFP approved this transaction on December 28, 2016.

In conjunction with the purchase, the Company entered into a Loss Portfolio Transfer Agreement (Agreement) with PPM RRG, effective January 1, 2017. Under this Agreement, the Company will assume 100% of PPM RRG's outstanding net loss and loss adjustment expense reserves (excluding Adjusting & Other) as of December 31, 2016 amounting to $64,426,000. The Agreement was settled in January 2017 and there was no gain or loss recognized by either company as a result of this transaction. The California Department of Insurance (CDI) issued a non-disapproval letter to the Company for the filed Agreement on December 27, 2016.

The Company also entered into a Quota Share Reinsurance Contract (Contract) with PPM RRG, effective January 1, 2017. In accordance with the Contract, the Company assumes 100% of net premiums written and earned; thereafter, in return for assuming 100% of the net loss and loss adjustment expenses incurred (excluding Adjusting & Other) thereafter. The CDI issued a non-disapproval letter to the Company for the filed Agreement on December 27, 2016.

Effective January 1, 2017, the Company and PPM entered into an Affiliate Service Agreement (Agreement). Under the terms of this Agreement, the Company and PPM may share in the use of the day to day operations of certain property, equipment, and facilitates of the two companies. The service rendered under this Agreement may include accounting, taxes, auditing, and functional support services. Compensation for providing the services and facilities is based on actual cost. Indirect and shared expenses are allocated in accordance with a method of cost allocation in conformity with the Statements of Statutory Accounting Principles No. 70 – Allocation of Expenses. The CDI issued a non-disapproval letter to the Company for the Agreement on December 21, 2016.

Effective January 1, 2017, the Company filed an Amended and Restated Tax-Sharing Agreement to add PPM. This Agreement replaced, in its entirety, a previous Amended and Restated Tax-Sharing Agreement that took effect January 1, 2016. The CDI issued a non-disapproval letter to the Company for the latest amended Agreement on December 21, 2016.

On June 27, 2017, Medicus Insurance Company paid an ordinary intercompany dividend in the amount of $3.5 million to the Company.

On November 27, 2017, the Florida Office of Insurance Regulation approved a $10 million extraordinary dividend from FD Insurance Company to its immediate parent company, Florida Doctors Holding Company, LLC with further distribution to the Company. The dividend is expected to be paid on or before December 31, 2017.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records - Unclaimed Property (Page 11): It is recommended that the Company escheat unclaimed properties that are outstanding over three years to the California State Controller's Office and implement procedures to ensure future compliance with California Code of Civil Procedure Part 3, Title 10, Chapter 7, Article 3, Sections 1530 and 1532.

Previous Report of Examination

Comments on Financial Statement items – Bonds (Page 16): It was recommended the Company amend the agreements surrounding the line of credit to address the concerns raised by the California Department of Insurance and to permit the assets to be treated as admitted assets in accordance with Statement of Statutory Accounting Principles No. 4. The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

___/S/__________________________

Donavan Han, CFE
Examiner-In-Charge
Senior Insurance Examiner, Specialist
Department of Insurance
State of California

___/S/___________________________

Kyo Chu, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California