Report on the Examination

As of December 31, 2012

of

Medmarc Insurance Group
(Medmarc Mutual Insurance Company, Medmarc Casualty Insurance Company and Noetic Specialty Insurance Company)

by the

Vermont Department of Financial Regulation

Division of Insurance

VERMONT

State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

For consumer

[All Insurance] 800-964-1784
[Securities] 877-550-3907
[Banking] 888-568-4547

Mary Todd Peterson
President and CEO
Medmarc Insurance Group

ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Medmarc Insurance Group for the year ending December 31, 2012 is adopted.

Medmarc Insurance Group may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

Susan L. Donegan
Susan L. Donegan, Commissioner

June 9, 2014
Date

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VERMONT

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June 3, 2014

Susan L. Donegan, Commissioner
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner Donegan:

Pursuant to the June 10, 2013 examination order, the Insurance Division's financial examination team has conducted an examination of:

Medmarc Insurance Group (Medmarc Mutual Insurance Company, Medmarc Casualty Insurance Company and Noetic Specialty Insurance Company)
with their offices located at
14280 Park Meadow Drive, Suite 300
Chantilly, VA 20151-2219

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.

MEDMARC INSURANCE GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2012

SCOPE OF EXAMINATION

As of December 31, 2012 the Medmarc Insurance Group (Group) consisted of three entities as follows:

- Medmarc Mutual Insurance Company (Mutual)
- Medmarc Casualty Insurance Company (Casualty)
- Noetic Specialty Insurance Company (Noetic)

The Group's last financial condition examination was as of December 31, 2008 for the previous four year period. The examination was conducted by the Insurance Division of the Vermont Department of Financial Regulation (Department).

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2009 through December 31, 2012. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks 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. The examination also includes assessing the principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation, Management's compliance with statutory accounting principles, annual statement instructions and state regulations. The examination also included a review of any material transactions and/or events occurring subsequent to the examination date that were noted during the course of this examination. In accordance with the risk-focused examination process, all accounts and activities of the Group were considered.

As required by law and the NAIC standard examination procedures, the Group instructed their independent accounting firm, Johnson Lambert LLP, to make available for the Department's review, all work papers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the audit of the Group's financial statements for the period covered by the examination. The Department reviewed the work papers to identify additional solvency risk areas and to determine the extent of work performed on high-risk areas, which may have provided insight and efficiencies for the current examination. To the extent possible, the Department utilized the work papers and analyses to supplement the examination work.

The format of this report is designed to explain the procedures employed during the examination and if necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with company management during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement in this report based on this examination.

SUBSEQUENT EVENTS

Effective January 1, 2013, the Group was acquired by a subsidiary of ProAssurance Corporation (NAIC Group Code 2698) through a sponsored demutualization of Mutual. In conjunction with the acquisition, Mutual's name changed to Medmarc Insurance Company and the intercompany risk pooling and tax sharing agreements were terminated. Effective January 1, 2013, the Group became party to the tax sharing agreement with ProAssurance Corporation and its affiliates. Effective February 1, 2013, Medmarc Insurance Company was merged into Casualty with Casualty surviving the merger. Effective February 15, 2013, Casualty and its subsidiaries became parties to the expense allocation agreement and management services agreement with ProAssurance Corporation and its affiliates.

HISTORY

Mutual is a mutual insurance company domiciled in Vermont. Mutual owns 100% of the issued and outstanding capital stock of Casualty, an admitted property and casualty insurance company domiciled in Vermont and licensed in 50 states and the District of Columbia. Mutual also owns 100% of the issued and outstanding capital stock of Noetic, a non-admitted property and casualty insurance company domiciled in Vermont and approved to operate in 50 states and the District of Columbia.

The Group provides claims made and occurrence insurance coverages for products and completed operations liability coverage on a primary basis for manufacturers and distributors of medical technology and life sciences products with limits up to $10 million. In addition, the Group provides lawyers' professional liability insurance to small law firms with limits up to $1 million for each loss and in the aggregate. The core business represents 69% and 73% of net premiums written by the Group in 2012 and 2011, respectively.

Pursuant to a risk pooling agreement, the Group shares all net risks as follows: Mutual 50%, Casualty 25% and Noetic 25%. The Group has also entered into excess of loss and quota-share reinsurance agreements with non-affiliated reinsurers to limit losses on certain lines of business.

