# Physicians Insurance A Mutual Company

# Audited Financial Statements - Statutory Basis

*Years ended December 31, 2024 and 2023*
*with Report of Independent Auditors*

# Physicians Insurance A Mutual Company

## Audited Financial Statements - Statutory Basis

Years ended December 31, 2024 and 2023

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, 2024 and 2023, and the related statutory statements of income, changes in policyholders' 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 policyholders' surplus of the Company as of December 31, 2024 and 2023, 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, 2024 and 2023, 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 9, 2025

# Physicians Insurance A Mutual Company

## Balance Sheets - Statutory Basis

As of December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Admitted assets** | | |
| Cash and investments: | | |
| Bonds | $ 449,137,322 | $ 366,013,909 |
| Common stock | 56,611,399 | 76,191,882 |
| Cash and cash equivalents | 35,134,177 | 64,183,260 |
| Other invested assets | 20,908,186 | 43,680,112 |
| Receivable for securities | 185,000 | - |
| Total cash and investments | 561,976,084 | 550,069,163 |
| Uncollected premiums and agents' balances in the course of collection | 41,021,017 | 37,017,592 |
| Reinsurance recoverables on paid losses | 2,457,737 | 254,372 |
| Accrued interest and dividends | 2,698,231 | 2,691,678 |
| Receivable from affiliates | 4,311,835 | 834,162 |
| Net deferred tax asset | 1,759,455 | 842,914 |
| Federal income tax recoverable | - | 357,805 |
| EDP equipment and software | 136,269 | 98,510 |
| Other assets | 3,543,071 | 728,150 |
| Total admitted assets | $ 617,903,699 | $ 592,894,346 |
| **Liabilities and policyholders' surplus** | | |
| **Liabilities** | | |
| Reserves for losses | $ 179,013,373 | $ 179,582,501 |
| Reserves for loss adjustment expenses | 78,778,982 | 71,139,555 |
| Reinsurance payable on paid losses and loss adjustment expenses | 802,864 | 611,123 |
| Unearned premiums | 51,311,365 | 48,070,550 |
| Advance premiums | 5,058,965 | 8,380,650 |
| Commissions payable | 1,295,881 | 140,177 |
| Other expenses | 5,005,281 | 4,500,729 |
| Taxes, licenses, and fees payable | 34,349 | 951 |
| Provision for reinsurance | 8,000 | 14,288 |
| Ceded reinsurance premium payable to reinsurers | 5,263,926 | 3,817,669 |
| Federal income taxes payable | 2,805,718 | - |
| Payable for securities | 250,000 | 448,638 |
| Total liabilities | 329,628,704 | 316,706,831 |
| **Policyholders' surplus** | 288,274,995 | 276,187,515 |
| Total liabilities and capital and surplus | $ 617,903,699 | $ 592,894,346 |

*See accompanying notes to the statutory basis financial statements.*

Physicians Insurance A Mutual Company

Statements of Income - Statutory Basis

Years ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Revenues** | | |
| Premiums earned | $ 189,608,063 | $ 160,069,785 |
| Less: ceded reinsurance premiums earned | 44,345,193 | 36,272,017 |
| Net premiums earned | 145,262,870 | 123,797,768 |
| **Losses and expenses** | | |
| Net losses incurred | 80,801,546 | 76,780,682 |
| Net loss adjustment expenses incurred | 42,640,308 | 41,562,512 |
| Other underwriting expenses incurred | 35,849,296 | 24,704,245 |
| Total underwriting deductions | 159,291,150 | 143,047,439 |
| Net underwriting loss | (14,028,280) | (19,249,671) |
| **Investment income** | | |
| Net investment income earned | 19,196,496 | 14,122,109 |
| Net realized capital gain, less tax of $2,931,504 and $1,606,695 at December 31, 2024 and 2023, respectively | 11,028,041 | 6,044,233 |
| Net investment gain | 30,224,537 | 20,166,342 |
| **Other income** | | |
| Net loss from agents' or premium balances charged off | (9,189) | (5,935) |
| Finance and service charges not included in premiums | 196,781 | 295,960 |
| Other (loss) income, net | (98,039) | 699,415 |
| Total other income | 89,553 | 989,440 |
| Income before federal income taxes | 16,285,810 | 1,906,111 |
| Federal income tax expense (benefit) | 1,257,209 | (133,367) |
| Net income | $ 15,028,601 | $ 2,039,478 |

