JohnsonLambert LLP
cpas + consultants

Physicians Insurance A Mutual Company

Audited Financial Statements - Statutory Basis

Years ended December 31, 2022 and 2021
with Report of Independent Auditors

Physicians Insurance A Mutual Company

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Years ended December 31, 2022 and 2021

Contents

Report of Independent Auditors

Board of Directors
Physicians Insurance A Mutual Company

Opinions

We have audited the statutory financial statements of Physicians Insurance A Mutual Company (the Company), which comprise the statutory balance sheets as of December 31, 2022 and 2021, and the related statutory statements of income, changes in capital and surplus, and cash flows for the years then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the accompanying financial statements present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in accordance with the basis of accounting described in Note 2.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2022 and 2021, or the results of its operations or its cash flows for the years then ended.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between these statutory accounting practices described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material and pervasive.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Johnson Lambert LLP

Atlanta, Georgia
May 22, 2023

Physicians Insurance A Mutual Company

Balance Sheets - Statutory Basis

As of December 31, 2022 and 2021

	2022	2021
Admitted assets		
Cash and investments:		
Bonds	$ 387,963,011	$ 396,576,963
Common stock	77,157,291	94,272,619
Cash and cash equivalents	16,047,953	36,539,979
Other invested assets	37,230,535	20,171,778
Total cash and investments	518,398,790	547,561,339
Uncollected premiums and agents' balances in the course of collection	35,636,570	24,990,646
Reinsurance recoverables on paid losses	4,466,773	579,599
Accrued interest and dividends	2,855,822	2,915,667
Receivable from affiliates	907,441	1,149,775
Net deferred tax asset	751,405	-
Federal income tax recoverable	430,884	1,801,826
EDP equipment and software	167,081	60,618
Other assets	337,646	1,006,328
Total admitted assets	$ 563,952,412	$ 580,065,798
Liabilities and policyholders' surplus		
Liabilities		
Reserves for losses	$ 171,319,593	$ 170,725,622
Reserves for loss adjustment expenses	67,822,533	61,908,953
Reinsurance payable on paid losses and loss adjustment expenses	1,686,078	1,609,210
Unearned premiums	37,245,253	33,394,677
Advance premiums	5,923,054	12,884,949
Commissions payable	344,606	1,393,948
Other expenses	3,910,254	3,083,215
Retroactive reinsurance reserves assumed	698,400	2,000,000
Taxes, licenses, and fees payable	337,255	78,738
Provision for reinsurance	76,363	587,011
Ceded reinsurance premium payable to reinsurers	4,680,209	490,282
Net deferred tax liability	-	4,818,235
Payable for securities	-	103,020
Total liabilities	294,043,598	293,077,860
Policyholders' surplus	269,908,814	286,987,938
Total liabilities and capital and surplus	$ 563,952,412	$ 580,065,798

See accompanying notes to the statutory basis financial statements.

Physicians Insurance A Mutual Company

Statements of Income - Statutory Basis

Years ended December 31, 2022 and 2021

	2022	2021
Revenues		
Premiums earned	$ 149,271,964	$ 151,724,530
Less: ceded reinsurance premiums earned	34,123,120	34,576,715
Net premiums earned	115,148,844	117,147,815
Losses and expenses		
Net losses incurred	53,919,163	67,823,828
Net loss adjustment expenses incurred	44,659,565	40,101,720
Other underwriting expenses incurred	23,222,220	24,683,640
Total underwriting deductions	121,800,948	132,609,188
Net underwriting loss	(6,652,104)	(15,461,373)
Investment income		
Net investment income earned	11,394,712	11,235,751
Net realized capital (losses) gains, less tax expense of $112,902 and $2,650,544 at December 31, 2022 and 2021, respectively	(17,392,605)	9,971,095
Net investment (loss) gain	(5,997,893)	21,206,846
Other income (loss)		
Net loss from agents' or premium balances charged off	(6,163)	(33,010)
Finance and service charges not included in premiums	24,953	-
Other income (expense), net	236,570	(1,269,642)
Total other income (loss)	255,360	(1,302,652)
(Loss) income before federal income taxes	(12,394,637)	4,442,821
Federal income tax expense (benefit)	878,797	(2,838,901)
Net (loss) income	$ (13,273,434)	$ 7,281,722

See accompanying notes to the statutory basis financial statements.

Physicians Insurance A Mutual Company

Statements of Changes in Policyholders' Surplus - Statutory Basis

Years ended December 31, 2022 and 2021

	2022	2021
Policyholders' surplus, beginning of year	$ 286,987,938	$ 276,075,381
Net (loss) income	(13,273,434)	7,281,722
Change in unauthorized reinsurance	510,648	(229,024)
Change in nonadmitted assets	(2,247,171)	(312,367)
Change in net unrealized capital gains, net of tax	(2,677,718)	5,269,959
Change in net deferred income tax	608,551	(1,097,733)
Policyholders' surplus, end of year	$ 269,908,814	$ 286,987,938

See accompanying notes to the statutory basis financial statements.