Mutual also owns 100% of the outstanding stock of Hamilton Resources Corporation (Hamilton), a non-insurance administrative services corporation.

CORPORATE RECORDS

The Group's headquarters and administrative offices are located in Chantilly, Virginia, and the Group maintains its corporate records at this location. The articles of incorporation, by-laws and minutes of the board of directors' meetings held during the period under examination were reviewed. Based upon our review, the Group is conducting its affairs in accordance with its by-laws. The recorded minutes of these meetings adequately documented approval and oversight of the Group's investment transactions, other material transactions, events and changes in directors.

MANAGEMENT AND CONTROL

<u>Mutual</u>

Members:

Members of the Company can be any person who:

- is engaged in the manufacturing, distribution or conducting of clinical trials of medical and healthcare devices or scientific products in the United States; and
- is insured or reinsured by the Company or by a subsidiary of the Company, provided the premium due for such insurance coverage has been paid; and

- meets any further criteria or requirements that the Board may from time to time establish.

An annual meeting of the Members of the Company shall be held on a date as shall be designated by the Board of Directors.

Board of Directors:

In accordance with Article V of the Company's by-laws, the management of the Company is vested in a Board of Directors. The members of the Company shall elect the Directors at the annual meeting of the Members. The Board of Directors shall consist of not less than nine and no more than fifteen Directors, the exact number to be determined from time to time by vote of the Board. At all times, a majority of the Directors shall be citizens and residents of the United States of America. The President and Chief Executive Officer of the Company shall be a Director. Approximately one third of the Board of Directors shall be elected at each annual meeting for a term of three years. The business of the Company shall be managed under the direction of the Board and powers and authorities granted by the by-laws and the articles of association and the provisions of any governing statute. A majority of the Directors shall be necessary and sufficient to constitute a quorum for the transaction of business. The Board of Directors must hold at least four quarterly meetings per calendar year, either within or without the State of Vermont at a place and time designated by the Board of Directors. The Board and any committee may hold special meetings as considered appropriate. The Directors may delegate powers to committees consisting of three or more members of the Board.

The following were elected to the Board of Directors of the Company in accordance with the by-laws and serving as of December 31, 2012:

Name/Principal Business Affiliation

Jessica I. Bede
President & CEO of Capintec, Inc.

Richard C. Eschrich
Formerly SVP, CFO & Treasurer of Mutual

<u>Name/Principal Business Affiliation</u>

Steven P. Fulton
Formerly General Counsel of Respironics, Inc.

Mark L. Hubbard
Vice President of Loma Linda University and Medical Center

Paul E. Landers
Formerly SVP & CFO of Quidel Corporation

Gregory E. Leonard
Self-employed consultant

Mary Todd Peterson
President & CEO of Mutual

Philip M. Reilly
Formerly Vice President, Finance & CFO of KOL Bio-Medical Instruments, Inc.

Richard C. Somerville
Director, Risk Management of Thermo Fisher Scientific, Inc.

Jaxon A. White
Formerly President & CEO of Mutual

Committees:

The Directors may delegate powers and authorities to committees consisting of three or more members of the Board. The Committees as of December 31, 2012 were as follows:

- Audit/Investment Committee
- Human Resource Committee
- Strategic Transaction Committee
- Corporate Governance Committee

Officers:

The Company's Officers consist of a Chairman of the Board, a Vice Chairman of the Board, a President and Chief Executive Officer, one or more Vice Presidents, a Secretary, a Treasurer and such other Officers, including Assistant Secretaries and Assistant Treasurers, as the Board may from time to time determine. Two or more offices may be held by the same person, except the offices of President and Secretary. All Officers serve at the discretion of the Board.

The Officers of the Company as of December 31, 2012 were as follows:

Name	Title
Jaxon White	Chairman
Phillip Reilly	Vice Chairman
Mary Todd Peterson	President and CEO
Nigel Griffey	Senior Vice President, CFO and Treasurer
Karen Murphy	Senior Vice President and Secretary
Lindsey Hunt	Assistant Treasurer
Brian Kern	Assistant Secretary

Casualty

In accordance with Article II of the Company's by-laws, the management of the Company is vested in a Board of Directors. The stockholders shall elect Directors at the annual meeting of the stockholders. The Board of Directors shall consist of not less than three and not more than fifteen members. The Board of Directors shall hold at least four regularly scheduled meetings per calendar year. A majority of the Directors shall be necessary and sufficient to constitute a quorum for the transaction of business. The Directors may designate an Executive Committee, which shall consist of not less than three nor more than five Directors. The Directors may from time to time designate one or more committees, each consisting of three or more Directors. Mutual's committees also function as Casualty's committees. Casualty has no committees of its own.