*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, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| Policyholders' surplus, beginning of year | $ 276,187,515 | $ 269,908,814 |
| Net income | 15,028,601 | 2,039,478 |
| Change in provision for reinsurance | 6,288 | 62,075 |
| Change in nonadmitted assets | (1,029,397) | 1,661,414 |
| Change in net unrealized capital gains, net of tax | (2,219,300) | 1,894,931 |
| Change in net deferred income tax | 301,288 | 620,803 |
| Policyholders' surplus, end of year | $ 288,274,995 | $ 276,187,515 |

*See accompanying notes to the statutory basis financial statements.*

Physicians Insurance A Mutual Company

Statements of Cash Flows - Statutory Basis

Years ended December 31, 2024 and 2023

| | 2024 | 2023 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Premiums collected, net of reinsurance | $ 138,909,922 | $ 132,955,756 |
| Net investment income | 18,182,787 | 15,221,707 |
| Miscellaneous income | 191,589 | 291,038 |
| Total income | 157,284,298 | 148,468,501 |
| Benefits and loss-related payments | 82,352,002 | 65,519,750 |
| Expenses paid | 70,778,901 | 60,745,439 |
| Federal and foreign income taxes paid | 1,025,189 | 1,400,250 |
| Total | 154,156,092 | 127,665,439 |
| Net cash flows from operating activities | 3,128,206 | 20,803,062 |
| **Cash flows from investing activities** | | |
| Proceeds from investments sold, matured, or repaid: | | |
| Bonds | 52,545,120 | 112,760,943 |
| Common stocks | 31,514,054 | 22,204,562 |
| Other invested assets | 28,909,993 | - |
| Total investment proceeds | 112,969,167 | 134,965,505 |
| Cost of investments acquired: | | |
| Bonds | 134,823,879 | 93,681,558 |
| Common stocks | - | 7,674,724 |
| Other invested assets | 2,367,827 | 6,409,366 |
| Miscellaneous applications | 5,178,145 | (448,638) |
| Total investments acquired | 142,369,851 | 107,317,010 |
| Net cash flows from investing activities | (29,400,684) | 27,648,495 |
| **Financing and miscellaneous activities** | | |
| Other cash applied | (2,776,605) | (316,250) |
| Net cash flows from financing activities | (2,776,605) | (316,250) |
| Net change in cash and cash equivalents | (29,049,083) | 48,135,307 |
| **Cash and cash equivalents** | | |
| Beginning of year | 64,183,260 | 16,047,953 |
| End of year | $ 35,134,177 | $ 64,183,260 |

*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. (AIS) - Insurance agency, wholly owned subsidiary
- Physicians Insurance Membership Services, LLC (PIMS) - Captive management service company, 100% owned by Physicians Insurance A Mutual Company
- Novaris, LLC - Captive insurance company, 100% owned by Physicians Insurance A Mutual Company

Alternative Insurance Management Services, LLC (AIMS), PHYSIS Corporation, Washington State Physicians Insurance Association, Inc., and Alterna LLC are all former subsidiaries that were dissolved in 2024.

Physicians Insurance Risk Retention Group, Inc. (PI RRG) is an incorporated protected cell within Novaris, LLC. PI RRG is capitalized with surplus notes issued by the Company.

**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.

**Note 2 - Significant Accounting Policies (Continued)**

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:

- *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, unrealized gains and losses on equity securities are reported directly in net income. 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. The impairment model for current expected credit losses is different for statutory and GAAP purposes.

- *Investments in Subsidiaries* - The Company's investments in its insurance affiliates are included in common stock or 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 consolidated 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. Under GAAP, the change in deferred income taxes is captured in federal income taxes incurred.

**Note 2 - Significant Accounting Policies (Continued)**

- *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.

- *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.

- *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. The impairment model for current expected credit losses is different for statutory and GAAP purposes.

- *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.

**Note 2 - Significant Accounting Policies (Continued)**

- *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. 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.

*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.

