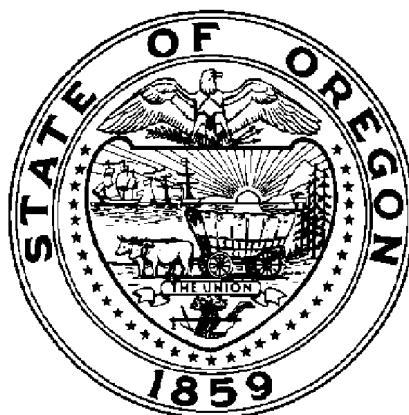


**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**TDC NATIONAL ASSURANCE COMPANY
(FKA: UNDERWRITER FOR THE PROFESSIONS INSURANCE
COMPANY)
LAKE OSWEGO, OREGON**

AS OF

DECEMBER 31, 2015

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

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(FKA: UNDERWRITER FOR THE PROFESSIONS INSURANCE COMPANY)
LAKE OSWEGO, OREGON**

NAIC COMPANY CODE 41050

AS OF

DECEMBER 31, 2015

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SALUTATION

January 13, 2017

Honorable Laura Cali Robison, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**TDC NATIONAL ASSURANCE COMPANY
FKA: UNDERWRITER FOR THE PROFESSIONS INSURANCE COMPANY
5885 Meadows Road, Suite 300
Lake Oswego, OR 97035**

NAIC Company Code 41050

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our full-scope, multi-state insurer, coordinated group examination of TDC National Assurance Company (formerly known as Underwriter for the Professions Insurance Company). The last examination of this property and casualty insurer was completed as of December 31, 2012. The current examination covers the period of January 1, 2013, to December 31, 2015.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1), which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company 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. Examination coordination among insurers of a group or holding company system is critical for effective solvency regulation with the goal to gain efficiencies and prevent duplication of testing wherever possible.

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 significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was incorporated as a Colorado domiciled stock corporation on September 5, 1989, and commenced business on December 28, 1990, under a Certificate of Authority issued by the Colorado Department of Regulatory Agencies, Division of Insurance. Effective January 1, 2002, the Company changed its name from Underwriter for the Professions, Inc. to Underwriter for the Professions Insurance Company.

On September 11, 2012, the Company filed an application for domestication in accordance with Oregon Revised Statutes (ORS) 731.363, “Authorized foreign insurer becoming domestic insurer.” Effective November 1, 2012, the redomestication from Colorado to Oregon became effective and included a name change to UMIA Insurance Company, a Member of the TDC Group of Companies.

Effective February 22, 2013, the Company changed its name back to Underwriter for the Professions Insurance Company. Subsequent to the examination date and effective July 26, 2016, the Company again changed its name to TDC National Assurance Company.

Capitalization

The Company has 750,000 shares of common stock authorized, with 7,500 shares issued and outstanding. All shares are owned by its parent, The Doctors Company, An Interinsurance

Exchange (TDC). The stated par value of the shares is \$10.00 per share and the Company reported \$7,500,000 as the value of its Common Capital Stock.

Dividends and Other Distributions

During the period under examination, the Company did not declare nor did it pay any cash distributions to its sole shareholder.

Surplus Note

On October 29, 2003, the Company issued a surplus note in the amount of \$15,000,000. The surplus note is a 30-year subordinated note with quarterly interest-only payments at a variable rate of interest based on the 3-month LIBOR. The surplus note was issued together with other surplus notes offered by the Company's parent, TDC.

On January 29, 2014, the \$15,000,000 surplus note and accrued interest was redeemed with the approval of the Oregon Division of Financial Regulation.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Company, consisting of quarterly Unanimous Written Consents in lieu of meeting describing current events, officer and director elections, investment transactions and regulatory issues. The minutes adequately described and supported the Company's transactions and events.

Articles of Incorporation

The Company operated under an Amended and Restated Articles of Incorporation was filed with the Division of Financial Regulation on November 1, 2012, and a Second Amended and Restated Articles of Incorporation was filed on February 22, 2013. A Third Amended and Restated Articles of Incorporation was filed February 24, 2015, to change the business address to 5885

Meadows Road, Suite 300, Lake Oswego, OR 97035. The Articles conformed to the requirements of the Oregon Insurance Code.

Bylaws

Effective February 8, 2013, the Company filed its “Third Amended and Restated Bylaws.”