The following were elected to the Board of Directors of Casualty in accordance with the by-laws and serving as of December 31, 2012:

Name	Title
Nigel Griffey	Senior Vice President, CFO and Treasurer
Karen Murphy	Senior Vice President and Secretary

Name	Title
Mary Todd Peterson	President and CEO

Officers:

The Officers shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other Officers as may be appointed. Each such Officer, other than the Chairman, shall hold office, unless otherwise provided by duly authorized and executed contract, at the pleasure of the Board of Directors or until death, or until resignation in the appropriate manner. The Chairman shall be appointed at the annual meeting of the Board of Directors or at a special meeting called for that purpose and shall hold office until the next annual meeting of the Board of Directors, or until death, or until resignation in the appropriate manner. The Chairman and the President shall be and remain Directors of Casualty during the terms of their respective offices. Any other Officer may, but need not be, a Director of Casualty. Two or more offices may be held by the same person except offices of the President and Secretary.

The Officers of Casualty as of December 31, 2012 were as follows:

Name	Title
Jaxon White	Chairman
Mary Todd Peterson	President and CEO
Nigel Griffey	Senior Vice President, CFO and Treasurer
Karen Murphy	Senior Vice President and Secretary
Lindsey Hunt	Assistant Treasurer
Brian Kern	Assistant Secretary
Richard Butler	Vice President
Francis Stockwell III	Vice President

Noetic

In accordance with Article V of the Company's by-laws, the management of the Company shall be vested in a Board of Directors. The Directors are elected at the annual meeting or a special meeting called for that purpose. The Board of Directors shall consist of not less than three and not more than fifteen members. Each Director shall hold office until the next annual election of Directors, or until death, resignation or removal. The Board of Directors shall hold at least four quarterly meetings per calendar year. Special meetings shall be held whenever called by the Chairman of the Board or by the President or by one-third of the Directors then in office. A majority of the Board shall be necessary and sufficient to constitute a quorum for the transaction of business. The Board of Directors may designate an Executive Committee, which shall consist of not less than three nor more than five Directors. The Board may from time to time designate one or more committees, each such committee to consist of three or more Directors.

The following were elected to the Board of Directors of Noetic in accordance with the by-laws and serving as of December 31, 2012:

Name	Title
Nigel Griffey	Senior Vice President, CFO and Treasurer
Karen Murphy	Senior Vice President and Secretary
Mary Todd Peterson	President and CEO

Officers:

The Officers shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other Officers as may be appointed. Each Officer shall be chosen by the Board of Directors. Each such Officer, other than the Chairman, shall hold his office, unless otherwise provided by duly authorized and executed contract, at the pleasure of the Board of Directors or until death, or until resignation in the appropriate manner. The Chairman shall be appointed at the annual meeting or at a special meeting. The Chairman and the President shall be and remain Directors during the terms of their respective offices. Any other Officer may, but need not be, a Director of the Corporation. Two or more offices may be held by the same person, except the offices of President and Secretary.

The Officers of Noetic as of December 31, 2012 were as follows:

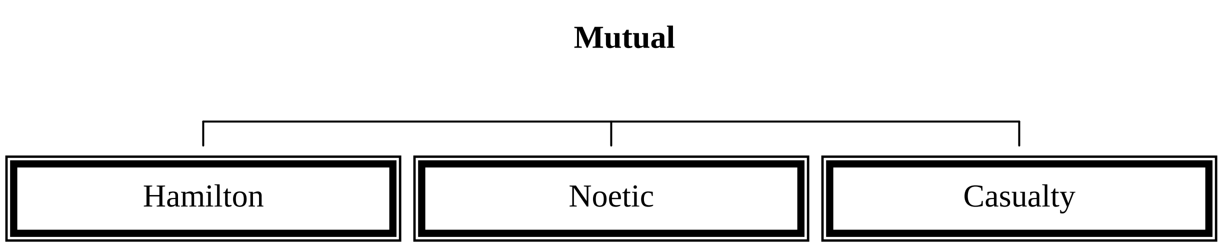
Name	Title
Jaxon White	Chairman
Mary Todd Peterson	President and CEO
Nigel Griffey	Senior Vice President, CFO and Treasurer
Karen Murphy	Senior Vice President and Secretary
Richard Butler	Vice President
Brian Kern	Assistant Secretary
Lindsey Hunt	Assistant Treasurer
Francis Stockwell III	Vice President