Certain securities held by the Company are Securities Valuation Office (SVO) identified ETFs which have been approved by the NAIC to be classified as bonds on the statutory basis balance sheets due to the underlying holdings representing debt. The Company purchased three SVO-identified bond ETFs in 2024. The Company has made the irrevocable decision to hold two of these SVO-identified bond ETFs at systematic value. The third SVO-identified bond ETF is reported at fair value. The election to use systematic value is made on a per security basis and is based upon whether or not information required to hold SVO-identified securities at systematic value is available at the time of acquisition.

The Company's investments in subsidiary, controlled, and affiliated entities are included in common stock or 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.

**Note 2 - Significant Accounting Policies (Continued)**

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, 2024 and 2023.

*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 $5,179,900 and $6,227,725 at December 31, 2024 and 2023, respectively, are for this coverage, which are referred to as Disability, Death, and Retirement (DD&R) reserves and are included in unearned premiums in the accompanying statutory basis balance sheets. 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.

**Note 2 - Significant Accounting Policies (Continued)**

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, 2024 and 2023.

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.

*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.

**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, 2024 or 2023.

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.

**Note 3 - Investments**

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

| December 31, 2024 | 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 | $ 35,330,830 | $ 27,096 | $ (3,608,531) | $ 31,749,395 |
| Obligations of states and political subdivisions | 44,221,970 | 1,583 | (6,864,078) | 37,359,475 |
| Corporate securities | 121,370,993 | 254,315 | (10,824,838) | 110,800,470 |
| Asset-backed securities | 67,849,869 | 390,680 | (346,514) | 67,894,035 |
| Residential mortgage-backed securities | 105,474,663 | 169,930 | (9,255,471) | 96,389,122 |
| Commercial mortgage-backed securities | 47,380,929 | 114,349 | (3,786,975) | 43,708,303 |
| SVO-identified funds | 27,508,068 | - | (31,688) | 27,476,380 |
| Total bonds | $ 449,137,322 | $ 957,953 | $ (34,718,095) | $ 415,377,180 |
| Common stock | $ 25,852,460 | $ 30,758,939 | $ - | $ 56,611,399 |

**Note 3 - Investments (Continued)**

| December 31, 2023 | 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 | $ 31,305,752 | $ 41,179 | $ (2,477,337) | $ 28,869,594 |
| Obligations of states and political subdivisions | 51,701,307 | 5,547 | (6,787,164) | 44,919,690 |
| Corporate securities | 112,248,723 | 287,783 | (9,906,527) | 102,629,979 |
| Asset-backed securities | 37,198,132 | 156,467 | (570,047) | 36,784,552 |
| Residential mortgage-backed securities | 95,247,562 | 564,761 | (7,198,372) | 88,613,951 |
| Commercial mortgage-backed securities | 38,312,433 | 85,743 | (4,026,907) | 34,371,269 |
| Total bonds | $ 366,013,909 | $ 1,141,480 | $ (30,966,354) | $ 336,189,035 |
| Common stock | $ 39,665,157 | $ 36,528,672 | $ (1,947) | $ 76,191,882 |

**Note 3 - Investments (Continued)**

Provided below is a summary of securities that were in an unrealized loss position as of December 31, 2024 and 2023. Management does not believe any individual unrealized loss as of December 31, 2024 or 2023, 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 2024 and 2023, there were no realized losses due to other-than-temporary impairments in value.

| | Less than 12 Months | | Greater than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2024 | 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 | $ 6,637 | $ (123) | $ 11,667 | $ (3,486) | $ 18,304 | $ (3,609) |
| Obligations of states and political subdivision | 2,334 | (13) | 33,969 | (6,851) | 36,303 | (6,864) |
| Corporate securities | 19,233 | (371) | 74,213 | (10,454) | 93,446 | (10,825) |
| Asset-backed securities | 11,726 | (68) | 6,572 | (278) | 18,298 | (346) |
| Residential mortgage-backed securities | 39,231 | (1,107) | 44,989 | (8,148) | 84,220 | (9,255) |
| Commercial mortgage-backed securities | 9,124 | (192) | 22,750 | (3,595) | 31,874 | (3,787) |
| SVO-identified funds | 16,922 | (32) | - | - | 16,922 | (32) |
| Total bonds | $ 105,207 | $ (1,906) | $ 194,160 | $ (32,812) | $ 299,367 | $ (34,718) |