During the period under examination, the Company operated under its Bylaws as amended September 21, 2012 and February 8, 2013. The Company’s Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

Article 3.01 of the Bylaws state the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of a Board of Directors. Article 3.02 states the number of directors shall be no less than three (3) and no more than seven (7). As of December 31, 2015, these members were as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Richard E. Anderson Yountville, California	President and CEO TDC National Assurance Company	1994
Robert D. Francis Napa, California	COO TDC National Assurance Company	2007
James T. Dorigan Lake Oswego, Oregon	Senior Vice President The Doctors Management Company	2013
David G. Preimesberger Napa, California	CFO and Treasurer TDC National Assurance Company	2007
William J. Gallagher Salem, Oregon	Senior VP, Director of Medical Services The Doctors Management Company	2013

The Bylaws conform to ORS 732.305, which require at least five or one-quarter of the directors, whichever is fewer, must be residents of this state. The Company complies with the requirements.

Officers

Article 4.01 of the Bylaws describes the officers of the Company. Principal officers serving at December 31, 2015, were:

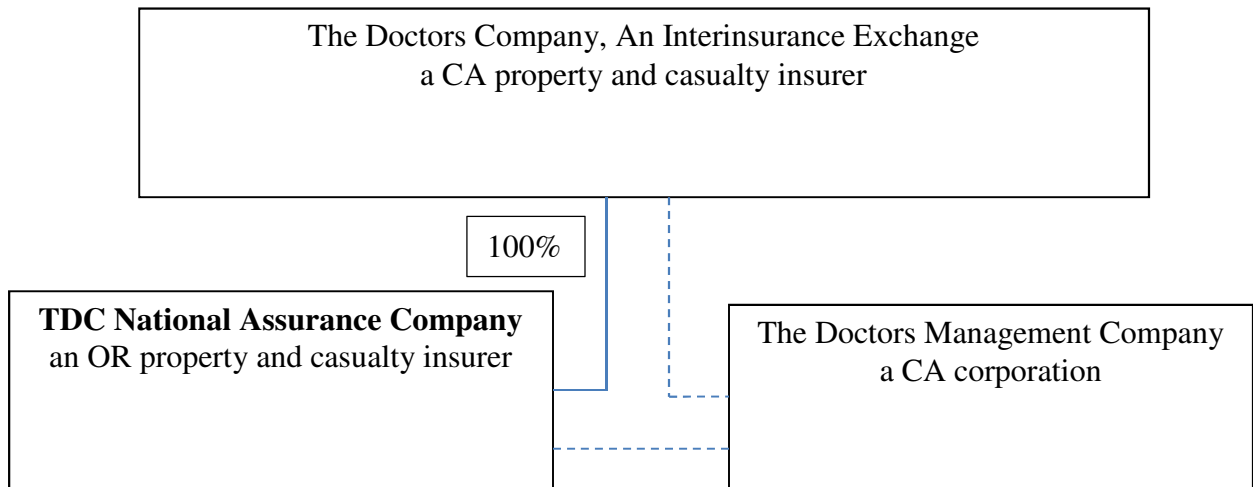
<u>Name</u>	<u>Title</u>
Richard E. Anderson	President and Chief Executive Officer
David A. McHale	Secretary
David G. Preimesberger	Chief Financial Officer and Treasurer
Robert D. Francis	Chief Operations Officer
James T. Dorigan, Jr.	Senior Vice President
Douglas C. Will	Vice President
Douglas W. Boltz	Assistant Vice President

Conflict Of Interest

The Company's parent, TDC, adopted a formal Code of Ethics including reporting of any conflicts of interest for all directors, officers and responsible employees. Board members, senior officers and key employees of the Company are required to annually sign a conflict of interest statement. From a review of the completed conflict of interest questionnaires, the Company's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

The Company is a member of an insurance company holding system, which includes thirteen other insurers and one risk retention group, domiciled in nine separate states. The following abbreviated organizational chart shows the relationship between the entities within The Doctors Group (a dashed line indicates control exists through a related-party services agreement):



A description of the entities within the holding company is as follows:

The Doctors Company, An Interinsurance Exchange (TDC) is a California domiciled property and casualty insurer. TDC commenced writing business on April 15, 1976. TDC was formed as a reciprocal insurer by physicians and is owned by its policyholders. A majority of the members of the board of governors are physicians. TDC owns 100% of the capital stock of the Company, and would be considered the parent and the ultimate controlling entity.

