

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION  
OF  
PHYSICIANS INSURANCE A MUTUAL COMPANY  
SEATTLE, WASHINGTON**

**NAIC CODE 40738  
DECEMBER 31, 2006**

Participating State:  
Washington

Order No. 08-34  
Physicians Insurance A Mutual Company  
Exhibit A

**SALUTATION**

Seattle, Washington  
April 21, 2008

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair, NAIC Financial Condition (E) Committee  
PO Box 1157  
Richmond, VA 23218

The Honorable Morris Chavez, Superintendent  
New Mexico Insurance Division  
NAIC Secretary, Western Zone  
PO Drawer 1269  
Santa Fe, NM 87504-1269

Dear Commissioners and Superintendent:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

Physicians Insurance A Mutual Company

of

Seattle, Washington

hereinafter referred to as "PIAMC" or "the Company," at its home office, 1730 Minor Avenue, Suite 1800, Seattle, Washington 98101. This report is respectfully submitted showing the condition of the Company as of December 31, 2006.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Physicians Insurance A Mutual Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2006.



Patrick H. McNaughton  
Chief Examiner

4-21-08

Date

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## SCOPE OF EXAMINATION

This examination covers the period January 1, 2002 through December 31, 2006 and comprises a comprehensive review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2006 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P). The following summarizes the exceptions noted while performing this review.

### **1. Annual Statement Errors**

The results of the examination disclosed several instances in which the Company's filing of the 2006 NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these practices, none of the following items in the instruction were material to the financial statements and no examination adjustments were necessary.

- a. **Investments Schedules** - The Company's investments in Northwest Dentists Insurance Company and Western Professional Insurance Company are incorrectly classified as preferred stock on Schedule D - Part 6 - Section 1. The correct classification is common stock investments in subsidiaries. The Company also owned a Canadian security, Chevron Capital Corporation that was not identified correctly as a foreign security in Schedule D - Part 1.
- b. **Improper Reporting of Extended Reporting Endorsements (ERE) claims and Adjusting and Other (A&O) expenses on Schedule P** - The Company generally writes policies on a claims-made basis. It also sells ERE, which convert claims-made policies to an occurrence

basis. In the NAIC Annual Statement, manual reallocation is needed to distinguish claims-made losses from those which qualify as occurrence transactions, as required by the NAIC Annual Statement Instructions and as defined in SSAP No. 65, paragraph 3, a and b. In its 2002 through 2006 NAIC Annual Statements, the Company did not manually reallocate ERE claims to the appropriate policy year on Schedule P, Part 1F. In addition, the Company did not allocate A&O expense between the two parts of Schedule P, Part 1 F as required by the NAIC Annual Statement Instructions.

- c. **Subsequent Events Disclosure** - The Company did not disclose the pending sale of Northwest Dentists Insurance Company in the Notes to Financial Statements. This information should have been disclosed in Note 22, Events Subsequent.

**The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the appropriate NAIC Annual Statement Instructions and the SSAP. The Company is also instructed to comply with RCW 48.05.250 which requires the Company to file with the insurance commissioner a true annual statement of its financial condition, transactions, and affairs.**

## **2. Supplemental Schedules to the Annual Audit Report**

SSAP No. 62, paragraph 72, requires reinsurance interrogatories to be included with the annual certified public accountant (CPA) audit report for the period ended December 31, 2006. The Company did not include the supplemental reinsurance interrogatories in the 2006 annual audit report.

**Pursuant to RCW 48.05.073, the Company is instructed to include supplemental reinsurance interrogatories in all future annual CPA audit reports in accordance with SSAP 62, paragraph 72.**

## **3. State Investment Statutes**

A review of the common stock reported in Schedule D - Part 2 - Section 2 of the 2006 NAIC Annual Statements, indicated that the combined value of two Vanguard Funds exceeded the 4% limitation on securities of one institution by \$4,185,005. RCW 48.13.030(1) limits the investment in any one person or institution to 4% of the insurers assets. The examiners verified during the field work that the Company divested the excess in 2007. No examination adjustment was determined necessary.

**Pursuant to RCW 48.13.030(1), the Company is instructed to limit its investment in securities of any one entity aggregating an amount not exceeding four percent of its admitted assets.**

## COMMENTS AND RECOMMENDATIONS

### **1. Documentation Standards Manual**

The Company does not have a documentation standards manual. Also, numerous internal controls, processes and procedures within the Information System (IS) Department are not documented or the documentation is outdated.