Conflict of Interest Statement and Policy

For the period under examination, the policy of the Group as adopted by the Board of Directors requires that no Officer, Director or key employee have any outside commitments, personal or otherwise, that would divert the Officer, Director or key employee from his or her duty to further the interests of the Company. A key employee is defined as an employee who exercises policy-making functions, whether or not such employee is an elected Officer of the Company. All Officers, Directors and key employees are responsible for completing the Conflict of Interest Statement annually, and responsible for promptly notifying the Group of any changes of their status or affiliations.

Affiliated Companies

The following chart delineates the relationship between Medmarc Insurance Group.



Mutual and its affiliates pool and invest cash to maximize short-term investment income and minimize bank charges. Interest earned on the combined short-term investment account is allocated to the appropriate Company based on that Company's pooling percentage.

All insurance services for the Group were performed under the terms of individual service agreements between the each entity and Hamilton. In addition, the Members of the Group filed under the terms of a federal income tax sharing agreement.

As more fully described under the heading "Reinsurance", the Group operates under the terms of an insurance pooling agreement that allocates all net retained risk at 50% to Mutual and 25% each to Casualty and Noetic.

FIDELITY BOND AND OTHER INSURANCE

The Financial Institution Bond was issued by Travelers St. Paul Fire and Marine Insurance Company, for employee dishonesty (Blanket) in the amount of $5,000,000 per single loss with a single loss deductible of $50,000. The policy is in effect until January 1, 2013. The amount of coverage in force at December 31, 2012 meets the minimum amount of coverage recommended by the NAIC. The policies for Property Damage and Business Interruption, Commercial General Liability, Commercial Auto, Commercial Umbrella, Workers Compensation, and Directors and Officers Professional Liability were reviewed and appear to have sufficient limits to protect the Company from losses.

PENSIONS AND INSURANCE PLANS

Mutual, Casualty and Noetic do not have employees. All services were performed under an agreement with Hamilton.

STATUTORY DEPOSITS

The statutory deposits of the Companies at December 31, 2012 were as follows:

State	Type of Deposit	Deposit for Benefit of All Policyholders		All Other Special Deposits	
		Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Mutual:					
Arkansas	Bond	-	-	$ 210,000	$ 210,000
Georgia	Bond	-	-	$ 35,591	$ 35,591
Massachusetts	Bond	-	-	$ 501,355	$ 509,530
Nevada	Bond	-	-	$ 203,069	$ 212,344
New Mexico	Bond	-	-	$ 126,660	$ 126,719
Vermont	U.S. Treasury Note, .875%, due 12/31/2016	$ 1,114,610	$ 1,115,125	-	-
Vermont	U.S. Treasury Note, 1.250%, due 10/31/15	$ 498,807	$ 512,695	-	-
Totals		$ 1,613,417	$ 1,627,820	$ 1,076,675	$ 1,094,184
Casualty:					
Arkansas	Bond	-	-	$ 210,000	$ 210,000
Delaware	Bond	-	-	$ 20,298	$ 20,245
Florida	Bond	-	-	$ 463,986	$ 475,791
Georgia	Bond	-	-	$ 99,761	$ 102,539
Massachusetts	Bond	-	-	$ 510,000	$ 510,000
Michigan	Bond	-	-	$ 350,000	$ 350,000
New Hampshire	Bond	-	-	$ 205,000	$ 205,000
New Mexico	Bond	-	-	$ 325,000	$ 325,000
North Carolina	Bond	-	-	$ 304,146	$ 305,781
Ohio	Bond	-	-	$ 301,516	$ 301,782
Oregon	Bond	-	-	$ 260,629	$ 263,352
South Carolina	Bond	-	-	$ 150,506	$ 151,551
Texas	Bond	-	-	$ 60,163	$ 61,144
Virginia	Bond	-	-	$ 498,807	$ 512,695
Vermont	U.S. Treasury Note, .750%, due 6/30/17	$ 2,613,142	$ 2,615,444	-	-
Total		$ 2,613,142	$ 2,615,444	$ 3,759,812	$ 3,794,880
Noetic:					
Massachusetts	Bond	-	-	$ 738,510	$ 738,819
New Mexico	Bond	-	-	$ 101,863	$ 101,906
New York	Bond	-	-	$ 2,497,832	$ 2,654,300
Vermont	Cash	$ 2,500,000	$ 2,500,000	-	-
Total		$ 2,500,000	$ 2,500,000	$ 3,338,205	$ 3,495,025

