Financial Statements – Statutory Basis

Physicians Insurance A Mutual Company
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Physicians Insurance A Mutual Company

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Contents

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Report of Independent Auditors

The Board of Directors
Physicians Insurance A Mutual Company

We have audited the accompanying statutory-basis financial statements of Physicians Insurance, A Mutual Company, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, changes in policyholders' surplus and cash flow for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 1, to meet the requirements of Washington, the financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner, which practices differ from U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles are described in Note 1. The effects on the accompanying financial statements of these variances are not reasonably determinable but are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the effects of the matter described in the preceding paragraph, the statutory-basis financial statements referred to above do not present fairly, in conformity with U.S. generally accepted accounting principles, the financial position of Physicians Insurance, A Mutual Company at December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory-Basis of Accounting

However, in our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the financial position of Physicians Insurance, A Mutual Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in conformity with accounting practices prescribed or permitted by the Washington State Office of the Insurance Commissioner.

Ernst & Young LLP

May 7, 2018

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Physicians Insurance A Mutual Company

Balance Sheets – Statutory Basis

	December 31 2017	December 31 2016
Admitted assets		
Cash and investments:		
Bonds, at amortized cost (fair value of $388,350,934 and $382,643,745 at December 31, 2017 and 2016, respectively)	**$ 378,113,947**	$ 375,742,017
Common stocks, at fair value (cost of $43,827,110 and $40,957,429 at December 31, 2017 and 2016, respectively)	**76,929,746**	63,276,132
Cash of $5,319,394 and $8,872,131, and short-term investments of $3,981,849 and $6,524,623 at December 31, 2017 and 2016, respectively	**9,301,243**	15,396,754
Investments in subsidiaries and affiliates	**15,406,330**	14,925,107
Receivable for securities	**–**	683
Total cash and investments	**479,751,266**	469,340,693
Uncollected premiums and agents' balances in the course of collection	**11,906,593**	10,315,525
Reinsurance recoverables on paid losses	**6,012,166**	2,584,274
Other amounts receivable under reinsurance contracts	**38,388**	37,225
Federal income taxes recoverable	**–**	164,006
Net deferred tax assets	**1,792,528**	3,974,329
EDP equipment and software	**155,764**	97,270
Accrued interest and dividends	**3,645,277**	3,678,157
Due from affiliates	**1,016,935**	372,766
Other assets	**178,863**	11,735,141
Total	**$ 504,497,780**	$ 502,299,386
Liabilities and policyholders' surplus		
Liabilities:		
Reserves for losses	**$ 134,822,247**	$ 142,826,597
Reserves for loss adjustment expenses	**53,960,485**	60,804,486
Reinsurance payable on paid losses and loss adjustment expenses	**1,060,167**	49,428
Unearned premiums	**28,562,898**	26,707,701
Premium deposits	**6,472,461**	9,135,523
Other expenses	**5,171,735**	5,392,779
Retroactive reinsurance reserves assumed	**11,101,678**	12,385,630
Taxes, licenses, and fees	**181,582**	100,476
Provision for reinsurance	**1,138,173**	755,178
Ceded reinsurance premium payable to reinsurers	**11,378,770**	12,075,262
Federal income taxes payable	**489,420**	–
Total liabilities	**254,339,616**	270,233,060
Policyholders' surplus	**250,158,164**	232,066,326
Total	**$ 504,497,780**	$ 502,299,386

See accompanying notes.

Physicians Insurance A Mutual Company

Statements of Income – Statutory Basis

	Year Ended December 31	
	2017	**2016**
Revenues:		
Premiums earned	**$ 92,177,244**	$ 92,127,009
Less ceded reinsurance premiums	**12,902,169**	13,689,020
Net premiums earned	**79,275,075**	78,437,989
Losses and expenses:		
Net losses incurred	**40,373,454**	36,092,815
Net loss adjustment expenses incurred	**23,875,562**	28,411,410
Other underwriting expenses incurred	**16,142,043**	16,313,878
Total underwriting deductions	**80,391,059**	80,818,103
Net underwriting loss	**(1,115,984)**	(2,380,114)
Net investment income earned	**14,669,396**	14,780,030
Net realized capital gains, less taxes of $678,823 and $554,153 at December 31, 2017 and 2016, respectively	**1,317,715**	1,075,709
Net investment gain	**15,987,111**	15,855,739
Net (loss) gain from agents' or premium balances charged off	**(160,871)**	750
Finance and service charges not included in premiums	**278,253**	319,804
Other income, net	**5,007**	6,576
Total other income	**122,389**	327,130
Income before dividends to policyholders and before federal income taxes	**14,993,516**	13,802,755
Dividends to policyholders	**5,001,216**	5,021,643
Income after dividends to policyholders and before federal income taxes	**9,992,300**	8,781,112
Federal income taxes incurred	**499,943**	712,075
Net income	**$ 9,492,357**	$ 8,069,037

See accompanying notes.