**It is recommended that the Company establish and maintain a current document standards manual that documents its internal controls, procedures, processes, and policies for the IS System and IS Department.**

### **2. Alternative Recovery Site**

The Company does not have an alternative recovery site in the event the IS facility needs to be relocated.

**It is recommended that the Company prepare formal written procedures for the relocation of the IS facility to a specific alternative recovery site and that the procedures be tested regularly to ensure that IS operations can be restored in a timely manner.**

### **3. Control Over Claim Expense Payments**

The Company does not keep a copy of every bill inside the claim file that was sent by the Company's lawyers; instead, all those bills and requests for payments are routed to the accounting department after the adjuster approves them. Several duplicate expense payments were found during the examination of claims.

**It is recommended that the Company improve controls over processing loss adjustment expense payments. At a minimum, the adjuster should verify if the payment has been made in the claim system to eliminate duplicate payments.**

## COMPANY PROFILE

### **Company History**

The Company was incorporated and granted a certificate of authority by OIC in December 1981. The Washington State Medical Association sponsored the organization of the Company. PIAMC primarily provides comprehensive professional liability insurance to physicians.

## Capitalization

The Company is incorporated as a mutual insurance company owned by and operated in the interest of its members pursuant to Chapter 48.09 RCW. As a mutual insurer, there is no authorized or issued capital stock. RCW 48.09.100 requires a domestic mutual insurer to maintain surplus funds that represent the excess of its assets over its liabilities in an amount not less than stated in RCW 48.05.340 for the lines of business that it is authorized to transact. As of December 31, 2006, the Company exceeded the required capitalization requirements for the lines of business it transacts.

## Dividends to Policyholders:

There were no dividends declared for the period of the examination. Dividends to policyholders for a mutual insurer are regulated by RCW 48.09.300. The maximum amount of dividends which can be paid by mutual domestic insurance companies to policyholders without prior approval of the OIC is subject to certain restrictions and must not exceed statutory surplus above statutorily required minimum surplus.

## Territory and Plan of Operation

The Company is authorized to transact multiple property and casualty lines of business in Alaska, Idaho, Montana, Oregon, Utah, Washington, and Wyoming. The Company specializes in writing medical malpractice insurance for physicians and surgeons. In 2006, PIAMC insured approximately 5,500 physicians.

## Growth of Company

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	
2006	\$328,402,997	\$230,347,333	\$98,055,664	
2005	303,610,606	221,807,948	81,802,658	
2004	301,502,332	232,462,552	69,039,780	
2003	271,056,133	215,486,919	55,569,214	
2002	263,354,320	214,748,436	48,605,884	
<u>Year</u>	<u>Premiums Earned</u>	<u>Underwriting Gain (Loss)</u>	<u>Investment Gain (Loss)</u>	<u>Net Income</u>
2006	\$82,215,219	\$8,489,392	\$12,505,737	\$15,310,295
2005	80,356,928	3,363,606	11,841,888	11,841,066
2004	81,804,586	(2,443,790)	11,719,930	9,732,024
2003	82,411,991	(9,684,274)	15,372,041	6,333,511
2002	64,760,533	(32,018,469)	11,674,283	(19,500,503)