Physicians Insurance A Mutual Company

Statements of Cash Flows - Statutory Basis

Years ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Premiums collected, net of reinsurance	$ 104,957,617	$ 112,776,484
Net investment income	13,218,605	13,858,537
Miscellaneous income (expense)	18,790	(1,302,652)
Total income	118,195,012	125,332,369
Benefits and loss-related payments	57,130,464	47,105,159
Expenses paid	62,277,157	58,851,277
Federal and foreign income taxes (recovered) paid	(379,242)	1,832,340
Total	119,028,379	107,788,776
Net cash flows from operating activities	(833,367)	17,543,593
Cash flows from investing activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	50,274,739	92,965,877
Common stocks	9,371,538	20,110,395
Other invested assets	-	225,496
Total investment proceeds	59,646,277	113,301,768
Cost of investments acquired:		
Bonds	43,659,304	97,914,713
Common stocks	10,547,414	4,123,276
Other invested assets	23,367,988	17,303,020
Miscellaneous applications	103,020	(103,021)
Total investments acquired	77,677,726	119,237,988
Net cash flows from investing activities	(18,031,449)	(5,936,220)
Financing and miscellaneous activities		
Other cash applied	(1,627,210)	(1,826,150)
Net cash flows from financing activities	(1,627,210)	(1,826,150)
Net change in cash and cash equivalents	(20,492,026)	9,781,223
Cash and cash equivalents		
Beginning of year	36,539,979	26,758,756
End of year	$ 16,047,953	$ 36,539,979

See accompanying notes to the statutory basis financial statements.

Note 1 - Organization

Physicians Insurance A Mutual Company (the Company) provides comprehensive professional liability insurance to physicians and hospitals practicing primarily in the states of Washington, Oregon, Idaho, and Alaska. The Company writes claims-made professional liability policies, provider excess, and medical stop-loss policies for organizations and self-insured employers.

The Company is a mutual insurance company. The Company owns 100% of the equity or membership interests of the following subsidiaries:

Association Insurance Services, Inc. - Insurance agency, wholly owned subsidiary
Alternative Insurance Management Services, LLC (AIMS) - wholly owned subsidiary
PHYSIS Corporation - Inactive financial planning firm, wholly owned subsidiary
Washington State Physicians Insurance Association, Inc. - wholly owned subsidiary
Alterna, LLC - Captive management company, 100% owned by AIMS
Experix, LLC - Captive management service company, 100% owned by AIMS
Novaris, LLC - Captive insurance company, 100% owned by AIMS

MedChoice Risk Retention Group, Inc. (MedChoice) is controlled by the Company through its status as a sponsored captive of Novaris, LLC.

Note 2 - Significant Accounting Policies

The Company, domiciled in Washington state, prepares its statutory basis financial statements in conformity with the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual,* which has been adopted by the state of Washington, subject to any deviations prescribed or permitted by the Washington State Office of the Insurance Commissioner (Department). The Department has no significant accounting practices that differ from those found in NAIC statutory accounting principles.

NAIC accounting practices differ in certain respects from U.S. generally accepted accounting principles (GAAP). The effects on the financial statements of the variances between these statutory accounting practices and GAAP, although not reasonably determinable, are presumed to be material and pervasive. Significant differences are as follows:

- *Policy Acquisition Costs* - Acquisition expenses relating to the issuance of new policies are charged to expense as incurred. Under GAAP, certain policy acquisition costs to the extent recoverable would be deferred and amortized over the effective period of the related insurance policies.

Note 2 - Significant Accounting Policies (Continued)

- *Nonadmitted Assets* - Certain assets designated as "nonadmitted" assets are excluded from the balance sheets, and the changes in such assets are credited or charged directly to unassigned surplus. These assets primarily consist of unaudited subsidiaries, the nonadmitted portion of deferred taxes, and certain property and equipment. Under GAAP, such assets are included on the balance sheets to the extent that those assets are not impaired.

- *Investments* - Investments are carried at values prescribed by the NAIC. Generally, bonds are stated at amortized cost (unless the NAIC requires fair value), and equity securities of nonaffiliates are stated at fair value with changes in fair value recognized directly to policyholders' surplus net of related deferred taxes. Under GAAP, bonds would be designated at purchase as held-to-maturity, trading, or available for sale. Held-to-maturity fixed maturity investments would be reported at amortized cost, and the remaining fixed maturity investments would be reported at fair value, with unrealized holding gains and losses reported in operations for those designated as trading and as a separate component of other comprehensive income, net of the related deferred taxes, for those designated as available for sale. Equity securities would be reported at fair value with changes in fair value recognized in the Company's results of operations within net realized gains and losses on financial instruments.

- *Investments in Subsidiaries* - The Company's investments in its insurance affiliates are included in other invested assets and are carried at their underlying statutory or GAAP equity. Changes in the carrying value of affiliates are recorded directly to policyholders' surplus. Under GAAP, changes in the carrying value of affiliates are recorded in earnings.

- *Deferred Taxes* - Deferred tax assets and liabilities are determined in a manner similar to GAAP; however, additional criteria are then applied to those assets that may require certain amounts to be nonadmitted. The change in net deferred tax assets is recorded as a change in policyholders' surplus. Under GAAP, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years, and a valuation allowance is established for deferred tax assets not realizable.

- *Leases* - For statutory purposes, costs related to operating leases are expensed as incurred. Under GAAP, such amounts are reported on the balance sheet including a right-of-use asset for the right to use an underlying asset for the lease term and a lease liability, on a discounted basis, for the obligation to make lease payments. Lease costs are expensed on a straight-line basis for the term of the lease.

Note 2 - Significant Accounting Policies (Continued)

- *Loss and Loss Adjustment Expenses* - Ceded reinsurance recoverables on unpaid losses and loss adjustment expenses (LAE) are recorded as a reduction to the reserves for losses and LAE. Additionally, the unexpired portion of ceded reinsurance premiums is recorded as a reduction of unearned premiums. Under GAAP, ceded reinsurance recoverables and ceded reinsurance premiums are reported as assets.

- *Provision for Reinsurance* - A liability is provided for uncollateralized reinsurance balances of reinsurers not authorized to do business by the Department, and changes to those amounts are credited or charged directly to policyholders' surplus. Under GAAP, an allowance for amounts deemed uncollectible would be established through a charge to earnings.

- *Ceding Commissions* - Commissions allowed by reinsurers on business ceded are reported as income when incurred to the extent the amount does not exceed actual acquisition costs rather than being deferred and amortized with deferred policy acquisition costs, as would be required under GAAP.