Physicians Insurance A Mutual Company

Statements of Changes in Policyholders' Surplus – Statutory Basis

	Year Ended December 31	
	2017	**2016**
Policyholders' surplus, at beginning of year	**$ 232,066,326**	$ 219,956,050
Net income	**9,492,357**	8,069,037
Change in unauthorized reinsurance	**(382,995)**	(6,971)
Change in nonadmitted assets	**5,541,433**	4,149,205
Change in net unrealized capital gains (losses) less capital gains tax on investments	**7,171,264**	(328,432)
Change in net deferred tax asset	**(4,902,421)**	227,437
Cumulative effect of changes in accounting principle – surplus notes	**1,172,200**	–
Policyholders' surplus, at end of year	**$ 250,158,164**	$ 232,066,326

See accompanying notes.

Physicians Insurance A Mutual Company

Statements of Cash Flow – Statutory Basis

	Year Ended December 31	
	2017	**2016**
Operating activities		
Premiums collected, net of reinsurance	**$ 76,228,830**	$ 78,289,779
Net investment income	**17,121,442**	17,444,360
Miscellaneous income	**122,389**	327,131
Total	**93,472,661**	96,061,270
Benefits and loss-related payments	**50,779,444**	30,311,900
Expenses paid	**46,767,782**	45,688,877
Dividends paid	**5,001,216**	5,021,643
Federal income taxes paid	**525,341**	932,632
Total	**103,073,783**	81,955,052
Net cash (used in) provided by operating activities	**(9,601,122)**	14,106,218
Investing activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	**58,468,144**	56,664,813
Common stocks	**2,540,055**	2,450,831
Total investment proceeds	**61,008,199**	59,115,644
Cost of investments acquired:		
Bonds	**63,057,570**	64,442,948
Common stocks	**3,614,185**	3,457,225
Other invested assets	**200,000**	500,000
Total investments acquired	**66,871,755**	68,400,173
Net cash used in investing activities	**(5,863,556)**	(9,284,529)
Financing and miscellaneous activities		
Other cash provided (applied)	**9,369,167**	(51,566)
Net change in cash and short-term investments	**(6,095,511)**	4,770,123
Cash and short-term investments at beginning of year	**15,396,754**	10,626,631
Cash and short-term investments at end of year	**$ 9,301,243**	$ 15,396,754

See accompanying notes.

1. Description of the Company and Significant Accounting Policies

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, Alaska and Wyoming. The Company writes claims-made professional liability policies, provider excess and medical stop-loss policies, which protect medical provider organizations and self-insured employers from catastrophic losses.

The Company has one insurance subsidiary, Western Professional Insurance Company (WPIC), which has been in run-off since 2005 and the remaining liabilities are ceded to the Company. The Company has an insurance agency subsidiary which sells physicians products provided by other insurance carriers, such as business owners policies (BOP), employment practices liability, long-term care, disability, life, and health. The Company also has subsidiaries which provide management and other services to risk retention groups.

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* (effective March 2017), 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). Significant differences are as follows:

- 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.

- Investments in insurance subsidiary (WPIC) are recorded using the statutory net equity method, while investments in the Company's other subsidiaries are nonadmitted assets. The change in the subsidiaries' equity is included in the change in net unrealized capital gains or losses. Under GAAP, such investments would be consolidated with the accounts and operations of the Company.

1. Description of the Company and Significant Accounting Policies (continued)

- 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, deferred taxes, and property and equipment. Under GAAP, such assets are included in the balance sheets to the extent that those assets are not impaired.

- Investments in bonds are recorded at amortized cost or fair value based on their NAIC rating. Under GAAP, such fixed maturity investments 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.

- 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.

- Ceded reinsurance recoverables on unpaid losses and loss adjustment expenses are recorded as a reduction to the reserves for losses and loss adjustment expenses. 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.

- 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.

- 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.

1. Description of the Company and Significant Accounting Policies (continued)

- The statements of cash flow differ in certain respects from the presentation required by GAAP.

- Realized gains or losses are recorded net of tax in the statements of income. Under GAAP, the tax associated with realized gains or losses is recorded as an income tax expense or benefit.

- 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.

The effects of the foregoing variances from GAAP on the Company's statutory-basis financial statements have not been determined, but are presumed to be material.

Other significant accounting practices are as follows:

Cash and Short-Term Investments

The Company considers all liquid instruments with a maturity of one year or less at the time of purchase to be short-term investments. The carrying amount of cash and short-term investments approximates fair value because of the short-term maturity of those instruments.