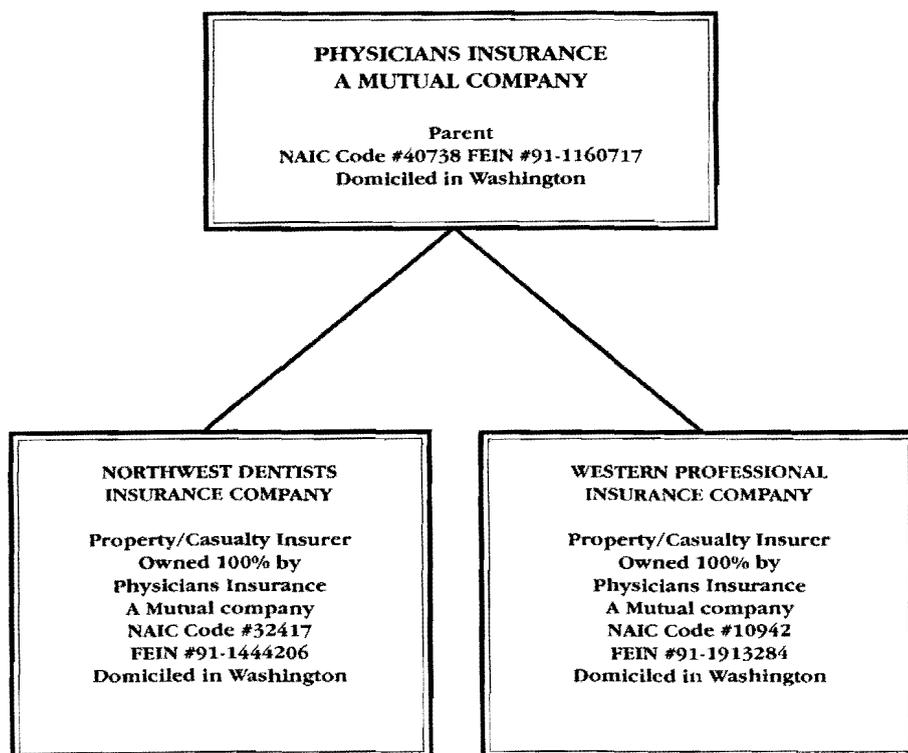
## Affiliated Companies

The following companies are all insurer members of the holding company group and have filed a registration statement under the provisions of Washington's Insurer Holding Company Act pursuant to Chapter 48.31B RCW.

Northwest Dentists Insurance Company (NORDIC) is a wholly owned subsidiary of PIAMC. NORDIC was organized in 1989 to provide comprehensive professional liability insurance to dentists.

Western Professional Insurance Company (WPIC) is a wholly owned subsidiary of PIAMC. WPIC was organized in 1998 to provide comprehensive professional liability insurance to hospitals. All business underwritten by WPIC is fully ceded to PIAMC.

The following organization chart shows the affiliated insurance companies within the holding company structure:



## **Intercompany Contracts**

The following intercompany contracts were in-force as of December 31, 2006:

- Management agreement including a power of attorney between NORDIC and PIAMC dated September 25, 1991. Expense reimbursement transactions are documented and covered under this agreement and it clarifies matters related to the operational management of NORDIC by PIAMC.
- Management agreement including a power of attorney between WPIC and PIAMC dated June 23, 1998. Expense reimbursement transactions are documented and covered under this agreement and it clarifies matters related to the operational management of WPIC by PIAMC.
- Quota share reinsurance agreement between WPIC and PIAMC dated June 16, 1998. Under this agreement, WPIC cedes 100% of its premium and losses to PIAMC.
- Tax allocation agreement dated January 1, 1999. PIAMC files a consolidated federal income tax return with its affiliated companies, NORDIC, WPIC, Association Insurance Services, Inc., and PHYSIS Corporation. The method of allocation among the affiliated companies is subject to a written agreement approved by the Board of Directors. This agreement calls for allocation of taxes based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually in the first quarter.

## **MANAGEMENT AND CONTROL**

### **Ownership**

Physicians Insurance A Mutual Company is a mutual insurance company governed by a Board of Directors (BOD) elected by the policyholders. The BOD's nominating committee reviews applications from interested policyholders and includes on the ballot any qualifying petition for nomination signed by at least 30 policyholders. The Washington State Medical Association nominates two directors.

## Board of Directors (BOD)

Directors as of December 31, 2006:

James W. Pritchett, MD	Chairman
James P. Campbell, MD	Vice Chairman
Peter W. Bigelow	Director
Stewart Cogan, JD	Director
Thomas J. Curry	Director
Martin L. Greene, MD	Director
Lon M. Hatfield, MD	Director
Gary K. Lammert, MD	Director
Sanford Levy, MD	Director
Peter K. Marsh, MD	Director
David S. McClellan, MD, FACEP	Director
Grant E. McLaughlin, CPA, CFP	Director
Richard W. Seaman, MD	Director
Cheryl Wright-Wilson, MD	Director

## Officers

Officers as of December 31, 2006:

<u>Name</u>	<u>Position Held</u>
Mary-Lou A. Misrahy	President and Chief Executive Officer
Rodney A. Pierson	Senior Vice President/Chief Financial Officer & Treasurer
Gary L. Morse	Senior Vice President/General Counsel & Corporate Secretary
Bruce W. Schafer	Senior Vice President/Claims & Risk Management
Leslie I. Mallonee	Senior Vice President/Information Technology
Richard L. Nauman	Senior Vice President/Underwriting & Marketing
Kristin L. Kenny	Vice President/Controller
Paul A. Buckner	Vice President/Eastern Regional Office
David R. Williams	Vice President/Human Resources & Administration
Terry B. Evans	Vice President/Information Technology
John C. Hastie	Vice President/Marketing
Robert J. Nickles	Vice President/Risk Management/Education
Pamela B. Tinsley	Vice President/Regulatory Compliance
Cary J Ecker	Associate Vice President/NORDIC Operations
David A. W. Russell	Associate Vice President/Financial Analyst

## **Committees**

The standing committees of the BOD are: Claims Committee, Compensation Committee, Executive Committee, Finance & Audit Committee, Investment Committee, Nominating Committee, Risk Management/Educational Committee and Underwriting/Marketing Committee. All committees met regularly, kept written records of the meetings, and made regular reports to the BOD.

## **Conflict of Interest**

The Company requires the annual completion of a conflict of interest statement by officers, directors, and key employees. All are required to disclose to the corporate counsel relevant outside interests, memberships, associations, and affiliations.

## **Fidelity Bond and Other Insurance**

The fidelity bond and other insurance were reviewed and the Company has the normal types of property and liability coverage carried by insurance companies. The Company is a named insured on a financial institution fidelity bond insurance policy. The aggregate amount of coverage appears adequate to cover the exposure risk of the Company and its affiliates.

## **Officers', Employees', and Agents' Welfare and Pension Plans**

The Company is the employer for all affiliated companies. The Company has no defined benefit plan. All employees are covered by a qualified 401(K) Plan and Money Purchase Plan.

A new Management Annual Incentive Plan was put into place for senior management in 2006. Officers and other key employees designated by the Compensation Committee are eligible to participate in the Management Annual Incentive Plan.

## **CORPORATE RECORDS**

The corporate records were reviewed for the period under examination.

The initial Articles of Incorporation were amended on April 26, 2004. The amendment granted the Company authority to increase its surplus by issuing a capital call on its members.

The corporate Bylaws were restated in June 2006 when the BOD approved restructuring of the BOD and reduced its number of directors to fifteen. The Bylaws were amended in December 2006 when the BOD approved an amendment which permits qualified non-directors to serve on the Finance and Audit Committee.

## **UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

The reserves carried by the Company for unpaid losses and loss adjustment expenses were \$140,423,000 and \$59,590,885, respectively, as of December 31, 2006. The reserves were reviewed by the OIC's casualty actuarial staff.

The Company provided loss and loss adjustment expense development data by policy year and line of business through December 31, 2006. The OIC's actuarial staff obtained additional information through interviews with Company employees. They also reviewed an actuarial report prepared by Tillinghast, the Company's actuarial consulting firm.

The OIC's actuarial staff's estimates indicate that the Company's reserves for losses and loss adjustment expenses, on a net basis, are very conservative but within a range of reasonable estimates. The Company's loss and loss adjustment expense reserves are accepted as they appear in the Company's 2006 NAIC Annual Statement.

## **REINSURANCE**

The Company is a party to excess of loss and quota share reinsurance agreements with various retention amounts and limits. They are protected against a catastrophic loss for up to \$30 million. The Company assumes all premiums and losses under an intercompany 100% quota share agreement with its affiliate, WPIC.

Reinsurance agreements were reviewed and found to be in compliance with Washington State reinsurance statutes. The reinsurers are properly classified in Schedule F of the 2006 NAIC Annual Statement. The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers.

The Company's reinsurance arrangements are facilitated by two reinsurance brokers: BMS Group Ltd., and Willis RE, Inc. The Company's reinsurance intermediary contracts are in compliance with provisions of RCW 48.94, Reinsurance Intermediary Act.

## **STATUTORY DEPOSITS**

The Company maintained the statutory deposits as of December 31, 2006 in the state of Washington with a fair value of \$2,155,390. The Company's auditors confirmed directly with the Company's authorized custodians the securities held by the state of Washington.

## **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Statutory Accounting Principles (SAP) accrual basis. The Company is audited annually by the certified public accounting firm of Deloitte & Touche, LLP. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no material exceptions were noted.