- *Statement of Cash Flows* - The statutory statements of cash flow does not classify cash flow consistent with GAAP, and a reconciliation of net income to net cash provided by or used in operating activities is not provided.

- *Realized Gains and Losses* - For statutory purposes, net realized investment gains (losses) are reported net of federal income tax on the statutory statement of operations. Under GAAP, federal income tax related to investment gains (losses) is included in federal income tax expense.

- *Policyholder Dividends* - Dividends are recorded as an expense on the statements of income when declared. Under GAAP, policyholder dividends are accrued over the term of the related policies.

- *Comprehensive Income* - Comprehensive income is not reported under statutory accounting practices.

Other significant accounting practices are as follows:

Cash and Cash Equivalents
Cash balances consist of cash in the bank or on hand and available for current use. Cash equivalents consist of highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist of investments with original maturities of one year or less when purchased. The Company maintains certain cash and cash equivalents balances that, at times, may exceed Federal Deposit Insurance Corporation insurance thresholds, which management does not consider to be a significant risk.

Note 2 - Significant Accounting Policies (Continued)

Investments
Bonds are reported at statement value as prescribed by the NAIC. Bonds that are investment grade (NAIC designation 1 or 2) are stated at cost or amortized cost. All other bonds (NAIC designations 3 to 6) are stated at the lower of amortized cost or fair value. Discount or premium on bonds is amortized using the effective-yield method.

Mortgage-backed securities are adjusted using the prospective method. Prepayment assumptions for single and multiclass mortgage-backed and asset-backed securities are obtained from independent pricing sources.

Common stocks are stated at fair value, and the related net unrealized capital gains (losses) are reported in policyholders' surplus along with any adjustment for federal income taxes.

The Company's investments in subsidiary, controlled, and affiliated entities are included in other invested assets and are carried at their underlying statutory or GAAP equity. Changes in the carrying value of affiliates are recorded directly to policyholders' surplus. Unaudited affiliates are nonadmitted.

The Company has interests in various partnerships as reported in other invested assets in the accompanying statutory basis balance sheets. The carrying value of the investments are based on the Company's share of the GAAP basis equity of the partnerships.

Surplus notes with a designation of NAIC 1 or NAIC 2 are reported at amortized cost. All other surplus notes are reported at the lesser of amortized cost or fair value.

Realized gains and losses are determined on the first-in, first-out method.

The Company monitors investments for other-than-temporary impairment (OTTI). In determining whether the losses are temporary or other-than-temporary, the Company considers the financial strength of the issuer, and its intent to sell the security or the Company's ability to hold the security long enough to recover in value. OTTI is reviewed quarterly. All securities with both a market value that is at least $10,000 under cost or book value and a market value that is less than 90% of cost or book value are evaluated.

Interest and dividend income are recorded on the accrual basis.

The Company nonadmits investment income due and accrued if amounts are over 90 days past due. All accrued investment income was admitted at December 31, 2022 and 2021.

Note 2 - Significant Accounting Policies (Continued)

Premiums

Premiums are earned over the terms of the related policies. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct and assumed business.

Premiums related to coverages for doctors who retire, die, or are disabled are deferred as unearned premiums and are recognized as earned when an insured retires, dies, becomes disabled, or terminates coverage, whichever event occurs first; unearned premiums of $7,865,000 and $7,940,000 at December 31, 2022 and 2021, respectively, are for this coverage, which are referred to as Disability, Death, and Retirement (DD&R) reserves. In determining unearned premiums related to DD&R, the Company includes an estimate for unexercised extended reporting endorsements utilizing actuarial models, including assumptions for the time value of money, loss trends, and the degree by which the loss experience of DD&R policies is likely to be below that implied by the Company's historical claims-made experience. Although the Company considers its experience and industry data in determining unearned premium related to DD&R, assumptions and projections of future events are necessary and unearned premiums may differ materially from amounts projected in the near term.

Advance premiums represent premium payments received from policyholders of the Company for policies not in effect until the ensuing calendar year.

If anticipated losses, loss adjustment expenses, commissions, and other acquisition costs exceed the Company's recorded unearned reserve and future installment premiums on existing policies, a premium deficiency reserve is recognized by recording a liability for the reserve. The Company anticipates investment income as a factor in premium deficiency calculations. No premium deficiency reserve has been recorded as of December 31, 2022 and 2021.

Uncollected premiums and agents' balances in the course of collection are presented net of nonadmitted amounts. The Company routinely evaluates the collectibility of these amounts.

Note 2 - Significant Accounting Policies (Continued)

Reserves for Losses and Loss Adjustment Expenses
The reserves for losses and LAE are established on the basis of reported losses (case-basis method). Provision is also made for claims incurred but not reported and related LAE. These amounts are based on the estimates of management and are subject to risks and uncertainties. Changes in estimates of losses and LAE are included in income for the period in which the estimates are changed. The Company does not discount loss and LAE reserves. The method of making such estimates and establishing the resulting reserves is based on actuarial assumptions of future contingencies and the applicability of other data sources such as recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Although the Company considers its experience and industry data in determining such reserves, assumptions and projections of future events are necessary, and the ultimate amounts may differ materially from the amounts recorded or disclosed.

Reinsurance
The Company protects itself from excessive losses by reinsuring certain levels of risk in various areas of exposure with reinsurers. The Company also assumes risk from other insurance entities, including affiliates. Reinsurance coverage is provided on both a quota share and excess of loss basis. Prospective ceded and assumed reinsurance premiums, losses, and LAE are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Certain ceded and assumed reinsurance premiums include adjustments based on losses incurred, subject to certain limits, and are recorded on a best-estimate basis.