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 initially obtained from broker/dealer statements. Updates to prepayment assumptions 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.

1. Description of the Company and Significant Accounting Policies (continued)

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 according to SSAP No. 41R.

The Company uses the first-in, first-out method in determining gains and losses from the sale of investments. The Company monitors investments for other-than-temporary impairment. In determining whether the losses are temporary or other-than-temporary, the Company considers (1) the length of time and extent to which the fair value has been less than cost or carrying value, (2) the financial strength of the issuer, and (3) its intent to sell the security or the Company's ability to hold the security long enough to recover in value.

Interest and dividend income is recorded on the accrual basis. The Company nonadmits investment income due and accrued if amounts are more than 90 days past due.

Premiums

Premiums are earned over the terms of the related policies. The Company anticipates investment income as a factor in premium deficiency calculations. 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 $17,100,000 and $17,200,000 at December 31, 2017 and 2016, respectively, are for this coverage, which is referred to as DD&R coverage.

In determining unearned premiums related to DD&R, the Company includes an estimate for unexercised extended reporting endorsements that are estimated 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.

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

1. Description of the Company and Significant Accounting Policies (continued)

Reserves for Losses and Loss Adjustment Expenses

The reserves for losses and loss adjustment expenses are established on the basis of reported losses (case-basis method). Provision is also made for claims incurred but not reported and related loss adjustment expenses. These amounts are based on the estimates of management and are subject to risks and uncertainties. Changes in estimates of losses and loss adjustment expenses are included in income for the period in which the estimates are changed. The Company does not discount loss and loss adjustment expense 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 reflect 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. Reinsurance coverage is provided on both a quota share and excess of loss basis. Prospective ceded and assumed reinsurance premiums, losses, and loss adjustment expenses 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.

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.

1. Description of the Company and 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 taxes 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 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, 2017 and 2016.

Deferred income taxes are further subject to limitations as to the amount of deferred income tax assets that may be reported as "admitted assets." 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 IRS 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, 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 loss adjustment expenses, reinsurance recoverables on unpaid losses and loss adjustment expenses, unearned premium reserves, other-than-temporary impairment of invested assets, and the admitted portion of deferred tax assets.

1. Description of the Company and Significant Accounting Policies (continued)

Change in Accounting Principle

Effective January 2017, Statement of Statutory Accounting Principles (SSAP) No. 41R, *Surplus Notes*, establishes a new valuation method for holders of surplus notes. Under SSAP No. 41R, surplus notes with a designation of NAIC 1 or NAIC 2 are reported at amortized cost, and all other surplus notes are reported at the lesser of amortized cost or fair value. The Company's surplus note had been non-admitted under SSAP 41; however, as a result of application of the new valuation method, the Company reported a change of accounting principle, which increased policyholders' surplus by the fair value of the surplus note of $1,172,200 as of January 1, 2017.

Subsequent Events

The Company has evaluated subsequent events through May 7, 2018, the date on which the Company's financial statements were available to be issued. Disclosures about subsequent events are included in the relevant note.

2. Investments

The cost or amortized cost, gross unrealized gains or losses, and fair value of investments are as follows:

	Book/Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
U.S. treasury securities and obligations of U.S. government corporations and agencies	**$ 34,721,584**	**$ 964,415**	**$ (288,011)**	**$ 35,397,988**
Obligations of states and political subdivisions	**125,825,514**	**4,088,279**	**(372,819)**	**129,540,974**
Corporate securities	**126,950,677**	**5,574,101**	**(246,864)**	**132,277,914**
Mortgage-backed/ asset-backed securities	**90,616,172**	**1,087,718**	**(569,832)**	**91,134,058**
Total bonds	**378,113,947**	**11,714,513**	**(1,477,526)**	**388,350,934**
Common stocks	**43,827,110**	**33,124,518**	**(21,882)**	**76,929,746**
Total bonds and common stocks	**$ 421,941,057**	**$ 44,839,031**	**$ (1,499,408)**	**$ 465,280,680**

2. Investments (continued)

	Book/Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2016				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 42,709,035	$ 927,742	$ (527,636)	$ 43,109,141
Obligations of states and political subdivisions	127,458,364	3,648,657	(1,275,819)	129,831,202
Corporate securities	119,998,109	4,577,694	(1,032,914)	123,542,889
Mortgage-backed/ asset-backed securities	85,576,509	1,266,112	(682,108)	86,160,513
Total bonds	375,742,017	10,420,205	(3,518,477)	382,643,745
Common stocks	40,957,429	22,674,345	(355,642)	63,276,132
Total bonds and common stocks	$ 416,699,446	$ 33,094,550	$ (3,874,119)	$ 445,919,877

The cost or amortized cost and fair value of bonds by contractual maturity at December 31, 2017, 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.