The Doctors Management Company (TDMC) is a California corporation responsible for conducting the business operations of TDC, acts as the attorney-in-fact, and performs management and administrative duties for TDC and its subsidiaries.

INTERCOMPANY AGREEMENTS

Agreements or contracts between the insurance companies and its affiliates within the insurance holding company system are as follows:

Management Agreement

Effective July 1, 2009, the Company entered into a management services agreement with TDMC. Per the agreement, TDMC is required to provide all personnel, facilities, equipment and supplies necessary for the Company to carry out the business of insurance. Specific duties

include: obtaining and maintaining licenses in various jurisdictions, collecting premium, payment of claims, procurement of reinsurance, accounting and other financial services. In return for these services, the Company pays TDMC a monthly fee equal to the actual expenses incurred on the Company's behalf.

Tax Sharing Agreement

TDC and its subsidiaries are parties to a Second Amended and Restated Federal Income Tax Allocation Agreement entered into on December 1, 2013. This agreement was amended to reflect the addition of new subsidiaries and replaces the Amended and Restated Federal Income Tax Agreement dated July 1, 2007. Under the terms of the agreement, TDC agrees to file a consolidated federal income tax return on behalf of all subsidiaries. Allocation of tax liability is based on separate returns calculations with intercompany tax liabilities to be settled no later than 30 days after the month in which the tax payment has been made or after the filing of the consolidated return if any additional payments are due. This agreement was approved by the Oregon Division of Financial Regulation.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact business in 47 states and the District of Columbia. The Company is also eligible to write surplus lines business in Utah.

As of December 31, 2015, the Company's only business was the assumption of the Death, Disability and Retirement (DD&R) riders issued in conjunction with the medical malpractice policies issued by TDC. This coverage, known as a "free-tail" policy, is offered to physicians and medical professionals insured by members of the TDC Group who have left the practice of medicine.

GROWTH OF THE COMPANY

The growth of the Company since the last financial examination is reflected in the following schedule. The amounts were derived from Company's filed annual statements, except in those years where a report of examination has been prepared by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2011	234,855,022	168,370,026	66,484,997	(4,213,911)
2012*	245,624,166	170,159,128	75,465,038	8,053,494
2013	267,521,797	197,313,534	70,208,263	(4,830,911)
2014	272,155,144	213,697,986	58,457,158	4,452,716
2015*	298,676,036	230,681,320	68,004,716	8,695,249

*Per examination

REINSURANCE

Assumed

Effective December 31, 1999, the Company is a party to an assumption reinsurance agreement with TDC, by which the Company assumes 100% of the DD&R endorsements available on policies issued by TDC. The Company's obligation with regard to these endorsements is \$1,000,000 per claim/\$3,000,000 policy aggregate limit of liability.

Ceded

Effective January 1, 2006, the Company and TDC entered into a property, casualty, and accident and health quota share reinsurance agreement. The Company will cede a fixed pro-rata share (90%) of its net retained liability for its business classified as physicians and surgeons professional liability, owners, landlords, and tenants liability and related health care business.

In view of the Company's reported surplus of \$68,004,716 at December 31, 2015, the insurer does not maintain risk on any one subject in excess of 10% of its surplus to policyholders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in its December 31, 2015, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

STATUTORY DEPOSITS

Special deposits for the benefit of all policyholders with a book adjusted carrying value of \$10,198,386 and par value of \$10,203,000 was verified as part of this examination. Included in that total are deposits with the Oregon Division of Financial Regulation, Department of Consumer and Business Services, pursuant to the provisions of ORS 731.604 with a par value of \$3,000,000.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of TDC National Assurance Company as of December 31, 2015:

- Statement of Assets
- Statement of Liabilities, Surplus and Other Funds
- Statement of Income
- Reconciliation of Surplus Since the Last Examination

TDC NATIONAL ASSURANCE COMPANY
ASSETS
As of December 31, 2015

ASSETS	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$280,410,968	\$ -	\$280,410,968	1
Preferred Stocks	256,250	-	256,250	1
Cash, cash equivalents and short-term investments	6,109,778	-	6,109,778	1
Receivables for securities	<u>4,443,498</u>	<u>-</u>	<u>4,443,498</u>	
Subtotal, cash and invested assets	<u>\$291,220,494</u>	<u>\$ -</u>	<u>\$291,220,494</u>	
Investment income due and accrued	2,910,569	-	2,910,569	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	3,613,327	-	3,613,327	
Amounts recoverable from reinsurers	851	-	851	
Net deferred tax asset	940,795	-	940,795	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$298,686,036</u>	<u>\$ -</u>	<u>\$298,686,036</u>	