Ceded and assumed reinsurance premiums payable or receivable represent actual reinsurance costs in excess of deposits made and return premiums from prior years.

Reinsurance recoverables from unauthorized reinsurers in excess of applicable letters of credit are considered nonadmitted assets.

Retrospective reinsurance contracts are recorded as a liability and evaluated periodically for adequacy of the reserves. Gains and losses from the contracts are recorded in other income on the income statement.

Note 2 - Significant Accounting Policies (Continued)

Income Taxes and Deferred Taxes
The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are limited to those that will more likely than not (defined as a likelihood of more than 50%) generate a tax benefit, and a valuation allowance is established if necessary to reduce the deferred tax asset to an amount that is more likely than not to be realized. No valuation allowance has been recorded as of December 31, 2022 or 2021.

Deferred income taxes are further subject to limitations as to the amount of deferred income tax assets that may be reported as "admitted assets" in accordance with statutory accounting principles (SSAP 101, Income Taxes). Admitted deferred tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse within the Internal Revenue Service loss carryback provisions; (2) the lesser of the remaining gross deferred tax assets expected to be realized within one year to three years of the balance sheet date or 10% to 15% of capital and surplus, excluding surplus arising from any net deferred tax assets, electronic data processing (EDP) equipment, operating software, and net positive goodwill; and (3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The Company considers character (capital or ordinary) in admitting deferred tax assets. Deferred income taxes do not include amounts for state income taxes.

Use of Estimates
The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Department requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory basis financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounts subject to management estimates are reserves for losses and LAE, reinsurance recoverables on unpaid losses and LAE, DD&R reserves, other-than-temporary impairment of invested assets, and the admitted portion of deferred tax assets.

Reclassifications
Certain balances in the 2021 financial statements have been reclassified to confirm to the 2022 presentation.

Note 3 - Investments

The cost/amortized cost and estimated fair value of investments in bonds and common stock are summarized as follows:

December 31, 2022	Cost/Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 35,306,689	$ -	$ (3,713,204)	$ 31,593,485
Obligations of states and political subdivisions	100,181,144	163,344	(9,319,134)	91,025,354
Corporate securities	125,993,291	140,013	(13,177,594)	112,955,710
Asset-backed securities	29,158,846	-	(1,402,202)	27,756,644
Residential mortgage-backed securities	72,337,777	34,445	(8,200,368)	64,171,854
Commercial mortgage-backed securities	24,985,264	-	(4,276,483)	20,708,781
Total bonds	$ 387,963,011	$ 337,802	$ (40,088,985)	$ 348,211,828
Common stock	$ 44,710,416	$ 33,204,330	$ (757,455)	$ 77,157,291

December 31, 2021	Cost/Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 37,852,458	$ 2,995,128	$ (115,148)	$ 40,732,438
Obligations of states and political subdivisions	106,381,077	4,972,584	(237,136)	111,116,525
Corporate securities	131,164,705	9,439,510	(729,984)	139,874,231
Asset-backed securities	24,537,234	198,080	(237,352)	24,497,962
Residential mortgage-backed securities	76,506,919	2,001,446	(779,810)	77,728,555
Commercial mortgage-backed securities	20,134,570	426,598	(280,617)	20,280,551
Total bonds	$ 396,576,963	$ 20,033,346	$ (2,380,047)	$ 414,230,262
Common stock	$ 42,782,037	$ 51,580,430	$ (89,848)	$ 94,272,619

Note 3 - Investments (Continued)

Provided below is a summary of securities that were in an unrealized loss position as of December 31, 2022 and 2021. Management does not believe any individual unrealized loss as of December 31, 2022 or 2021, represents an other-than-temporary impairment, as the quantitative and qualitative criteria used by management to determine other-than-temporary impairment have not been met. The Company does not have the intent to sell and has the intent and ability, at the reporting date, to hold these investments until maturity or until fair value recovers above cost or amortized cost. In 2022 and 2021, there were no realized losses on debt or equity securities due to other-than-temporary impairments in value.

	Less than 12 Months		Greater Than 12 Months		Total	
December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)						
U.S. treasury and obligations of U.S. government corporations and agencies	$ 26,769	$ (2,649)	$ 4,825	$ (1,064)	$ 31,594	$ (3,713)
Obligations of states and political subdivision	53,077	(5,529)	12,791	(3,790)	65,868	(9,319)
Corporate securities	89,616	(8,197)	21,250	(4,981)	110,866	(13,178)
Asset-backed securities	12,800	(268)	14,957	(1,134)	27,757	(1,402)
Residential mortgage-backed securities	38,089	(2,710)	25,000	(5,490)	63,089	(8,200)
Commercial mortgage-backed securities	13,761	(2,369)	6,948	(1,908)	20,709	(4,277)
Total bonds	$ 234,112	$ (21,722)	$ 85,771	$ (18,367)	$ 319,883	$ (40,089)
Common stocks	$ 10,009	$ (757)	$ -	$ -	$ 10,009	$ (757)

Note 3 - Investments (Continued)

	Less than 12 Months		Greater Than 12 Months		Total	
December 31, 2021	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(in thousands)						
U.S. treasury and obligations of U.S. government corporations and agencies	$ 5,793	$ (115)	$ -	$ -	$ 5,793	$ (115)
Obligations of states and political subdivision	14,885	(237)	-	-	14,885	(237)
Corporate securities	23,326	(604)	2,209	(126)	25,535	(730)
Asset-backed securities	17,419	(237)	-	-	17,419	(237)
Residential mortgage-backed securities	34,140	(780)	-	-	34,140	(780)
Commercial mortgage-backed securities	6,292	(92)	2,379	(189)	8,671	(281)
Total bonds	$ 101,855	$ (2,065)	$ 4,588	$ (315)	$ 106,443	$ (2,380)
Common stocks	$ 1,891	$ (90)	$ -	$ -	$ 1,891	$ (90)

Investments in subsidiaries and affiliates had a carrying value of $3,585,306 and $4,522,199 at December 31, 2022 and 2021, respectively. Certain other subsidiaries and affiliates with a total value of $1,595,725 and $1,679,332 at December 31, 2022 and 2021, respectively, are nonadmitted. Equity in earnings (losses) of subsidiaries is included in the change in unrealized capital gains (losses) and was $1,022 and $435,902 for the years ended December 31, 2022 and 2021, respectively. The Company recognized an impairment loss on investments in subsidiaries and affiliates of $17,817,334 and $0 for the years ended December 31, 2022 and 2021, respectively.