TERRITORY AND PLAN OF OPERATIONS

Mutual and Casualty are licensed in all 50 states and the District of Columbia. Noetic is approved to operate in all 50 states and the District of Columbia. The Group operates under a pooling arrangement pursuant to which all net retained business is allocated 50% to Mutual and

25% each to Casualty and Noetic. The Group has also entered into excess and quota-share reinsurance agreements with non-affiliated reinsurers to limit losses on certain lines of business. All business is produced either by Casualty as an admitted insurer or Noetic on a surplus lines basis.

The Group provides coverage on a primary basis, within specified limits, for products liability for manufacturers and distributors of medical technology and life sciences products. The Group also provides lawyers' professional liability coverage to small firms. The products liability and lawyers' professional liability lines represent 69% and 31%, respectively, of net risk written and assumed by the Group in 2012. In 1998, Mutual and Casualty began to diversify underwriting risk by participating in programs that are unrelated to the core business. As of December 31, 2003, with the exception of the lawyers' professional liability program, the Group discontinued writing or assuming new coverage in the diversification lines of business and is managing those lines in run-off.

The Group continues to run off previously written, non-core business composed of the following programs which are reinsured by various contracts:

Line	2012 Reserves	2011 Reserves
Workers' Compensation	$ 1,019,754	$ 1,165,008
Medical stop loss	$ 312,291	$ 313,005
Nursing home liability	$ 54,928	$ 64,928
Realtors' error and omissions	$ 41,248	$ 124,631
Non-standard automobile	$ -	$ 10,397
Total	$ 1,428,221	$ 1,677,969

GROWTH OF THE COMPANIES

The growth of the Group over the five most recent years is shown in the following table:

Revenues, Losses, Income, Assets & Surplus

Casualty:

	2012	2011	2010	2009	2008
Net Written Premium	$ 7,576,227	$ 7,507,150	$ 10,142,542	$ 10,525,958	$ 12,990,956
Losses and LAE Incurred	$ 4,292,805	$ 3,454,487	$ 7,686,190	$ 8,239,585	$ 12,605,527
Net Income	$ 2,536,163	$ 3,284,848	$ 3,009,895	$ 2,788,372	$ 1,655,647
Net Admitted Assets	$ 89,068,878	$ 91,990,614	$ 95,659,639	$ 101,268,967	$ 103,213,626
Surplus	$ 45,884,729	$ 43,120,791	$ 39,420,952	$ 35,928,199	$ 33,534,521

Mutual:

	2012	2011	2010	2009	2008
Net Written Premium	$ 15,152,454	$ 15,014,300	$ 20,285,084	$ 21,051,916	$ 25,981,912
Losses and LAE Incurred	$ 8,585,985	$ 6,909,473	$ 15,371,381	$ 16,477,670	$ 25,217,613
Net Income	$ 3,940,377	$ 5,032,686	$ 4,555,576	$ 3,936,836	$ 20,286,278
Net Admitted Assets	$ 246,475,411	$ 244,378,718	$ 247,481,624	$ 244,258,055	$ 232,527,249
Surplus	$ 166,236,373	$ 153,698,310	$ 142,276,992	$ 127,383,101	$ 112,763,669

Noetic:

	2012	2011	2010	2009	2008
Net Written Premium	$ 7,576,227	$ 7,507,150	$ 10,142,542	$ 10,525,958	$ 12,990,956
Losses and LAE Incurred	$ 4,292,776	$ 3,454,487	$ 7,686,190	$ 8,239,585	$ 12,605,527
Net Income	$ 2,795,954	$ 3,149,570	$ 3,002,635	$ 2,798,335	$ 1,645,749
Net Admitted Assets	$ 90,705,450	$ 91,990,569	$ 89,486,557	$ 95,477,351	$ 92,005,643
Surplus	$ 52,135,017	$ 48,604,464	$ 36,220,980	$ 32,540,819	$ 29,507,242

REINSURANCE

The Group had a reinsurance program established with several reinsurers. The Group's reinsurers comprise five companies in 2012, all of which have A. M. Best financial strength ratings of A or higher and have an A.M. Best financial size of XV. Coverage is continuous and may be cancelled by either the Group or the reinsurer on any January 1. Management reviews, approves, executes and monitors all reinsurance contracts. The Group hires a third party consultant to assist with reviewing their reinsurance metrics, including reinsurance volumes, reinsurance partners and their credit ratings, and any other changes that have occurred in the reinsurance market. The third party consultant reviews this information with Management and the Board of Directors annually. The reinsurance contracts are also reviewed by the Company's Certified Public Accountant to assure the contracts qualify for reinsurance accounting treatment.