TDC NATIONAL ASSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2015

Liabilities, Surplus and Other Funds	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 28,156,092	\$ -	\$ 28,156,092	2
Reinsurance payable on losses and lae	22,889	-	22,889	2
Loss adjustment expenses	12,250,745	-	12,250,745	
Other expenses	100,000	-	100,000	
Current FIT payable	2,979,728	-	2,979,728	
Unearned premiums	179,579,451	-	179,579,451	2
Ceded reinsurance premiums payable	2,399	-	2,399	
Payable to parent, subsidiaries or affiliates	288,816	-	288,816	
Payable for securities	7,301,201	-	7,301,201	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$230,681,320</u>	<u>\$ -</u>	<u>\$230,681,320</u>	
Common capital stock	\$ 7,500,000	\$ -	\$ 7,500,000	
Surplus Notes	-	-	-	
Gross paid in and contributed surplus	13,750,000	-	13,750,000	
Unassigned funds (surplus)	<u>46,754,715</u>	<u>-</u>	<u>46,754,715</u>	
Surplus as regards policyholders	<u>68,004,716</u>	<u>-</u>	<u>68,004,716</u>	
Total Liabilities, Surplus and other Funds	<u>\$298,686,036</u>	<u>\$ -</u>	<u>\$298,686,036</u>	

TDC NATIONAL ASSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2015

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting Income				
Premiums earned	\$ 18,976,324	\$ -	\$ 18,976,324	
Deductions				
Losses incurred	7,032,114	-	7,032,114	
Loss expenses incurred	6,025,058	-	6,025,058	
Other underwriting expenses incurred	1,956,156	-	1,956,156	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>15,013,328</u>	<u>-</u>	<u>15,013,328</u>	
Net underwriting gain or (loss)	3,962,996	-	3,962,996	
Investment Income				
Net investment income earned	8,621,958	-	8,621,958	
Net realized capital gains or (losses)	<u>(958,079)</u>	<u>-</u>	<u>(958,079)</u>	
Net investment gain or (loss)	7,663,879	-	7,663,879	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	
Total other income	<u>-</u>	<u>-</u>	<u>-</u>	
Dividends to policyholders	<u>-</u>	<u>-</u>	<u>-</u>	
Net income before income taxes	11,626,875	-	11,626,875	
Federal and foreign income taxes incurred	<u>2,931,626</u>	<u>-</u>	<u>2,931,626</u>	
Net income	<u>\$ 8,695,249</u>	<u>\$ -</u>	<u>\$ 8,695,249</u>	

TDC NATIONAL ASSUANCE COMPANY
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2015	2014	2013
Surplus as regards policyholders, December 31, previous year	<u>\$ 58,457,158</u>	<u>\$ 70,208,263</u>	<u>\$ 75,465,038</u>
Net income	8,695,249	4,452,716	(4,830,911)
Change in net unrealized capital gains or (losses)	(22,789)	(78,987)	8,211
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	291,649	(203,563)	(30,547)
Change in non admitted assets	583,449	(921,272)	(403,529)
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	(15,000,000)	-
Cumulative effects of changes in accounting principles	-	-	-
Capital changes:	-	-	-
Paid in	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-
Transferred to surplus	-	-	-
Surplus adjustments:	-	-	-
Paid in	-	-	-
Transferred to capital (Stock Dividend)	-	-	-
Transferred from capital	-	-	-
Dividends to parent (cash)	-	-	-
Change in treasury stock	-	-	-
Examination adjustment	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-
Change in surplus as regards policyholders for the year	<u>9,547,559</u>	<u>(11,751,105)</u>	<u>(5,256,775)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 68,004,716</u>	<u>\$ 58,457,158</u>	<u>\$ 70,208,263</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

The Company's long-term bond investments were in US government obligations, US States, US political subdivisions, US special revenue and corporate issues. Approximately 99% of the long-term bonds were NAIC designated 1 and 2. Industrial and Miscellaneous corporate issues made up approximately 38.8% of total long-term bonds. The corporate issues included \$30.4 million of bonds categorized as other loan backed and structure securities which was approximately 10.8% of total long-term bond investments.

