Financial Statements – Statutory Basis

Physicians Insurance A Mutual Company
Years Ended December 31, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Physicians Insurance A Mutual Company

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Years Ended December 31, 2020 and 2019

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 (the Company), which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of income, changes in capital and 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 of America. 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.

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

As described in Note 1 to the statutory-basis 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 U.S. generally accepted accounting principles. The variances between such practices and U.S. generally accepted accounting principles, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles 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 the Company at December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory-Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 1.

Ernst & Young LLP

June 1, 2021

Physicians Insurance A Mutual Company

Balance Sheets – Statutory Basis

	December 31	
	2020	**2019**
Admitted assets		
Cash and investments:		
Bonds, at amortized cost (fair value of $426,688,290 and $402,572,963 at December 31, 2020 and 2019, respectively)	**$ 394,465,378**	$ 385,033,579
Common stocks, at fair value (cost of $43,183,523 and $49,596,886 at December 31, 2020 and 2019, respectively)	**88,575,343**	94,845,688
Cash of $20,467,352 and $18,453,562, and short-term investments of $6,291,404 and $1,380,979 at December 31, 2020 and 2019, respectively	**26,758,756**	19,834,541
Investments in subsidiaries and affiliates	**5,561,827**	5,422,704
Total cash and investments	**515,361,304**	505,136,512
Uncollected premiums and agents' balances in the course of collection	**26,388,594**	19,495,016
Reinsurance recoverables on paid losses	**3,563,721**	3,513,818
Other amounts receivable under reinsurance contracts	–	2,824,542
Federal income taxes recoverable	–	668,738
EDP equipment and software	**184,905**	90,072
Accrued interest and dividends	**3,076,252**	3,825,590
Due from affiliates	**1,003,932**	892,619
Other assets	**783,659**	449,457
Total	**$ 550,362,367**	$ 536,896,364
Liabilities and policyholders' surplus		
Liabilities:		
Reserves for losses	**$ 152,079,833**	$ 149,106,039
Reserves for loss adjustment expenses	**56,393,443**	54,716,392
Reinsurance payable on paid losses and loss adjustment expenses	**2,374,284**	281,168
Unearned premiums	**41,057,157**	35,472,315
Premium deposits	**9,236,612**	11,853,754
Other expenses	**4,586,786**	4,402,684
Retroactive reinsurance reserves assumed	**1,926,178**	3,564,856
Taxes, licenses, and fees	**197,932**	332,835
Provision for reinsurance	**357,987**	101,285
Ceded reinsurance premium payable to reinsurers	**3,435,744**	4,366,112
Federal income taxes payable	**218,871**	–
Net deferred tax liability	**2,422,159**	2,532,977
Total liabilities	**274,286,986**	266,730,417
Policyholders' surplus	**276,075,381**	270,165,947
Total	**$ 550,362,367**	$ 536,896,364

See accompanying notes.

Physicians Insurance A Mutual Company

Statements of Income – Statutory Basis

	Year Ended December 31	
	2020	**2019**
Revenues:		
Premiums earned	**$ 139,609,365**	$ 122,920,161
Less ceded reinsurance premiums	**29,976,980**	18,538,837
Net premiums earned	**109,632,385**	104,381,324
Losses and expenses:		
Net losses incurred	**59,551,016**	52,371,683
Net loss adjustment expenses incurred	**34,578,879**	39,974,965
Other underwriting expenses incurred	**30,388,717**	22,536,501
Total underwriting deductions	**124,518,612**	114,883,149
Net underwriting loss	**(14,886,227)**	(10,501,825)
Net investment income earned	**12,379,280**	18,406,422
Net realized capital gains, less taxes of $2,660,305 and $306,071 at December 31, 2020 and 2019, respectively	**10,007,813**	1,151,409
Net investment gain	**22,387,093**	19,557,831
Net loss from agents' or premium balances charged off	**(6,552)**	(4,167)
Finance and service charges not included in premiums	**59,184**	271,806
Other income, net	**502,489**	2,000,385
Total other income	**555,121**	2,268,024
Income before dividends to policyholders and before federal income taxes	**8,055,987**	11,324,030
Dividends to policyholders	**5,001,642**	5,002,244
Income after dividends to policyholders and before federal income taxes	**3,054,345**	6,321,786
Federal income taxes incurred	**(1,366,265)**	72,849
Net income	**$ 4,420,610**	$ 6,248,937

See accompanying notes.