For the Life Sciences Technology Program, the Group had an underwriting review in 2010 and the Group reduced capacity offered to large policyholders in 2011. Policies incepting in 2011 for companies with sales exceeding $100 million are excluded from the reinsurance contract, except if they are for distributors and animal or dental products. For 2012, the Group cedes 75% of the excess of $1 million per occurrence and in the aggregate for policy limits up to $10 million.

For the Lawyers' Professional Liability Program, in 2009 the Group ceded 50% of the first $1.0 million of loss and corresponding premium to unaffiliated reinsurers pursuant to a quota share agreement and 95% of losses above $1.0 million are ceded to unaffiliated reinsurers pursuant to an excess of loss reinsurance agreement. In 2010, the Group terminated the quota share treaty on a cut-off basis, terminated the excess of loss treaty on a run-off basis and reduced the limits being written to $1.0 million. In 2012, the Group wrote one $2 million policy that was reinsured on a facultative basis.

ACCOUNTS AND RECORDS

The Group maintains its significant information systems on Dell servers operating under a maintenance agreement with Dell. Workstations located throughout the Group's home office utilize Microsoft's operating system and Microsoft Office for routine administrative tasks. A review indicated the Group maintains appropriate controls over the information systems. The Group utilizes the Ebix system for claims processing and policy administration, the Great Plains system for general ledger activities, and Freedom for reinsurance. The Ebix and Great Plains systems have an automated interface for claims payment information, policy/contract vouchers, journal entries and cash receipts. There is a monthly feed from Ebix to Freedom of the claims data for cession processing of reinsurance data. The data is then fed back to Ebix for reporting purposes. Annual statements are prepared through manual inputs to TCP software. Reporting from TPA's is accomplished through monthly submissions of summary information on electronic spreadsheets. The information is then manually entered into the general ledger system. The Group utilizes an outside service for investment accounting and payroll functions.

The Group is paperless and utilizes imaging as a means for housing most records. The majority of requested supported documentation is maintained and provided to the examination team in electronic format.

The Group is not subject to requirements of Sarbanes-Oxley Section 404, or the internal control attestation requirements expressed in Regulation 1-2009-06, section 16.

FINANCIAL STATEMENTS

The following statements show the financial position of the Companies as of December 31, 2012 in accordance with statutory accounting principles as defined by Vermont State Statute.

MEDMARC INSURANCE GROUP

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Statement of Assets

	Mutual	Casualty	Noetic
Bonds	$ 90,079,206	$78,061,609	$80,401,514
Preferred stocks	2,022,138	-	-
Common stocks	127,756,334	-	-
Cash and short-term investments	13,618,388	(259,880)	62,675
Other invested assets	5,340,139	-	-
Receivables for securities	245,000	1,840,000	2,500,000
Subtotals, cash and invested assets	239,061,205	79,641,729	82,964,189
Investment income due and accrued	868,434	787,709	903,656
Uncollected premiums and agents' balances in the course of collection	2,935,506	2,291,348	651,742
Amounts recoverable from reinsurers	2,546,219	4,338,270	2,069,259
Funds held by or deposited with reinsured companies	450,000	-	-
Current federal and foreign income tax recoverable and interest thereon	614,047	811,822	810,359
Net deferred tax asset	-	916,300	883,796
Guarantee funds receivable or on deposit	-	32,695	-
Receivables from parent, subsidiaries and affiliates	-	-	2,400,731
Aggregate write-ins for other than invested assets	-	249,005	21,718
Total assets	$ 246,475,411	$89,068,878	$90,705,450