The cost or amortized cost and fair value of bonds by contractual maturity at December 31, 2022, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	Estimated Fair Value
Due in one year or less	$ 26,750,894	$ 26,511,238
Due after one year through five years	77,184,342	73,479,970
Due after five years through ten years	79,813,932	71,255,841
Due after ten years	77,731,956	64,327,500
Asset-backed securities	29,158,846	27,756,644
Residential mortgage-backed securities	72,337,777	64,171,854
Commercial mortgage-backed securities	24,985,264	20,708,781
	$ 387,963,011	$ 348,211,828

Note 3 - Investments (Continued)

Proceeds from sales of bonds during 2022 and 2021 were $11,757,581 and $22,075,393, respectively. Gross gains of $33,104 and $79,810 and gross losses of $261,493 and $501,312 were realized on those sales during 2022 and 2021, respectively.

Proceeds from sales of unaffiliated common stock during 2022 and 2021 were $8,671,897 and $15,000,000, respectively. Gross gains of $494,688 and $10,475,238 and gross losses of $441,827 and $0 were realized on sales of equity securities during 2022 and 2021, respectively.

Certain bonds were on deposit with the Washington and Nevada Office of the Insurance Commissioner for the protection of policyholders. The amortized cost of these securities at December 31, 2022 and 2021, was $2,750,000 and $2,729,196, respectively. Admitted restricted assets as a percentage of total assets and admitted assets were 0.5% at both December 31, 2022 and 2021.

During 2021, the Company purchased an interest in a partnership, a private credit fund, reported in other invested assets in the accompanying statutory basis balance sheets. The carrying value of the partnership at December 31, 2022 and 2021 was $20,754,392 and $17,258,879. The Company has $0 and $7,800,000 of unfunded commitments to the partnership at December 31, 2022 and 2021. There is a liquidity risk associated with the partnership. Ownership is subject to certain restrictions on transferability and disposition under the subscription agreement and the marketability of the ownership units may be severely limited.

During 2022, the Company purchased an interest in a partnership, a core property fund, reported in other invested assets in the accompanying statutory basis balance sheets. The carrying value of the partnership at December 31, 2022 was $14,447,551. The Company has $5,000,000 of unfunded commitments to the partnership at December 31, 2022. There is a liquidity risk associated with the partnership. Ownership is subject to certain restrictions on transferability and disposition under the subscription agreement and the marketability of the ownership units may be severely limited.

Net investment income for the years ended December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Bonds	$ 10,620,018	$ 10,818,371
Common stock - affiliates	-	425,000
Common stock - nonaffiliates	1,175,876	1,019,660
Other invested assets	622,106	140,520
Cash and cash equivalents	76,388	768
Less: investment expenses	(1,099,676)	(1,168,568)
Net investment income	$ 11,394,712	$ 11,235,751

No amounts of investment income due and accrued have been excluded from surplus.

Note 4 - Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating the fair value of financial instruments in the accompanying financial statements and notes:

Cash and cash equivalents: The carrying amounts reported on the accompanying balance sheets for these financial instruments approximate fair value.

Investment securities: Fair values for investment securities are primarily based on prices received from a third-party pricing service that uses observable market information in determining the fair value. Fair values for private placement securities are based on unit prices published by the Securities Valuation Office (SVO), or in the absence of SVO published unit prices, observable market inputs other than quoted market prices. See Note 2 for additional fair value information.

Surplus Note: The surplus note is included in other invested assets on the accompanying balance sheet and valued based on the income. The income approach uses a valuation technique to convert the future amounts (interest cash flows for the surplus note) to a single present value amount (discounted). The annual coupon rate of 1.25%, maturity date of May 1, 2035, and the annual required return of 6.03% and 3.06% at December 31, 2022 and 2021, respectively, were used to calculate the value. The cost of the surplus note is $3,000,000.

For all other financial instruments (payables and receivables), carrying value approximates fair value.

Financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a fair value hierarchy. The three-tier fair value hierarchy, which prioritizes the inputs used in the valuation methodologies, is as follows:

Level 1 - Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2- Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Valuations based on unobservable inputs reflecting the Company's own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

Note 4 - Fair Value of Financial Instruments (Continued)

The following table shows fair value hierarchy levels for the Company's investments as of December 31, 2022 and 2021:

	Fair Value Hierarchy			
2022	Level 1	Level 2	Level 3	Total
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 31,593,485	$ -	$ -	$ 31,593,485
Obligations of states and political subdivisions	-	91,025,354	-	91,025,354
Corporate securities	-	112,955,710	-	112,955,710
Asset-backed securities	-	27,756,644	-	27,756,644
Residential mortgage-backed securities	-	64,171,854	-	64,171,854
Commercial mortgage-backed securities	-	20,708,781	-	20,708,781
Total bonds	$ 31,593,485	$316,618,343	$ -	$348,211,828
Common stock	$ 77,157,291	$ -	$ -	$ 77,157,291
Other invested assets - surplus notes	$ -	$ -	$ 1,776,900	$ 1,776,900