Physicians Insurance A Mutual Company

Statements of Changes in Policyholders' Surplus – Statutory Basis

	Year Ended December 31	
	2020	**2019**
Policyholders' surplus, at beginning of year	**$ 270,165,947**	$ 252,924,352
Net income	**4,420,610**	6,248,937
Change in unauthorized reinsurance	**(256,702)**	(11,324)
Change in nonadmitted assets	**1,116,184**	788,435
Change in net unrealized capital gains less capital gains tax on investments	**451,390**	9,705,103
Change in net deferred income tax	**177,952**	510,444
Policyholders' surplus, at end of year	**$ 276,075,381**	$ 270,165,947

See accompanying notes.

Physicians Insurance A Mutual Company

Statements of Cash Flow – Statutory Basis

	Year Ended December 31	
	2020	**2019**
Operating activities		
Premiums collected, net of reinsurance	**$ 103,508,713**	$ 104,744,855
Net investment income	**15,299,609**	19,756,807
Miscellaneous income	**55,119**	268,028
Total	**118,863,441**	124,769,690
Benefits and loss-related payments	**54,434,878**	47,239,630
Expenses paid	**58,378,236**	60,992,002
Dividends paid	**5,001,642**	5,002,244
Federal income taxes paid	**406,431**	1,903,625
Total	**118,221,187**	115,137,501
Net cash provided by operating activities	**642,254**	9,632,189
Investing activities		
Proceeds from investments sold, matured, or repaid:		
Bonds	**71,985,791**	60,538,650
Common stocks	**21,119,883**	8,839,853
Total investment proceeds	**93,105,674**	69,378,503
Cost of investments acquired:		
Bonds	**83,491,560**	67,828,626
Common stocks	**2,199,863**	2,586,353
Other invested assets	**–**	2,600,000
Total investments acquired	**85,691,423**	73,014,979
Net cash provided by (used in) investing activities	**7,414,251**	(3,636,476)
Financing and miscellaneous activities		
Other cash applied	**(1,132,290)**	(2,079,192)
Net change in cash and short-term investments	**6,924,215**	3,916,521
Cash and short-term investments at beginning of year	**19,834,541**	15,918,020
Cash and short-term investments at end of year	**$ 26,758,756**	$ 19,834,541

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 that protect medical provider organizations and self-insured employers from catastrophic losses.

The Company has an insurance agency subsidiary that sells physicians products provided by other insurance carriers, such as business owners policies, employment practices liability, long-term care, disability, life, and health. The Company also has subsidiaries that 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*, 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.

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

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

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

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

- Deferred 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.

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

- 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.

- The statements of cash flows differ in certain respects from the presentation required by GAAP. Cash and short-term investments in the statutory-basis statements of cash flows represent cash balances and investments with initial maturities of one year or less. If in the aggregate the Company has a negative cash balance, it is reported as a negative asset and not a liability. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less. Short-term investments are reported separately, and negative cash balances are also reported separately as liabilities.

- Realized gains or losses are recorded net of tax on 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.

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

Other significant accounting practices are as follows:

Cash and Short-Term Investments

Cash consist of cash in the bank or on hand and available for current use. 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 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.

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.

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 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.

Interest and dividend income are recorded on the accrual basis.

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

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 $9,015,000 and $9,781,400 at December 31, 2020 and 2019, respectively, are for this coverage, which are referred to as Disability, Death and Retirement (DD&R) reserves.

In determining unearned premiums related to DD&R, the Company includes an estimate for unexercised extended reporting endorsements utilizing actuarial models, including assumptions for the time value of money, loss trends, and the degree by which the loss experience of DD&R policies is likely to be below that implied by the Company’s historical claims-made experience. Although the Company considers its experience and industry data in determining unearned premium related to DD&R, assumptions and projections of future events are necessary and unearned premiums may differ materially from amounts projected in the near term.

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

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 reflects past inflation

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

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 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.

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, 2020 or 2019.

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

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 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 loss adjustment expenses, reinsurance recoverables on unpaid losses and loss adjustment expenses, DD&R reserves, other-than-temporary impairment of invested assets, and the admitted portion of deferred tax assets.