The Company's stock comprised of one industrial and miscellaneous preferred stock.

Short-term deposits consisted of a one US Treasury Bill.

A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2011	\$202,985,054	\$ 0	\$19,921,417	86.4%	0.0%	8.5%
2012*	230,207,850	0	6,768,936	93.7%	0.0%	2.8%
2013	241,437,739	256,250	10,347,979	90.3%	0.1%	3.9%
2014	256,436,298	256,250	8,973,843	94.2%	0.1%	3.3%
2015*	280,410,968	256,250	6,109,778	93.9%	0.1%	2.1%

*Per examination

The Board of Directors approved the investment transactions, pursuant to ORS 733.740. As of December 31, 2012, sufficient invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits, as required by ORS 733.580.

Effective February 3, 2003, and last amended May 17, 2010, the Company entered into a custody agreement with Union Bank, NA. The agreement contains all the relevant protections described in OAR 836-027-0200(4)(a)-(l).

Note 2 – Actuarial Reserves

The Exchange and the Company retained James C. Votta, FCAS, MAAA, of the firm Ernst & Young LLP, to opine on its loss and loss adjustment expense reserves as of December 31, 2015. Mr. Votta prepared an actuarial analysis of the Company experience for the purpose of developing estimates of unpaid loss and LAE at year-end 2015.

A Casualty Actuary from the California Department of Insurance, Giovanni Muzzarelli, FCAS, CERA, MAAA, reviewed the actuarial reports as of December 31, 2015, prepared by the Company's independent actuary and concurred with the actuary's conclusion that the Company's loss and loss adjustment expense reserves as of December 31, 2015, were reasonable and have been accepted for purposes of this examination.

In addition, Mr. David Dahl, FCAS, MAAA, Property/Casualty Actuary for the Oregon Division of Financial Regulation, reviewed the report for reasonableness. Mr. Dahl reviewed the reconciliation of the data used in the Company's actuarial report to the data in the actuarial work papers and found them to be consistent. He relied on work performed by the examiners who reviewed the underlying data used to create the annual statement filing, as well as prepared his own independent calculations.

Since medical professional liability claims can be reported years after the medical incident in question occurred and take several years to reach settlement, there can be significant uncertainty regarding the loss and LAE reserve estimate. UFTP assumes the liability from the Doctors Company's business for death, disability, and retirement (DD&R) coverage provided in their policies. TDCNAC DDR reserve is approximately 7.4% below the actuary's best estimate but still within the actuary's range of reasonable estimate.

The Company reported the following:

	<u>Annual Statement</u>
Reserve for Unpaid Losses	\$ 28,156,092
Reserve for Unpaid LAE	12,250,745
Unearned Premium Reserve	175,579,451
Additional Reserves	<u>-</u>
Total Actuarial Liabilities	<u>\$ 219,986,288</u>

The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2015, were reasonable. Mr. Dahl concurred that the reserves of the Company were reasonably stated as of December 31, 2015.

SUBSEQUENT EVENTS

Effective July 29, 2016, the Oregon Division of Financial Regulation approved a name change from Underwriter for the Professions Insurance Company to TDC National Assurance Company.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination and there were no recommendations that have not already been resolved.

CONCLUSION

During the three year period covered by this examination, the surplus of the Company has decreased from \$75,465,038, as presented in the December 31, 2012, report of examination to \$68,004,716, as shown in this report. The comparative assets and liabilities are:

	<u>2015</u>	<u>December 31,</u>	<u>2012</u>	<u>Change</u>
Assets	\$ 298,686,036		\$ 245,624,166	\$ 53,061,870
Liabilities	<u>230,681,320</u>		<u>170,159,128</u>	<u>60,522,192</u>
Surplus	<u>\$ 68,004,716</u>		<u>\$ 75,465,038</u>	<u>\$ (7,460,322)</u>

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, the coordinated examination team, and David Dahl, FCAS, MAAA, Property/Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in this examination.

Respectfully submitted,

Joseph A. Rome, CFE, CIE
Lead Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Joseph A. Rome, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of TDC National Assurance Company, Lake Oswego, Oregon.

2. The Division of Financial Regulation of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report. The examination of TDC National Assurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Joseph A. Rome, CFE, CIE
Lead Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2017.

Notary Public for the State of Oregon

My Commission Expires: _____