| | Less than 12 Months | | Greater than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| December 31, 2023 | 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 | $ 4,849 | $ (196) | $ 10,406 | $ (2,281) | $ 15,255 | $ (2,477) |
| Obligations of states and political subdivision | 4,440 | (51) | 36,350 | (6,736) | 40,790 | (6,787) |
| Corporate securities | 6,043 | (34) | 81,726 | (9,873) | 87,769 | (9,907) |
| Asset-backed securities | 4,383 | (14) | 9,843 | (556) | 14,226 | (570) |
| Residential mortgage-backed securities | 12,325 | (143) | 49,752 | (7,055) | 62,077 | (7,198) |
| Commercial mortgage-backed securities | 6,290 | (254) | 20,005 | (3,773) | 26,295 | (4,027) |
| Total bonds | $ 38,330 | $ (692) | $ 208,082 | $ (30,274) | $ 246,412 | $ (30,966) |
| Common stock | $ 606 | $ (2) | $ - | $ - | $ 606 | $ (2) |

**Note 3 - Investments (Continued)**

The cost or amortized cost and fair value of bonds by contractual maturity at December 31, 2024, 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. Excluded from the table below are SVO-identified securities with a carrying value of $27,508,068 and a fair value of $27,476,380. These securities do not have maturity dates.

| | Carrying Value | Estimated Fair Value |
|---|---|---|
| Due in one year or less | $ 15,791,243 | $ 15,771,747 |
| Due after one year through five years | 75,788,704 | 73,749,745 |
| Due after five years through ten years | 38,753,665 | 33,351,305 |
| Due after ten years | 70,590,181 | 57,036,543 |
| Asset-backed securities | 67,849,869 | 67,894,035 |
| Residential mortgage-backed securities | 105,474,663 | 96,389,122 |
| Commercial mortgage-backed securities | 47,380,929 | 43,708,303 |
| | $ 421,629,254 | $ 387,900,800 |

Proceeds and realized gains (losses) from sales of bonds and common stock in 2024 and 2023 were as follows:

| | Proceeds | Gains | Losses |
|---|---|---|---|
| 2024 | | | |
| Bonds | $ 17,671,482 | $ 71,080 | $ (57,232) |
| Common stock | 31,514,053 | 17,739,868 | (500) |
| 2023 | | | |
| Bonds | $ 72,409,172 | $ 204,634 | $ 1,996,646 |
| Common stock | 22,204,562 | 9,449,558 | 3,490 |

The following table discloses quantitative information about the Company's restricted assets by category of restricted asset for the year ended December 31, 2024:

| | Gross Restricted | | | | Percentage | |
|---|---|---|---|---|---|---|
| Restricted Asset Category | Total Current Year | Total Prior Year | Increase/ (Decrease) | Total Current Year Admitted Restricted | Gross Restricted to Total Assets | Admitted Restricted to Total Assets |
| On deposit with state | $ 3,058,431 | $ 2,950,000 | $ 108,431 | $ 3,058,431 | 0.5 % | 0.5 % |
| Total restricted assets | $ 3,058,431 | $ 2,950,000 | $ 108,431 | $ 3,058,431 | 0.5 % | 0.5 % |

As of December 31, 2023, the Company owned an interest in a partnership, a private credit fund, reported in other invested assets in the accompanying statutory basis balance sheets. During 2024, the Company fully liquidated its interest in this fund resulting in a realized loss of $3,826,202. The carrying value of the partnership was $22,317,827 at December 31, 2023.

**Note 3 - Investments (Continued)**

The Company owns 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, 2024 and 2023 was $17,306,185 and $17,738,464, respectively. The Company has $0 of unfunded commitments to the partnership at December 31, 2024. There is 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, 2024 and 2023 is summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Bonds | $ 15,863,332 | $ 11,527,949 |
| Common stock - nonaffiliates | 1,080,899 | 1,135,072 |
| Other invested assets | 1,216,378 | 1,802,725 |
| Cash and cash equivalents | 2,488,927 | 794,285 |
| Less: investment expenses | (1,453,040) | (1,137,922) |
| Net investment income | $ 19,196,496 | $ 14,122,109 |

**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 statutory basis financial statements and notes:

Cash and cash equivalents: The carrying amounts reported 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.

Surplus Notes: The surplus notes are included in other invested assets on the accompanying statutory basis balance sheets and valued based on the income approach. 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 rates ranging from 1.25% to 4%, maturity date of May 1, 2035, and the annual required return of 6.07% and 5.68% at December 31, 2024 and 2023, respectively, were used to calculate the value. The cost of the surplus notes was $5,000,000.