2021	Level 1	Level 2	Level 3	Total
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 40,732,438	$ -	$ -	$ 40,732,438
Obligations of states and political subdivisions	-	111,116,525	-	111,116,525
Corporate securities	-	139,874,231	-	139,874,231
Asset-backed securities	-	24,497,962	-	24,497,962
Residential mortgage-backed securities	-	77,728,555	-	77,728,555
Commercial mortgage-backed securities	-	20,280,551	-	20,280,551
Total bonds	$ 40,732,438	$373,497,824	$ -	$414,230,262
Common stock	$ 94,272,619	$ -	$ -	$ 94,272,619
Other invested assets - surplus notes	$ -	$ -	$ 2,412,900	$ 2,412,900

Note 4 - Fair Value of Financial Instruments (Continued)

Fair Value Measurements in Level 3 of the Fair Value Hierarchy	2022	2021
Assets: Surplus notes - affiliate		
Beginning balance, January 1	$ 2,412,900	$ 2,376,600
Total (losses) gains included in surplus	(636,000)	36,300
Ending balance, December 31	$ 1,776,900	$ 2,412,900

Note 5 - Reinsurance

Under reinsurance agreements, the Company cedes various amounts of risk to other insurance companies. The professional liability reinsurance agreements that were effective in 2022 and 2021, provide for an initial retention by the Company of the first $1,000,000 of loss per event, with coverage of the excess up to $25,000,000. The stop-loss liability insurance coverage business was reinsured in 2022 and 2021 through a 50% quota share reinsurance arrangement and two excess of loss agreements, which apply to specific policies. In 2022 and 2021, cyber liability coverage was reinsured at 100%. D&O coverage has been reinsured since July 1, 2016, under the same reinsurance agreements as the Company's professional liability agreements.

The Company also assumes risk from other insurance entities, including its affiliate MedChoice Risk Retention Group (RRG) which writes medical professional liability (MPL) business nationally. The Company reinsures RRG under a 95% quota share reinsurance agreement.

December 31, 2022	Direct Business	Reinsurance Assumed Affiliated	Reinsurance Assumed Nonaffiliated	Reinsurance Ceded Nonaffiliated	Net Reported
Premiums written	$ 120,205,609	$ 25,864,127	$ 8,745,816	$ (35,816,132)	$ 118,999,420
Premiums earned	116,732,562	24,153,590	8,385,812	(34,123,120)	115,148,844
Losses (recoveries)	64,490,224	14,742,986	4,195,304	(29,509,351)	53,919,163
Loss adjustment (recoveries)	40,147,799	4,208,324	1,366,583	(1,063,141)	44,659,565
Underwriting expenses	17,774,837	5,769,681	1,346,620	(1,668,918)	23,222,220

December 31, 2021	Direct Business	Reinsurance Assumed Affiliated	Reinsurance Assumed Nonaffiliated	Reinsurance Ceded Nonaffiliated	Net Reported
Premiums written	$ 111,006,162	$ 25,287,699	$ 6,251,447	$ (33,059,973)	$ 109,485,335
Premiums earned	116,539,359	29,073,561	6,111,610	(34,576,715)	117,147,815
Losses (recoveries)	61,224,444	22,159,321	4,220,751	(19,780,688)	67,823,828
Loss adjustment (recoveries)	32,079,152	7,408,308	1,411,970	(797,710)	40,101,720
Underwriting expenses	17,764,126	7,555,759	544,228	(1,180,473)	24,683,640

At December 31, 2022 and 2021, a provision for reinsurance of $76,363 and $587,011, respectively, related to past due and unauthorized reinsurance recoverables was established. At December 31, 2022 and 2021, management determined that based on the creditworthiness of reinsurance counterparties, no additional provision for uncollectible reinsurance was necessary.

Note 5 - Reinsurance (Continued)

A contingent liability exists with respect to reinsured losses that would become an actual liability of the Company in the event that the reinsurers are unable to meet the obligations assumed by them under the reinsurance agreements as the reinsurance does not relieve the Company from the responsibility to the policyholders. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from activities or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

There would be no commissions due if reinsurance were canceled.

Contingent commissions of $47,690 and $1,197,805 were accrued as of December 31, 2022 and 2021, respectively, and are included in commissions payable within the accompanying statutory balance sheets.

Assumed retroactive reinsurance as of December 31, 2022 and 2021, is $698,400 and $2,000,000, respectively. Between 2015 and 2018, the Company received approximately $13,000,000 as part of a loss portfolio transfer agreement entered into in December 2016. There were $8,403,188 and $7,428,158 of loss and loss adjustment expenses paid as of December 31, 2022 and 2021, respectively, related to this business. Favorable development of $236,570 and unfavorable development of $1,754,129 in reserves related to retroactive reinsurance in assumed business was recognized in other income (expense) within the statutory basis statements of income in 2022 and 2021, respectively.

Note 6 - Reserves for Losses and Loss Adjustment Expenses

Activity in the reserves for losses and loss adjustment expenses is summarized as follows:

	2022	2021
	(in thousands)	
Balance - January 1, net of reinsurance recoverables of $40,231 and $30,317	$ 232,635	$ 208,473
Incurred related to		
Current year	93,689	98,692
Prior years	4,890	9,234
Total incurred	98,579	107,926
Paid related to:		
Current year	9,985	12,286
Prior years	82,087	71,478
Total paid	92,072	83,764
Balance - December 31, net of reinsurance recoverables of $60,336 and $40,231	$ 239,142	$ 232,635

As a result of changes in estimates of insured events in prior years, losses and LAE increased by approximately $4,890,000 and $9,234,000 in 2022 and 2021, respectively. During 2022, the Company experienced adverse development, a majority of which was attributable to accident years 2017, 2018 and 2020. During 2021, the Company experienced adverse development, a majority of which was attributable to accident years 2018 and 2020.