	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 23,701,720	$ 23,789,930
Due between one year and five years	89,643,026	92,349,307
Due between five years and ten years	116,707,053	119,221,815
Due after ten years	57,445,976	61,855,824
Mortgage-backed/asset-backed securities	90,616,172	91,134,058
	$ 378,113,947	$ 388,350,934

Proceeds from sales of bonds during 2017 and 2016 were $24,927,013 and $17,952,710, respectively. Gross gains of $258,228 and $650,562 and gross losses of $57,440 and $497,160 were realized on those sales during 2017 and 2016, respectively.

2. Investments (continued)

The number of CUSIP and aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee were 1 and $37,167, respectively.

Proceeds from sales of common stock during 2017 and 2016 were $2,000,000 and $2,000,000, respectively. Gross gains of $1,255,496 and $1,036,730 were realized on those sales during 2017 and 2016, respectively. Gross losses of $0 and $0 were realized on those sales during 2017 and 2016, respectively. The Company has the following restricted securities:

> Bonds on deposit with the Washington Office of the Insurance Commissioner for the protection of policyholders; the amortized cost of these securities at December 31, 2017 and 2016, was $2,511,664 and $2,516,788, respectively.
>
> Bonds for collateral to satisfy a claim; during 2015, in accordance with a court order, the Company established a segregated custodial brokerage account as collateral for a judgment pending appeal. The amortized cost of these securities at December 31, 2017 and 2016, was $19,248,333 and $16,927,367, respectively. In January 2018, the court denied the appeal and released the designated securities, ordering the Company to satisfy the judgement. The Company paid $18.6 million in the settlement.

Net investment income is summarized as follows:

	2017	**2016**
Interest and dividend income	**$ 13,689,634**	$ 13,780,639
Dividends from affiliates	**1,979,000**	1,994,000
Less investment expenses	**(999,238)**	(994,609)
	$ 14,669,396	$ 14,780,030

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

2. Investments (continued)

Provided below is a summary of securities that were in an unrealized loss position as of December 31, 2017 and 2016. Management does not believe any individual unrealized loss as of December 31, 2017 or 2016, 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 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 2017 and 2016, there were no realized losses due to other-than-temporary impairments in value.

	Less Than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In Thousands)			
December 31, 2017						
U.S. treasury and obligation of U.S. government	**$ 11,887**	**$ 94**	**$ 3,315**	**$ 194**	**$ 15,202**	**$ 288**
Obligations of states and political subdivisions	**12,858**	**119**	**11,546**	**253**	**24,404**	**372**
Corporate securities	**11,458**	**74**	**7,102**	**173**	**18,560**	**247**
Mortgage-backed/asset-backed securities	**33,226**	**171**	**14,941**	**399**	**48,167**	**570**
Common stocks	**227**	**1**	**354**	**21**	**581**	**22**
Temporarily impaired securities	**$ 69,656**	**$ 459**	**$ 37,258**	**$ 1,040**	**$ 106,914**	**$ 1,499**

	Less Than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In Thousands)			
December 31, 2016						
U.S. treasury and obligation of U.S. government	$ 11,754	$ 528	$ –	$ –	$ 11,754	$ 528
Obligations of states and political subdivisions	35,323	1,276	–	–	35,323	1,276
Corporate securities	26,169	1,015	479	18	26,648	1,033
Mortgage-backed/asset-backed securities	36,208	592	4,520	90	40,728	682
Common stocks	2,421	60	2,219	295	4,640	355
Temporarily impaired securities	$ 111,875	$ 3,471	$ 7,218	$ 403	$ 119,093	$ 3,874

2. Investments (continued)

Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral where appropriate and customary. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of corporate debt securities. As the portfolio is well-diversified and issuers of securities are dispersed throughout many industries and geographies, the concentrations of credit risk are limited.

3. 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 short-term investments: The carrying amounts reported in 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.

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.

3. Fair Value of Financial Instruments (continued)

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.