**Note 4 - Fair Value of Financial Instruments (Continued)**

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.

The following table shows fair value hierarchy levels for the Company's investments as of December 31, 2024 and 2023:

| | Fair Value Hierarchy | | | |
|---|---|---|---|---|
| 2024 | Level 1 | Level 2 | Level 3 | Total |
| U.S. treasury securities and obligations of U.S. government corporations and agencies | $ 31,749,395 | $ - | $ - | $ 31,749,395 |
| Obligations of states and political subdivisions | - | 37,359,475 | - | 37,359,475 |
| Corporate securities | - | 110,800,470 | - | 110,800,470 |
| Asset-backed securities | - | 67,894,035 | - | 67,894,035 |
| Residential mortgage-backed securities | - | 96,389,122 | - | 96,389,122 |
| Commercial mortgage-backed securities | - | 43,708,303 | - | 43,708,303 |
| SVO-identified funds | 27,476,380 | - | - | 27,476,380 |
| Total bonds | $ 59,225,775 | $356,151,405 | $ - | $415,377,180 |
| Common stock | $ 56,611,399 | $ - | $ - | $ 56,611,399 |
| Other invested assets - surplus notes | $ - | $ - | $ 3,602,000 | $ 3,602,000 |

**Note 4 - Fair Value of Financial Instruments (Continued)**

| 2023 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| U.S. treasury securities and obligations of U.S. government corporations and agencies | $ 28,869,594 | $ - | $ - | $ 28,869,594 |
| Obligations of states and political subdivisions | - | 44,919,690 | - | 44,919,690 |
| Corporate securities | - | 102,629,979 | - | 102,629,979 |
| Asset-backed securities | - | 36,784,552 | - | 36,784,552 |
| Residential mortgage-backed securities | - | 88,613,951 | - | 88,613,951 |
| Commercial mortgage-backed securities | - | 34,371,269 | - | 34,371,269 |
| Total bonds | $ 28,869,594 | $307,319,441 | $ - | $336,189,035 |
| Common stock | $ 76,191,882 | $ - | $ - | $ 76,191,882 |
| Other invested assets - surplus notes | $ - | $ - | $ 1,911,000 | $ 1,911,000 |

Fair Value Measurements in Level 3 of the Fair Value Hierarchy

| | 2024 | 2023 |
|---|---|---|
| Assets: Surplus notes - affiliate | | |
| Beginning balance, January 1 | $ 1,911,000 | $ 1,776,900 |
| Total (losses) gains included in surplus | (309,000) | 134,100 |
| Issuances | 2,000,000 | - |
| Ending balance, December 31 | $ 3,602,000 | $ 1,911,000 |

**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 2024 and 2023, provide for an initial retention by the Company of the first $2,000,000 and $1,000,000, respectively, with coverage of the excess up to $33,000,000. The stop-loss liability insurance coverage business was reinsured in 2024 and 2023 through various quota share arrangements and excess of loss agreements, which apply to specific policies. In 2024 and 2023, 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 PI RRG which writes medical professional liability (MPL) business nationally. The Company reinsures RRG under a 95% quota share reinsurance agreement.

**Note 5 - Reinsurance (Continued)**

The effect of reinsurance, both ceded and assumed, on the Company's statutory basis financial statements are as follows:

| December 31, 2024 | Direct Business | Reinsurance Assumed Affiliated | Reinsurance Assumed Nonaffiliated | Reinsurance Ceded Nonaffiliated | Net Reported |
|---|---|---|---|---|---|
| Premiums written | $ 100,026,238 | $ 71,244,228 | $ 19,580,980 | $ (42,347,761) | $ 148,503,685 |
| Premiums earned | 103,048,118 | 65,461,261 | 21,098,682 | (44,345,191) | 145,262,870 |
| Losses (recoveries) | 48,816,620 | 45,296,082 | 19,238,010 | (32,549,166) | 80,801,546 |
| Loss adjustment (recoveries) | 24,124,944 | 23,003,519 | 814,149 | (5,302,304) | 42,640,308 |
| Underwriting expenses | 15,162,501 | 19,696,394 | 2,816,544 | (1,826,143) | 35,849,296 |