Note 7 - Federal Income Taxes

The Company's federal income tax return is consolidated with its subsidiaries:

- Association Insurance Services, Inc.
- PHYSIS Corporation
- Washington State Physicians Insurance Association, Inc.

The Company has a written tax sharing agreement that sets forth the manner in which the total combined federal income tax is allocated to each entity that is party to the consolidation. Allocation is based on separate return calculations with credit for losses/credits where losses/credits result in an actual reduction of the tax liability of the consolidated group.

Note 7 - Federal Income Taxes (Continued)

The components of the net deferred tax at December 31, 2022 and 2021 are as follows:

December 31, 2022	Ordinary	Capital	Total
Gross deferred tax asset	$ 6,329,642	$ 2,004,576	$ 8,334,218
Gross deferred tax liabilities	(768,969)	(6,813,844)	(7,582,813)
Net deferred tax asset (liability)	5,560,673	(4,809,268)	751,405
Nonadmitted deferred tax asset	-	-	-
Admitted net deferred tax asset (liability)	$ 5,560,673	$ (4,809,268)	$ 751,405

December 31, 2021	Ordinary	Capital	Total
Gross deferred tax asset	$ 6,847,317	$ -	$ 6,847,317
Gross deferred tax liabilities	(852,530)	(10,813,022)	(11,665,552)
Net deferred tax asset (liability)	5,994,787	(10,813,022)	(4,818,235)
Nonadmitted deferred tax asset	-	-	-
Admitted net deferred tax asset (liability)	$ 5,994,787	$ (10,813,022)	$ (4,818,235)

The amount of each component pursuant to SSAP 101 paragraph 11 by tax character at December 31, 2022 and 2021 are as follows:

December 31, 2022	Ordinary	Capital	Total
Can be recovered through loss carrybacks (11.a.)	$ 798,330	$ -	$ 798,330
Lesser of:			
Expected to be realized following the balance sheet date (11.b.i.)	3,673,683	-	3,673,683
Adj. gross DTAs allowed per limit threshold (11.b.ii.)			40,348,549
Gross DTAs offset against existing DTLs (11.c.)	3,862,205	-	3,862,205
DTAs admitted as a result of the application of SSAP 101	$ 8,334,218	$ -	$ 8,334,218
Ex DTA ACL RBC ratio percentage used to determine recovery period and threshold limit			961 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation			$268,990,328

Note 7 - Federal Income Taxes (Continued)

December 31, 2021	Ordinary	Capital	Total
Can be recovered through loss carrybacks (11.a.)	$ 1,218,630	$ -	$ 1,218,630
Lesser of:			
Expected to be realized following the balance sheet date (11.b.i.)	2,715,471	-	2,715,471
Adj. gross DTAs allowed per limit threshold (11.b.ii.)			43,048,191
Gross DTAs offset against existing DTLs (11.c.)	2,913,216	-	2,913,216
DTAs admitted as a result of the application of SSAP 101	$ 6,847,317	$ -	$ 6,847,317
Ex DTA ACL RBC ratio percentage used to determine recovery period and threshold limit			1,030 %
Amount of adjusted capital and surplus used to determine recovery period and threshold limitation			$286,927,320

The Company did not utilize any reinsurance tax planning or any other tax planning strategies in 2022 or 2021 that had an impact on gross and net deferred tax assets.

There are no temporary differences for which deferred tax liabilities are not recognized.

Current income taxes incurred consist of the following major components:

	2022	2021
Current income tax:		
Federal	$ 610,406	$ (2,845,206)
Federal income tax on net realized capital gains	112,902	2,650,544
Other, including prior year adjustments	268,391	6,305
Federal and foreign income taxes incurred	$ 991,699	$ (188,357)

Note 7 - Federal Income Taxes (Continued)

The main components of deferred tax amounts are as follows:

	2022	2021
Deferred tax assets:		
Ordinary		
Loss reserve discounting	$ 3,735,188	$ 3,819,855
Unearned premium reserves and advance premiums	1,813,069	1,943,744
Investments	-	438,291
Fixed assets	483,387	34,935
Deferred compensation and benefits accrual	101,572	113,452
Other	196,426	497,040
Total gross ordinary deferred tax assets	6,329,642	6,847,317
Capital		
Investments	2,004,576	-
Total gross capital deferred tax assets	2,004,576	-
Total admitted deferred tax assets	8,334,218	6,847,317
Deferred tax liabilities:		
Ordinary		
Depreciation	142,550	17,305
Tax reconciliation act limited risk distributor	626,419	835,225
Total gross ordinary deferred tax liability	768,969	852,530
Capital		
Tax effect of unrealized capital gains	6,813,844	10,813,022
Total gross capital deferred tax liability	6,813,844	10,813,022
Total gross deferred tax liabilities	7,582,813	11,665,552
Net deferred tax assets (liabilities)	$ 751,405	$ (4,818,235)

The change in deferred net income taxes comprises the following, exclusive of nonadmitted DTAs:

	2022	2021	Change
Total deferred tax assets	$ 8,334,218	$ 6,847,317	$ 1,486,901
Total deferred tax liabilities	(7,582,813)	(11,665,552)	4,082,739
Net deferred tax liabilities	$ 751,405	$ (4,818,235)	$ 5,569,640
Tax effect of unrealized gains			(4,961,089)
Change in net deferred income tax			$ 608,551

Note 7 - Federal Income Taxes (Continued)

The federal income tax expense incurred differs from the amount computed by applying the expected U.S. corporate income tax rate of 21% to income before taxes for the years ended December 31, 2022 and 2021. In both years, the significant items causing this difference were tax-exempt interest income, dividends received deduction, and change in nonadmitted assets.