Aggregate fair value of all financial instruments and the level within the fair value hierarchy for December 31, 2017 and 2016, are as follows:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Not Practical (Carrying Value)
2017						
Common stocks**	**$ 76,929,746**	**$ 76,929,746**	**$ 76,929,746**	**$ –**	**$ –**	**$ –**
Bonds	**388,350,934**	**378,113,947**	**27,562,138**	**360,788,796**	**–**	**–**
Short-term investments**	**3,981,849**	**3,981,849**	**3,981,849**	**–**	**–**	**–**
Surplus notes or debentures**	**1,287,400**	**1,287,400**	**–**	**–**	**1,287,400**	**–**
2016						
Common stocks**	$ 63,276,132	$ 63,276,132	$ 63,276,132	$ –	$ –	$ –
Bonds	382,643,745	375,742,017	31,647,971	350,995,774	–	–
Short-term investments**	6,524,623	6,524,623	–	6,524,623	–	–

** – measured at fair value on a recurring basis.

Fair Value Measurements in Level 3 of the Fair Value Hierarchy

Description	Beginning Balance at 01/01/2017	Transfers into Level 3	Transfers out of Level 3	Total gains and (losses) included in Net Income	Total gains and (losses) included in Surplus	Purchases	Issuances	Sales	Settlements	Ending Balance at 12/31/2017
a) Assets:										
Surplus debentures – affiliate	$ 1,172,200	$ –	$ –	$ –	$ 115,200	$ –	$ –	$ –	$ –	$ 1,287,400
Total assets	$ 1,172,200	$ –	$ –	$ –	$ 115,200	$ –	$ –	$ –	$ –	$ 1,287,400

3. Fair Value of Financial Instruments (continued)

The surplus note is included in investments in subsidiaries and affiliates on the balance sheet and was valued based on the income approach per SSAP 100, *Fair Value*. The income approach uses valuation technique to convert future amounts (interest cash flow for the surplus note) to a single present amount (discounted). Annual coupon rate of 1.25%, maturity date of May 1, 2035, and the annual required return of 4.18% were used to calculate the value. The amortized cost of the surplus note is $2,000,000.

4. Reinsurance

Under reinsurance agreements, the Company cedes various amounts of risk to other insurance companies. The professional liability reinsurance agreements that became effective July 1, 2016, provide for an initial retention by the Company of the first $2,000,000 of loss per event, with coverage of the excess up to $35,000,000. Prior to July 1, 2016, the Company retained the first $3,000,000 with respect to individual incidents. The stop-loss liability insurance coverage business was reinsured in 2017 and 2016, respectively, through 50/50 and 60/40 quota share reinsurance contracts where the Company retains 50% and 40%, respectively. In 2017 and 2016, Cyber liability coverage, which replaced the Data Compromise Coverage, was reinsured at 100%. D&O Coverage, which was reinsured 100% in 2014, was not reinsured in 2015. It has been reinsured since July 1, 2016, under the same reinsurance agreements as the professional liability agreements.

	Direct Business	Reinsurance Assumed Affiliated	Reinsurance Assumed Nonaffiliated	Reinsurance Ceded Nonaffiliated	Net Reported
Year ended December 31, 2017					
Premiums written	**$ 91,739,916**	**$ 1,094,551**	**$ 2,270,535**	**$ (13,974,730)**	**$ 81,130,272**
Premiums earned	**89,067,041**	**851,292**	**2,258,911**	**(12,902,169)**	**79,275,075**
Losses (recoveries)	**53,131,871**	**(729,952)**	**1,297,746**	**(13,326,211)**	**40,373,454**
Loss adjustment expenses (recoveries)	**27,446,078**	**139,591**	**65,060**	**(3,775,167)**	**23,875,562**
Underwriting expenses	**16,431,164**	**1,089,316**	**96,371**	**(1,474,808)**	**16,142,043**
Year ended December 31, 2016					
Premiums written	$ 88,863,508	$ 991,079	$ 2,687,391	$ (14,301,665)	$ 78,240,313
Premiums earned	88,328,014	713,720	3,085,275	(13,689,020)	78,437,989
Losses (recoveries)	41,157,175	1,353,506	437,864	(6,855,730)	36,092,815
Loss adjustment expenses (recoveries)	28,239,134	454,999	45,693	(328,416)	28,411,410
Underwriting expenses	16,171,204	589,182	751,949	(1,198,457)	16,313,878

4. Reinsurance (continued)

Reinsurance recoverables from unauthorized reinsurers in excess of applicable letters of credit are considered nonadmitted assets. The amounts of nonadmitted reinsurance recoverables as of December 31, 2017 and 2016, were $1,138,173 and $755,178, respectively.

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.

The unsecured reinsurance recoverables in excess of 3% of surplus as of December 31, 2017 and 2016, are as follows:

	Federal ID Number	**Name of Reinsurer**	
2017	None		
2016	36-4233459	Zurich American Insurance Company	$ 7,008,913

There would be no commissions due if reinsurance were canceled.

Contingent commission of $240,923 and $382,626 is accrued as of December 31, 2017 and 2016, respectively.