| December 31, 2023 | Direct Business | Reinsurance Assumed Affiliated | Reinsurance Assumed Nonaffiliated | Reinsurance Ceded Nonaffiliated | Net Reported |
|---|---|---|---|---|---|
| Premiums written | $ 99,025,319 | $ 62,335,744 | $ 10,595,494 | $ (37,333,493) | $ 134,623,064 |
| Premiums earned | 109,998,026 | 39,339,519 | 10,732,240 | (36,272,017) | 123,797,768 |
| Losses (recoveries) | 65,485,214 | 35,922,499 | 4,917,989 | (29,545,020) | 76,780,682 |
| Loss adjustment (recoveries) | 31,728,946 | 9,870,426 | 1,533,769 | (1,570,629) | 41,562,512 |
| Underwriting expenses | 17,859,089 | 7,301,146 | 991,425 | (1,447,415) | 24,704,245 |

At December 31, 2024 and 2023, a provision for reinsurance of $8,000 and $14,288, respectively, related to past due and unauthorized reinsurance recoverables was established. At December 31, 2024 and 2023, management determined that based on the creditworthiness of reinsurance counterparties, no additional provision for uncollectible reinsurance was necessary.

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.

Unsecured reinsurance recoverables in excess of 3% of surplus as of December 31, 2024 and 2023 are as follows:

| Federal ID Number | Name of Reinsurer | 2024 Unsecured Amount | 2023 Unsecured Amount |
|---|---|---|---|
| RJ-1340125 | Hannover Ruck SE | $ 15,822,993 | * |
| 52-1952955 | Renaissance Re US | $ 9,406,398 | $ 8,626,506 |

*Amounts were not above 3% of surplus for the reporting period.

There would be no commissions due to be paid if reinsurance were canceled.

**Note 5 - Reinsurance (Continued)**

Contingent commissions of $588,010 and $(67,837) were accrued as of December 31, 2024 and 2023, respectively, and are included in commissions payable within the accompanying statutory basis balance sheets.

**Note 6 - Reserves for Losses and Loss Adjustment Expenses**

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

| | 2024 | 2023 |
|---|---|---|
| | *(in thousands)* | |
| Balance - January 1, net of reinsurance recoverables of $63,915 and $60,336 | $ 250,722 | $ 239,142 |
| Incurred related to | | |
| Current year | 121,216 | 104,800 |
| Prior years | 2,226 | 13,543 |
| Total incurred | 123,442 | 118,343 |
| Paid related to: | | |
| Current year | 11,266 | 10,260 |
| Prior years | 105,106 | 96,503 |
| Total paid | 116,372 | 106,763 |
| Balance - December 31, net of reinsurance recoverables of $75,645 and $63,915 | $ 257,792 | $ 250,722 |

As a result of changes in estimates of insured events in prior years, losses and LAE increased by approximately $2,226,000 and $13,540,000 in 2024 and 2023, respectively. During 2024, the Company experienced adverse development, a majority of which was attributable to accident year 2021. During 2023, the Company experienced adverse development, a majority of which was attributable to severity increases in MPL claims from accident years 2017, 2018, 2020, and 2021.

**Note 7 - Federal Income Taxes**

The Company's federal income tax return is consolidated with its subsidiary, AIS.

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, 2024 and 2023 are as follows:

| December 31, 2024 | Ordinary | Capital | Total |
|---|---|---|---|
| Gross deferred tax asset | $ 7,642,744 | $ 995,471 | $ 8,638,215 |
| Gross deferred tax liabilities | (419,383) | (6,459,377) | (6,878,760) |
| Net deferred tax asset (liability) | 7,223,361 | (5,463,906) | 1,759,455 |
| Nonadmitted deferred tax asset | - | - | - |
| Admitted net deferred tax asset (liability) | $ 7,223,361 | $ (5,463,906) | $ 1,759,455 |

| December 31, 2023 | Ordinary | Capital | Total |
|---|---|---|---|
| Gross deferred tax asset | $ 7,171,692 | $ 1,923,863 | $ 9,095,555 |
| Gross deferred tax liabilities | (581,895) | (7,670,746) | (8,252,641) |
| Net deferred tax asset (liability) | 6,589,797 | (5,746,883) | 842,914 |
| Nonadmitted deferred tax asset | - | - | - |
| Admitted net deferred tax asset (liability) | $ 6,589,797 | $ (5,746,883) | $ 842,914 |