The following are income taxes incurred in the current and prior years that will be available for recoupment in the event of future net losses:

	Amount
2022	$ 723,308
2021	$ 75,022

The Company has no admitted deposits under Section 6603 of the Internal Revenue Code.

The Company has no tax loss contingency. Interest and penalty related to unrecognized tax benefits are recorded in the income statement. The Company has no accrued interest and penalty recorded and does not anticipate any significant changes to the total unrecognized tax liabilities within the next twelve months.

Note 8 - Other Underwriting Expenses

The major components of underwriting expenses incurred during 2022 and 2021 were as follows:

	2022	2021
Net commissions and brokerage	$ 9,558,283	$ 11,094,854
Advertising	55,556	49,967
Board, bureaus, and associations	503,725	570,568
Surveys and underwriting reports	445	572
Salaries and related items	5,407,456	5,994,408
Employee relations and welfare	1,554,888	1,651,953
Insurance	114,428	83,256
Directors' fees	256,729	246,298
Travel and travel items	368,275	131,740
Rent and rent items	583,461	492,505
Equipment	662,130	526,720
Depreciation expense	166,450	142,200
Printing and stationary	192,866	166,188
Postage and telephone	58,089	85,652
Legal and auditing	353,558	431,526
Taxes, licenses, and fees	2,515,405	2,209,974
Other consultants fees	870,476	805,259
Other underwriting expenses incurred	$ 23,222,220	$ 24,683,640

Note 9 - Employee Benefit and Deferred Compensation Plans

The Company's employees are covered by two defined contribution plans. One plan requires no employee contribution, and the Company contributes 10% of eligible compensation to the plan. The second plan allows employee contributions, and 100% of those contributions are matched by the Company up to a maximum of 6.6% of eligible compensation. Employees vest 20% per year in employer contributions over the first five service years and vest immediately in all employer contributions upon completion of five service years. The Company's contribution to these plans was $1,893,808 and $2,002,926 for 2022 and 2021, respectively, and is reflected in other underwriting expenses incurred on the statutory basis statements of income.

Deferred compensation agreements have been entered into with certain members of the Board of Directors and nondirector committee members. Amounts recorded as a liability in accordance with those agreements as of December 31, 2022 and 2021, were $0 and $0, respectively.

Note 10 - Commitment and Contingencies

The Company leases office facilities and certain equipment under noncancelable operating leases through 2033, with certain leases having a renewal option for one five-year period. Annual rental expense under these lease agreements was $1,011,702 and $1,022,323 in 2022 and 2021, respectively.

Future minimum commitments under these leases as of December 31, 2022, are as follows:

2023	$	679,264
2024		828,702
2025		845,369
2026		862,202
2027		879,420
Thereafter		4,829,936
Total	$	8,924,893

The Company is subject to guaranty fund and other assessments by the states in which it writes business. As of December 31, 2022 and 2021, the Company expensed $2,539 and $3,089, respectively, in guaranty fund assessments.

Lawsuits against the Company for matters other than insurance claims occasionally arise in the ordinary course of business. Management believes that losses to the Company resulting from such matters, if any, will not have a material adverse effect on the Company's financial condition or results of operations

Note 11 - Nonadmitted Assets

The major components of non-admitted assets as of December 31, 2022 and 2021 are as follows:

	2022	2021	Change
Fixed assets	$ 2,301,845	$ 166,357	$ 2,135,488
Premium receivable	233,582	168,703	64,879
Other invested assets	1,556,714	1,639,298	(82,584)
Prepaid expenses	795,980	665,569	130,411
Common stock	39,011	40,034	(1,023)
Totals	$ 4,927,132	$ 2,679,961	$ 2,247,171

Note 12 - Policyholders' Surplus

The directors of a domestic mutual insurer may from time to time apportion and pay dividends to its members only out of that part of its surplus funds that are in excess of its required minimum surplus and that represent net realized savings and net realized earnings from its business. Without the prior written consent of the Department, the Company is not permitted to issue dividends in 2023. No dividends were declared or paid during 2022 and 2021.

The Company is subject to risk-based capital (RBC) requirements of the NAIC, which require that certain amounts of capital be maintained. As of December 31, 2022 and 2021, the Company's RBC exceeded the required amount.

Note 13 - Related Party Transactions

Through December 31, 2019, Western Professional Insurance Company (WPIC) was a wholly owned subsidiary of PI. On December 31, 2019, PI sold two-thirds of WPIC common stock to COPIC Insurance Company (COPIC) and Michigan Professional Insurance Exchange (MPIE) in a transaction that was approved by the Washington Office of Insurance Commissioner (OIC). WPIC changed its name to Alestri Insurance Company effective as of January 1, 2020. On December 7, 2020, PI entered into an agreement to sell its remaining one-third share of Alestri to COPIC and MPIE during the first quarter of 2021 for $2,000,000. The Company realized a $500,000 loss on the sale of Alestri recorded in net realized capital gains in the accompanying statutory basis statements of income as of December 31, 2021.

PI is the primary reinsurer for its affiliate, MedChoice RRG, which writes Medical Professional Liability (MPL) business nationally and participates as a reinsurer for independent MPL insurers and RRGs.

As described in Note 4, the Company has provided $3,000,000 in surplus notes to capitalize MedChoice RRG since 2016. No new surplus notes were provided in 2022 or 2021.

See Note 7 for discussion of the tax-sharing agreement.

As of December 31, 2022 and 2021, the Company had receivables from affiliates of $907,441 and $1,149,775, respectively.

Note 14 - Risks and Uncertainties

The Company invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and those changes could materially affect the amounts reported on the accompanying statutory basis balance sheets.

Note 15 - Subsequent Events

The Company evaluated subsequent events through May 22, 2023, the date on which these financial statements were available to be issued, and considered any relevant matters in the preparation of the financial statements and note disclosures.