Assumed retroactive reinsurance as of December 31, 2017 and 2016, is $11,101,678 and $12,385,630, respectively. In January 2017, Physicians received approximately $12 million as part of a Loss Portfolio Transfer agreement entered into in December 2016. The cash received increased financing and miscellaneous activities cash flows. There were $1,283,952 and $0 loss and loss adjustment expenses paid as of December 31, 2017 and 2016, respectively. There were no gains or losses recognized related to these contracts.

5. Reserves for Losses and Loss Adjustment Expenses

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

	2017	2016
Balance – January 1, net of reinsurance recoverables of $32,681,924 and $35,863,564	**$ 203,631,083**	$ 198,790,685
Incurred related to:		
Current year	**85,199,286**	85,901,764
Prior years	**(20,950,270)**	(21,397,539)
Total incurred	**64,249,016**	64,504,225
Paid related to:		
Current year	**13,293,785**	10,307,097
Prior years	**65,803,582**	49,356,730
Total paid	**79,097,367**	59,663,827
Balance – December 31, net of reinsurance recoverables of $36,545,090 and $32,681,924	**$ 188,782,732**	$ 203,631,083

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $20,950,270 and $21,397,539 in 2017 and 2016, respectively, due to lower than anticipated losses on professional liability claims.

The Company has purchased annuities from life insurers under which the claimants are payees. The Company has obtained a release of liability from the claimants and, therefore, has no contingent liability if these annuities fail to perform under the terms of the annuities.

6. Federal Income Taxes

The components of the Company's deferred tax assets (DTAs) and deferred tax liabilities (DTLs) at December 31, 2017 and 2016, are as follows:

	December 31, 2017			December 31, 2016			Change		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Gross deferred tax assets	**$ 10,200,450**	**$ –**	**$ 10,200,450**	$ 13,873,114	$ –	$ 13,873,114	$ (3,672,664)	$ –	$ (3,672,664)
Statutory valuation allowance adjustments	**–**	**–**	**–**	–	–	–	–	–	–
Adjusted gross deferred tax assets	**10,200,450**	**–**	**10,200,450**	13,873,114	–	13,873,114	(3,672,664)	–	(3,672,664)
Deferred tax assets nonadmitted	**–**	**–**	**–**	2,170,382	–	2,170,382	(2,170,382)	–	(2,170,382)
Subtotal net admitted deferred tax asset	**10,200,450**	**–**	**10,200,450**	11,702,732	–	11,702,732	(1,502,282)	–	(1,502,282)
Deferred tax liabilities	**1,456,368**	**6,951,554**	**8,407,922**	140,044	7,588,359	7,728,403	1,316,324	(636,805)	679,519
Net admitted deferred tax asset (net deferred tax liability)	**$ 8,744,082**	**$ (6,951,554)**	**$ 1,792,528**	$ 11,562,688	$ (7,588,359)	$ 3,974,329	$ (2,818,606)	$ 636,805	$ (2,181,801)

The admission calculation components are as follows:

	December 31, 2017			December 31, 2016			Change		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	**$ 2,497,433**	**$ –**	**$ 2,497,433**	$ 2,340,254	$ –	$ 2,340,254	$ 157,179	$ –	$ 157,179
(b) Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	**608,809**	**–**	**608,809**	1,634,075	–	1,634,075	(1,025,266)	–	(1,025,266)
1. Adjusted gross DTA expected to be realized following the balance sheet date	**608,809**	**NA**	**608,809**	1,634,075	N/A	1,634,075	(1,025,266)	NA	(1,025,266)
2. Adjusted gross deferred tax assets allowed per limitation threshold	**NA**	**NA**	**37,231,481**	N/A	N/A	34,199,209	NA	NA	3,032,272
(c) Adjusted gross deferred tax assets offset by gross deferred tax liabilities	**7,094,208**	**–**	**7,094,208**	7,728,403	–	7,728,403	(634,195)	–	(634,195)
(d) Deferred tax assets admitted as the result of application of SSAP No. 101 Total (2)(a) + 2(b) + 2(c)	**$ 10,200,450**	**$ –**	**$ 10,200,450**	$ 11,702,732	$ –	$ 11,702,732	$ (1,502,282)	$ –	$ (1,502,282)

6. Federal Income Taxes (continued)

	2017	2016
(a) Ratio percentage used to determine recovery period and threshold limitation amount	**1,216%**	1,093%
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	**$ 248,209,872**	$ 227,994,727

The Company did not utilize any reinsurance tax planning or any other tax planning strategies in 2017 or 2016 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:

	2017	2016	Change
1. Current income tax:			
(a) Federal	**$ 598,842**	$ 689,854	$ (91,012)
(b) Foreign	**–**	–	–
(c) Subtotal	**598,842**	689,854	(91,012)
(d) Federal income tax on net realized capital gains	**678,823**	554,153	124,670
(e) Other, including prior year adjustment	**(98,899)**	22,221	(121,120)
(f) Federal and foreign income taxes incurred	**$ 1,178,766**	$ 1,266,228	$ (87,462)

6. Federal Income Taxes (continued)

The main components of deferred tax amounts are as follows:

	December 31		
	2017	**2016**	**Change**
2. Deferred tax assets:			
(a) Ordinary:			
Loss reserve discounting	**$ 2,863,263**	$ 2,839,624	$ 23,639
Unearned premium reserves and premium deposits	**1,471,485**	2,437,339	(965,854)
Investments	**2,429,494**	2,516,054	(86,560)
Fixed assets	**268,964**	476,238	(207,274)
Deferred compensation and benefits accrual	**238,591**	374,886	(136,295)
Tax credit	**108,290**	143,372	(35,082)
Receivable – nonadmitted	**32,816**	69,851	(37,035)
Other	**2,787,547**	5,015,750	(2,228,203)
Subtotal gross ordinary deferred tax assets	**10,200,450**	13,873,114	(3,672,664)
(b) Statutory valuation allowance adjustment – ordinary	**–**	–	–
(c) Nonadmitted deferred tax assets – ordinary	**–**	2,170,382	(2,170,382)
(d) Admitted deferred tax assets – ordinary	**10,200,450**	11,702,732	(1,502,282)
(e) Capital:			
Investments	**–**	–	–
Other	**–**	–	–
Subtotal gross capital deferred tax assets	**–**	–	–
(f) Statutory valuation allowance adjustment – capital	**–**	–	–
(g) Nonadmitted deferred tax assets – capital	**–**	–	–
(h) Admitted capital deferred tax assets	**–**	–	–
(i) Total admitted deferred tax assets	**10,200,450**	11,702,732	(1,502,282)

6. Federal Income Taxes (continued)

	December 31 2017	2016	Change
3. Deferred tax liabilities:			
(a) Ordinary:			
Depreciation	**$ 77,140**	$ 140,044	$ (62,904)
Tax Reconciliation Act Limited Risk Distributor (LRD)	**1,379,228**	–	1,379,228
Subtotal ordinary deferred tax liabilities	**1,456,368**	140,044	1,316,324
(b) Capital:			
Tax effect of unrealized capital gains	**6,951,554**	7,588,359	(636,805)
Subtotal capital deferred tax liabilities	**6,951,554**	7,588,359	(636,805)
(c) Total	**8,407,922**	7,728,403	679,519
4. Net deferred tax assets	**$ 1,792,528**	$ 3,974,329	$ (2,181,801)

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

	December 31 2017	2016	Change
Total deferred tax assets	**$ 10,200,450**	$ 13,873,114	$ (3,672,664)
Total deferred tax liabilities	**(8,407,922)**	(7,728,403)	(679,519)
Net deferred tax asset	**1,792,528**	6,144,711	(4,352,183)
Statutory valuation allowance	**–**	–	–
Net deferred tax assets/liabilities after valuation allowance	**$ 1,792,528**	$ 6,144,711	(4,352,183)
Tax effect of unrealized gains			(550,238)
Statutory valuation allowance on unrealized gains			–
Change in net deferred income tax			$ (4,902,421)

The federal income tax expense incurred differs from the amount computed by applying the expected U.S. corporate income tax rate of 34% to income before taxes for the years ended December 31, 2017 and 2016. The significant items causing this difference were the change in dividends from affiliates, tax on capital gains, tax-exempt income, the nondeferrable portion of change in unearned premium, and the discounting of loss reserves.

6. Federal Income Taxes (continued)

The Company has no capital loss carryforwards as of December 31, 2017 and 2016.

The Company has alternative minimum tax credit carryforwards of $108,290 and $143,372 as of December 31, 2017 and 2016, respectively.

The following represents income tax expense for 2017, 2016, and 2015 that is available for recoupment in the event of future net losses:

	Ordinary	Capital	Total
2017	**$ 598,842**	**$ 678,823**	**$ 1,277,665**
2016	665,615	554,153	1,219,768
2015	NA	412,112	412,112
	$ 1,264,457	$ 1,645,088	$ 2,909,545

The Company has no admitted deposits under Section 6603 of the Internal Revenue Code. As of December 31, 2017, the Company is subject to federal examination in the United States from 2014 to present.

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

- Western Professional Insurance Company
- Association Insurance Services, Inc.
- PHYSIS Corporation
- Washington State Physicians Insurance Association, Inc.
- EMPAC Managers, Inc.