The amount of each component pursuant to SSAP 101 paragraph 11 by tax character at December 31, 2024 and 2023 are as follows:

| December 31, 2024 | Ordinary | Capital | Total |
|---|---|---|---|
| Can be recovered through loss carrybacks (11.a.) | $ 4,752,055 | $ - | $ 4,752,055 |
| Lesser of: | | | |
| Expected to be realized following the balance sheet date (11.b.i.) | 480,215 | - | 480,215 |
| Adj. gross DTAs allowed per limit threshold (11.b.ii.) | | | 42,956,891 |
| Gross DTAs offset against existing DTLs (11.c.) | 2,410,474 | 995,471 | 3,405,945 |
| DTAs admitted as a result of the application of SSAP 101 | $ 7,642,744 | $ 995,471 | $ 8,638,215 |
| Ex DTA ACL RBC ratio percentage used to determine recovery period and threshold limit | | | 979 % |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitation | | | $286,379,271 |

**Note 7 - Federal Income Taxes (Continued)**

| December 31, 2023 | Ordinary | Capital | Total |
|---|---|---|---|
| Can be recovered through loss carrybacks (11.a.) | $ 2,196,637 | $ - | $ 2,196,637 |
| Lesser of: | | | |
| Expected to be realized following the balance sheet date (11.b.i.) | 2,988,054 | - | 2,988,054 |
| Adj. gross DTAs allowed per limit threshold (11.b.ii.) | | | 41,286,914 |
| Gross DTAs offset against existing DTLs (11.c.) | 1,987,001 | 1,923,863 | 3,910,864 |
| DTAs admitted as a result of the application of SSAP 101 | $ 7,171,692 | $ 1,923,863 | $ 9,095,555 |
| Ex DTA ACL RBC ratio percentage used to determine recovery period and threshold limit | | | 897 % |
| Amount of adjusted capital and surplus used to determine recovery period and threshold limitation | | | $275,246,091 |

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

Current income taxes incurred consist of the following major components:

| | 2024 | 2023 |
|---|---|---|
| Current income tax: | | |
| Federal | $ 1,629,842 | $ (107,462) |
| Federal income tax on net realized capital gains | 2,698,116 | 1,606,695 |
| Other, including prior year adjustments | (139,245) | (25,905) |
| Federal and foreign income taxes incurred | $ 4,188,713 | $ 1,473,328 |

**Note 7 - Federal Income Taxes (Continued)**

The main components of deferred tax amounts are as follows:

| | 2024 | 2023 |
|---|---|---|
| **Deferred tax assets:** | | |
| Ordinary | | |
| Loss reserve discounting | $ 4,258,382 | $ 3,949,393 |
| Unearned premium reserves and advance premiums | 2,367,554 | 2,370,950 |
| Fixed assets | 394,108 | 476,474 |
| Deferred compensation and benefits accrual | 154,648 | 135,121 |
| Other | 468,052 | 239,754 |
| Total gross ordinary deferred tax assets | 7,642,744 | 7,171,692 |
| Capital | | |
| Investments | 995,471 | 1,923,863 |
| Total gross capital deferred tax assets | 995,471 | 1,923,863 |
| Total admitted deferred tax assets | 8,638,215 | 9,095,555 |
| **Deferred tax liabilities:** | | |
| Ordinary | | |
| Depreciation | 66,656 | 88,564 |
| Tax reconciliation act limited risk distributor | 208,806 | 417,613 |
| Other | 143,921 | 75,718 |
| Total gross ordinary deferred tax liability | 419,383 | 581,895 |
| Capital | | |
| Tax effect of unrealized capital gains | 6,459,377 | 7,670,746 |
| Total gross capital deferred tax liability | 6,459,377 | 7,670,746 |
| Total gross deferred tax liabilities | 6,878,760 | 8,252,641 |
| Net deferred tax assets (liabilities) | $ 1,759,455 | $ 842,914 |

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

| | 2024 | 2023 | Change |
|---|---|---|---|
| Total deferred tax assets | $ 8,638,215 | $ 9,095,555 | $ (457,340) |
| Total deferred tax liabilities | (6,878,760) | (8,252,641) | 1,373,881 |
| Net deferred tax liabilities | $ 1,759,455 | $ 842,914 | $ 916,541 |
| Tax effect of unrealized gains | | | (615,253) |
| Change in net deferred income tax | | | $ 301,288 |

**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, 2024 and 2023. 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 |
|---|---|
| 2024 | $ 4,327,957 |
| 2023 | $ 1,359,989 |

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

The Company's tax planning strategies did not include the use of reinsurance-related tax planning strategies.