Management is sufficiently knowledgeable of the information system (IS) process. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed; and the controls exercised to maintain the confidentiality, integrity and availability of data. Sufficient internal controls are in place and monitored by the Company. The Company's IS Department has the ability to recover from an incident or disaster and has documented these procedures in a detailed, business continuity and disaster recovery plan. However, documentation for the Company's IS system, procedures, policies and internal controls are lacking or are outdated. (See Comment and Recommendation No. 1)

Except for an alternative recovery site, the Company has a very detailed and well written disaster recovery plan for the restoration of the IS and an equally formal, written business continuity plan that addresses the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as recommended by NAIC Guidelines. (See Comment and Recommendation No. 2)

## **SUBSEQUENT EVENTS**

On February 28, 2007, Physicians Insurance A Mutual Company (PIAMC) sold all of the common stock of Northwest Dentists Insurance Group (NORDIC), a wholly owned subsidiary, to Health Services Group, Inc., and Washington State Dental Association. Health Services Group, Inc. is a wholly owned subsidiary of Oregon Dental Service.

## **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

The Company remedied all prior examination instructions and implemented the recommendations.

## **FINANCIAL STATEMENTS**

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Income and Capital and Surplus Account  
Reconciliation of Surplus

**PHYSICIANS INSURANCE A MUTUAL COMPANY  
ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
AS OF DECEMBER 31, 2006**

<b>Assets</b>	<b>BALANCE PER COMPANY</b>	<b>EXAMINATION ADJUSTMENTS</b>	<b>BALANCE PER EXAMINATION</b>
Bonds	\$268,384,725	\$0	\$268,384,725
Stocks:			
Common stocks	42,009,934		42,009,934
Cash and short-term investments	7,612,832		7,612,832
<b>Subtotal, cash and invested assets</b>	<b>318,007,491</b>	<b>0</b>	<b>318,007,491</b>
Investment income due and accrued	2,611,905		2,611,905
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,857,983		3,857,983
Amount recoverable from reinsurers	192,426		192,426
Net deferred tax asset	2,814,048		2,814,048
Guaranty funds receivable or on deposit	80,311		80,311
Electronic data processing equipment and software	168,913		168,913
Receivable from parent, subsidiaries and affiliates	616,394		616,394
Aggregate write-ins for other than invested assets	53,526		53,526
<b>Total Assets</b>	<b>\$328,402,997</b>	<b>\$0</b>	<b>\$328,402,997</b>
<b>Liabilities, Surplus and other Funds</b>			
Losses	\$140,423,000	\$0	\$140,423,000
Reinsurance payable on paid losses and loss adjustment expenses	549,360		549,360
Loss adjustment expenses	59,590,885		59,590,885
Other expenses	2,664,175		2,664,175
Taxes, licenses and fees (excluding federal and foreign income taxes)	302,376		302,376
Current federal and foreign income taxes	2,409,997		2,409,997
Unearned premiums	7,700,000		7,700,000
Advance premiums	8,329,080		8,329,080
Dividends declared and unpaid - policyholders	6,510,201		6,510,201
Provision for reinsurance	153,000		153,000
Payable of Securities	1,707,535		1,707,535
Aggregate write-ins for liabilities	7,724		7,724
<b>Total Liabilities</b>	<b>230,347,333</b>	<b>0</b>	<b>230,347,333</b>
Common capital stock			0
Gross paid in and contributed surplus			0
Unassigned funds (surplus)	98,055,664		98,055,664
<b>Surplus as regards policyholders</b>	<b>98,055,664</b>	<b>0</b>	<b>98,055,664</b>
<b>Total Liabilities, Surplus and other Funds</b>	<b>\$328,402,997</b>	<b>\$0</b>	<b>\$328,402,997</b>