The Company has a written 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.

6. Federal Income Taxes (continued)

On December 22, 2017, the Tax Cuts and Jobs Act was enacted (Enactment), which significantly revised U.S. corporate income tax law by, among other things, reducing the corporate statutory income tax rate from 34% to 21%, beginning January 1, 2018. This reduction in the corporate statutory income tax rate required the Company to re-evaluate certain of its deferred tax assets and liabilities, as of the date of Enactment, to reflect the revised income tax rates applicable to future periods.

The Company believes that it has made a reasonable estimate of the income tax effects of the Tax Cuts and Jobs Act as of and for the year ended December 31, 2017. However, the Company was required to base certain of its estimates and assumptions on incomplete information and/or preliminary interpretations of the effects of Enactment. As a result, the Company may need to reflect further adjustments to its deferred tax assets and liabilities recorded as of December 31, 2017 in future periods upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of that date that, if known at that time, would have affected the income tax effects initially reported. The Company have determined that the net $1.2 million reduction of deferred tax assets recorded in connection with the remeasurement of certain deferred tax assets and liabilities was a provisional amount and reasonable estimate at December 31, 2017. The Company does not expect the amounts of any future income tax adjustments that may be required to be made to the Company's deferred tax assets and liabilities as of December 31, 2017 to be material.

7. Commitments and Contingencies

The Company leases office facilities and certain equipment under noncancelable operating leases through 2022, with certain leases having renewal options for two 5-year periods. Annual rental expense under these lease agreements was $928,387 and $918,987 in 2017 and 2016, respectively.

Future minimum commitments under these leases as of December 31, 2017, are as follows:

2018	$ 767,921
2019	795,035
2020	822,195
2021	849,391
2022	716,028
Thereafter	–
	$ 3,950,570

7. Commitments and Contingencies

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.

8. Information Concerning Parent, Subsidiaries, and Affiliates

The Company is a mutual insurance company that owns 100% of the equity interests (either stock or units) of each of its subsidiaries. The Company performs substantially all management services for WPIC, and other subsidiaries, and is reimbursed based on management services agreements. Costs are shared based on an analysis of the cost of services provided. The Company also reinsures 100% of risks up to the $5,000,000 policy limits of WPIC's professional liability policies and 100% of the risks of WPIC's BOP and stop-loss policies. During 2004, WPIC discontinued writing hospital professional liability by allowing the existing policies to terminate at their natural expiration dates. Stop-loss insureds were offered renewal with the Company at their policy expiration dates. The Company's future liability for professional liability losses assumed from WPIC is limited to risks assumed prior to January 1, 2005. The amount due from affiliates at December 31, 2017 and 2016, primarily represents reimbursements owed to the Company by its subsidiaries. Substantially all of the insurance activities of WPIC are conducted by the Company.

9. EDP Equipment and Software

EDP equipment and operating and nonoperating system software are carried at cost less accumulated depreciation. Depreciation expense for EDP equipment and operating system software is computed using the double-declining-balance method over the lesser of the estimated useful life of the related asset or three years. Depreciation expense for nonoperating system software is computed using the double-declining-balance method over the lesser of its estimated useful life or five years.

9. EDP Equipment and Software (continued)

EDP equipment and operating and nonoperating system software at December 31, 2017 and 2016, consist of the following:

	2017	2016
EDP equipment	**$ 1,063,295**	$ 960,781
Accumulated depreciation	**(907,531)**	(863,511)
Balance, net	**$ 155,764**	$ 97,270

Depreciation expense related to EDP equipment and operating and nonoperating system software totaled $186,814 and $187,362 for the years ended December 31, 2017 and 2016, respectively.

10. 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 10.0% of eligible compensation to the plan. The second plan allows employee contributions, and 100.0% of those contributions are matched by the Company up to a maximum of 6.6% of eligible compensation. Employees vest 20.0% 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 $1,702,469 and $1,647,014 for 2017 and 2016, respectively.

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, 2017 and 2016, were $279,247 and $287,866, respectively.

11. Policyholders' and Surplus, Dividend Restrictions, and Risk-Based Capital

The following table shows the cumulative increase (reduction) of unassigned funds related to the following items:

	As of December 31	
	2017	**2016**
Unauthorized reinsurance	**$ (1,138,173)**	$ (755,178)
Nonadmitted assets and other	**(7,896,877)**	(14,610,510)
Unrealized capital gains on investments, net of taxes	**18,359,613**	11,101,782

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, dividends in 2018 are limited to approximately $9.5 million. Dividends declared and paid were $5,001,216 and $5,021,643 during 2017 and 2016, respectively.

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, 2017 and 2016, the Company's RBC exceeded the required amount.

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