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.

The Inflation Reduction Act was enacted on August 16, 2022, and included a new Corporate Alternative Minimum Tax (CAMT). The Company has determined that they do not expect to be liable for CAMT in 2024.

**Note 8 - Other Underwriting Expenses**

The major components of underwriting expenses incurred during 2024 and 2023 were as follows:

| | 2024 | 2023 |
|---|---|---|
| Net commissions and brokerage | $ 25,111,585 | $ 10,740,577 |
| Salaries and related items | 3,634,708 | 6,023,840 |
| Taxes, licenses, and fees | 2,123,740 | 2,104,871 |
| Employee relations and welfare | 1,844,528 | 1,622,039 |
| Other consultants fees | 799,057 | 914,257 |
| Equipment | 616,986 | 857,818 |
| Travel and travel items | 411,279 | 450,650 |
| Other miscellaneous expenses | 314,444 | 443,119 |
| Board, bureaus, and associations | 228,997 | 374,688 |
| Rent and rent items | 238,639 | 374,167 |
| Legal and auditing | 210,344 | 343,690 |
| Depreciation expense | 171,271 | 243,147 |
| Directors' fees | 143,718 | 211,382 |
| Other underwriting expenses incurred | $ 35,849,296 | $ 24,704,245 |

**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 $2,218,989 and $1,996,541 for 2024 and 2023, respectively, and is reflected in other underwriting expenses incurred on the accompanying statutory basis statements of income.

**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 $698,957 and $746,696 in 2024 and 2023, respectively.

**Note 10 - Commitment and Contingencies (Continued)**

Future minimum commitments under these leases as of December 31, 2024, are as follows:

| | |
|---|---|
| 2025 | $ 845,369 |
| 2026 | 862,203 |
| 2027 | 879,420 |
| 2028 | 896,985 |
| 2029 | 914,879 |
| Thereafter | 3,018,072 |
| Total | $ 7,416,928 |

The Company is subject to guaranty fund and other assessments by the states in which it writes business. As of December 31, 2024 and 2023, the Company expensed $1,185 and $782, 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, 2024 and 2023 are as follows:

| | 2024 | 2023 | Change |
|---|---|---|---|
| Fixed assets | $ 1,876,706 | $ 2,268,926 | $ (392,220) |
| Premium receivable | 43,318 | 35,575 | 7,743 |
| Other invested assets | 341,671 | - | 341,671 |
| Prepaid expenses | 1,993,203 | 919,509 | 1,073,694 |
| Common stock | 37,017 | 500 | 36,517 |
| Deductible receivable | 3,200 | 41,208 | (38,008) |
| Totals | $ 4,295,115 | $ 3,265,718 | $ 1,029,397 |

**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 2025. No dividends were declared or paid during 2024 and 2023.

**Note 12 - Policyholders' Surplus (Continued)**

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, 2024 and 2023, the Company exceeded all risk-based capital action levels.

**Note 13 - Related Party Transactions**

PI is the primary reinsurer for its affiliate, PI RRG, which writes Medical Professional Liability business nationally as described in Note 5.

The Company performs substantially all services on behalf of its immediate subsidiaries and is reimbursed under various management agreements.

As described in Note 4, the Company has provided $5,000,000 in surplus notes to capitalize PI RRG.

The Company has a tax-sharing agreement with AIS, see Note 7 for further details.

As of December 31, 2024 and 2023, the Company had receivables from affiliates of $4,311,835 and $834,162, respectively. Intercompany balances are settled quarterly.

**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.

As of December 31, 2024 and 2023, 64% and 67%, respectively, of the Company's direct written premiums come from business written in the state of Washington.

**Note 15 - Subsequent Events**

The Company evaluated subsequent events through May 9, 2025, 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.

During 2025, the Company partially liquidated its interest in its investment in a limited partnership realty fund. Proceeds from this liquidation were $8,328,568.