MEDMARC INSURANCE GROUP

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AS OF DECEMBER 31, 2012

Statement of Liabilities, Surplus and Other Funds

	Mutual	Casualty	Noetic
Losses	$ 43,550,923	$21,775,211	$21,775,211
Reinsurance payable on paid losses and loss adjustment expenses	5,092,438	1,273,110	1,273,110
Loss adjustment expenses	21,088,263	10,545,131	10,545,132
Commissions payable, contingent commissions and other similar charges	-	34,590	16,429
Other expenses (excluding taxes, licenses and fees)	379,527	137,458	79,520
Taxes, licenses and fees (excluding federal and foreign income taxes)	760	138,285	110
Net deferred tax liability	1,314,066	-	-
Unearned premiums (after deducting unearned premiums for ceded reinsurance)	8,468,592	4,234,290	4,234,292
Advance premium	-	-	-
Ceded reinsurance premiums payable (net of ceding commissions)	-	4,333,856	639,615
Provision for reinsurance	-	9,024	-
Payable to parent, subsidiaries and affiliates	251,890	694,706	-
Aggregate write-ins for liabilities	92,579	8,488	7,014
Total liabilities	$ 80,239,038	$43,184,149	$38,570,433
Common capital stock	$ -	$ 3,000,000	$ 3,600,000
Gross paid in and contributed surplus	-	29,177,766	35,304,919
Unassigned funds (surplus)	166,236,373	13,706,963	13,230,098
Total surplus	166,236,373	45,884,729	52,135,017
Total liabilities and surplus	$ 246,475,411	$89,068,878	$90,705,450

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Statement of Income and Changes in Capital and Surplus

	Mutual	Casualty	Noetic
Premiums earned	$ 15,001,329	$ 7,500,665	$ 7,500,665
Losses incurred	6,564,459	3,282,228	3,282,228
Loss adjustment expenses incurred	2,021,526	1,010,577	1,010,548
Other underwriting expenses incurred	9,146,002	4,573,002	4,572,998
Total underwriting deductions	17,731,987	8,865,807	8,865,774
Net underwriting loss	(2,730,658)	(1,365,142)	(1,365,109)
Net investment income earned	3,963,662	3,234,397	3,550,349
Net realized capital gains	2,072,630	151,490	100,342
Net investment gain	6,036,292	3,385,887	3,650,691
Aggregate write-ins for miscellaneous income	5	20,776	45,907
Total other income	5	20,776	45,907
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,305,639	2,041,521	2,331,489
Federal and foreign income taxes incurred	(634,738)	(494,642)	(464,465)
Net income	$ 3,940,377	$ 2,536,163	$ 2,795,954
Surplus as regards policyholders, December 31, 2011	$ 153,698,310	$43,120,791	$48,604,464
Net income	3,940,377	2,536,163	2,795,954
Change in net unrealized capital gains or (losses)	10,386,417	65,704	22,419
Change in net deferred income tax	(1,303,108)	(657,697)	(1,061,355)
Change in nonadmitted assets	(485,623)	144,905	1,089,648
Change in provision for reinsurance	-	(9,024)	-
Cumulative effect of change in accounting principles	-	683,887	683,887
Change in surplus as regards policyholders for the year	12,538,063	2,763,938	3,530,553
Surplus as regards policyholders, December 31, 2012	$ 166,236,373	$45,884,729	$52,135,017

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of the examination. A Comment Letter will be issued to the Board as a result of the examination addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report.

CONCLUSION

As a result of this examination, the financial condition of the Companies, as of December 31, 2012 was determined to be as follows:

	Mutual	Casualty	Noetic
Admitted Assets	$ 246,475,411	$ 89,068,878	$ 90,705,450
Liabilities	$ 80,239,038	$ 43,184,149	$ 38,570,433
Capital and Surplus	$ 166,236,373	$ 45,884,729	$ 52,135,017
Total Liabilities, Capital and Surplus	$ 246,475,411	$ 89,068,878	$ 90,705,450

MEDMARC INSURANCE GROUP

EXAMINATION REPORT

AS OF DECEMBER 31, 2012

In addition to the undersigned, Bob Crawford (BCCG), Supervising Examiner, Karen Murphy, Administrative Insurance Examiner, Jesse Lussier, Examiner-In-Charge, and Miranda Cloutier, Examiner, participated in this examination. Other specialists included Jenny Jeffers, Information Technology Specialist and Glenn Taylor and Brent Sallay (Actuaries) of Taylor-Walker & Associates, Inc.

Respectfully submitted,

Kaj Samsom, CFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Kaj Samsom, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Subscribed and sworn to before me

This 4th day of June, 2014

Notary Public
my comm expires 2/10/15