**PHYSICIANS INSURANCE A MUTUAL COMPANY**  
**STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2006**

STATEMENT OF INCOME	<u>BALANCE PER COMPANY</u>	<u>EXAMINATION ADJUSTMENT</u>	<u>BALANCE PER EXAMINATION</u>
<b>Underwriting Income</b>			
Premiums earned	\$82,215,219	\$0	\$82,215,219
<b>Deductions</b>			
Losses incurred	33,153,040		33,153,040
Loss expenses incurred	30,937,957		30,937,957
Other underwriting expenses incurred	9,634,830		9,634,830
Total underwriting deductions	<u>73,725,827</u>		<u>73,725,827</u>
<b>Net underwriting gain or (loss)</b>	8,489,392		8,489,392
<b>Investment Income</b>			
Net investment income earned	12,242,635		12,242,635
Net realized capital gains or (losses)	263,102		263,102
Net investment gain or (loss)	<u>12,505,737</u>		<u>12,505,737</u>
<b>Other Income</b>			
Net (loss) from agents' or premiums balances charged off	(7,491)		(7,491)
Aggregate writ-ins for misc income	17,876		17,876
Finance and service charges not included in premiums	802,602		802,602
Total other income	<u>812,987</u>	<u>0</u>	<u>812,987</u>
Net income before dividends to policyholders but before federal and foreign income taxes	21,808,116		21,808,116
Dividends to policyholders			
Net income, after dividends to policyholders but before federal and foreign income taxes	21,808,116		21,808,116
Federal and foreign income taxes incurred	6,497,821		6,497,821
<b>Net income</b>	<u><u>\$15,310,295</u></u>	<u><u>\$0</u></u>	<u><u>\$15,310,295</u></u>
 <b>CAPITAL AND SURPLUS ACCOUNT</b>			
Surplus as regards policyholders, December 31 prior year	<u>\$81,802,658</u>	<u>\$0</u>	<u>\$81,802,658</u>
<b>Gains and (Losses) in Surplus</b>			
Net income	15,310,295		15,310,295
Change in net unrealized capital gain/losses	3,009,593		3,009,593
Change in net deferred income tax	(1,005,594)		(1,005,594)
Change in nonadmitted assets	(1,062,288)		(1,062,288)
Change in provision for reinsurance	1,000		1,000
Change in surplus as regards policyholders	<u>16,253,006</u>	<u>0</u>	<u>16,253,006</u>
<b>Surplus as regards policyholders, December 31 current year</b>	<u><u>\$98,055,664</u></u>	<u><u>\$0</u></u>	<u><u>\$98,055,664</u></u>

**PHYSICIANS INSURANCE A MUTUAL COMPANY  
RECONCILIATION OF SURPLUS  
FOR YEAR ENDED AS OF DECEMBER 31, 2006**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Capital and surplus, December 31, previous year</b>	\$81,802,658	\$69,039,777	\$55,569,214	\$48,605,884	\$70,041,570
Net income	15,310,295	11,841,066	9,732,024	6,333,511	(19,500,503)
Change in net unrealized capital gains or (losses)	3,009,593	649,064	1,348,644	2,970,879	(1,232,182)
Change in net deferred income tax	(1,005,594)	(2,914,731)	(3,735,481)		
Change in nonadmitted assets	(1,062,288)	3,091,481	3,432,376	589,940	(920,997)
Change in provision for reinsurance	1,000	96,000	2,693,000	(2,931,000)	151,000
Cumulative effects of changes in accounting principles					66,996
Change in surplus as regards policyholders for the year	<u>16,253,006</u>	<u>12,762,881</u>	<u>13,470,564</u>	<u>6,963,330</u>	<u>(21,435,686)</u>
<b>Surplus as regards policyholders, December 31, current year</b>	<u><u>\$98,055,664</u></u>	<u><u>\$81,802,658</u></u>	<u><u>\$69,039,777</u></u>	<u><u>\$55,569,214</u></u>	<u><u>\$48,605,884</u></u>

**NOTES TO THE FINANCIAL STATEMENTS**

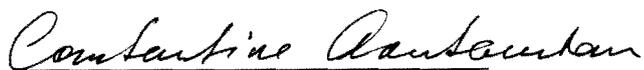
1. The Company has no special consents, permitted practices or orders from the state of Washington.

## ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examination team by the officers of Physicians Insurance A Mutual Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Property and Casualty Field Supervisor; D. Lee Barclay, FCAS, MAAA, Senior Actuary; John R. Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; Orlando Gabriel, AFE, Financial Examiner; and Albert Karau, Jr., CPA, AFE, FLMI, Financial Examiner; all from the Washington State Office of Insurance Commissioner who participated in the examination and the preparation of this report.

Respectfully submitted,



Constantine Arustamian, CPA, CFE  
Examiner-in-Charge  
State of Washington