2. Investments

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

	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
U.S. treasury securities and obligations of U.S. government corporations and agencies	**$ 42,597,804**	**$ 5,425,763**	**$ –**	**$ 48,023,567**
Obligations of states and political subdivisions	**104,010,267**	**7,159,543**	**–**	**111,169,810**
Corporate securities	**128,557,322**	**14,728,904**	**(6,252)**	**143,279,974**
Mortgage-backed/ asset-backed securities	**119,299,985**	**4,977,513**	**(62,559)**	**124,214,939**
Total bonds	**$ 394,465,378**	**$ 32,291,723**	**$ (68,811)**	**$ 426,688,290**

	Book/ Adjusted Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 36,729,244	$ 2,198,086	$ (27,032)	$ 38,900,298
Obligations of states and political subdivisions	105,319,707	4,700,616	(183,544)	109,836,779
Corporate securities	128,945,762	8,238,078	(94,072)	137,089,768
Mortgage-backed/ asset-backed securities	114,038,866	2,920,373	(213,121)	116,746,118
Total bonds	$ 385,033,579	$ 18,057,153	$ (517,769)	$ 402,572,963

2. Investments (continued)

Unrealized gains and losses on investments in common stock are reported directly in surplus and do not affect operations. The cost, gross unrealized gains and losses, and fair value of those investments as of December 31, are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Common stocks	**$ 43,183,523**	**$ 45,441,482**	**$ (49,662)**	**$ 88,575,343**

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Common stocks	$ 49,596,886	$ 45,290,492	$ (41,690)	$ 94,845,688

Investments in subsidiaries and affiliates, had a carrying value of $5,561,827 and $5,422,704 at December 31, 2020 and 2019, respectively. Certain other subsidiaries and affiliates with a total value of $1,331,161 and $1,030,337 at December 31, 2020 and 2019, respectively, are nonadmitted. Equity in earnings (losses) of subsidiaries is included in the change in unrealized capital gains (losses) and was $402,847 and $(6,223,534) for the years ended December 31, 2020 and 2019, respectively.

The cost or amortized cost and fair value of bonds by contractual maturity at December 31, 2020, 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	$ 26,955,856	$ 27,294,097
Due between one year and five years	88,498,926	94,221,697
Due between five years and ten years	90,597,487	99,128,968
Due after ten years	69,113,124	81,828,589
Mortgage-backed/asset-backed securities	119,299,985	124,214,939
	$ 394,465,378	$ 426,688,290

2. Investments (continued)

Provided below is a summary of securities that were in an unrealized loss position as of December 31, 2020 and 2019. Management does not believe any individual unrealized loss as of December 31, 2020 or 2019, 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 2020 and 2019, 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, 2020						
U.S. treasury and obligation of U.S. government	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
Obligations of states and political subdivisions	**–**	**–**	**–**	**–**	**–**	**–**
Corporate securities	**4,409**	**6**	**–**	**–**	**4,409**	**6**
Mortgage-backed/asset-backed securities	**7,643**	**63**	**–**	**–**	**7,643**	**63**
Common stocks	**263**	**3**	**613**	**47**	**876**	**50**
Temporarily impaired securities	**$ 12,315**	**$ 72**	**$ 613**	**$ 47**	**$ 12,928**	**$ 119**

	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, 2019						
U.S. treasury and obligation of U.S. government	$ 3,496	$ 27	$ –	$ –	$ 3,496	$ 27
Obligations of states and political subdivisions	7,319	183	–	–	7,319	183
Corporate securities	3,200	70	482	24	3,682	94
Mortgage-backed/asset-backed securities	8,103	55	7,637	158	15,740	213
Common stocks	1,194	3	621	39	1,815	42
Temporarily impaired securities	$ 23,312	$ 338	$ 8,740	$ 221	$ 32,052	$ 559

2. Investments (continued)

Proceeds from sales of bonds during 2020 and 2019 were $12,520,849 and $31,383,393, respectively. Gross gains of $191,228 and $175,116 and gross losses of $36,081 and $48,623 were realized on those sales during 2020 and 2019, respectively. Gross gains of $6,312 and $0 and gross losses of $0 and $8,867 were realized from other transactions during 2020 and 2019, respectively.

The number of CUSIPs and aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee during 2020 and 2019 were 3 and $131,118, and 2 and $29,709, respectively.

Proceeds from sales of common stock during 2020 and 2019 were $20,000,000 and $5,266,666, respectively. Gross gains of $12,506,657 and $1,339,853 were realized on equity securities during 2020 or 2019. No gross losses were realized during 2020 and 2019.

The Company has the following restricted securities:

Certain bonds were on deposit with the Washington and Nevada Office of the Insurance Commissioner for the protection of policyholders. The amortized cost of these securities at December 31, 2020 and 2019, was $2,729,196 and $2,730,236, respectively.

Net investment income is summarized as follows:

	2020	2019
Interest and dividend income	**$ 12,846,008**	$ 14,208,278
Dividends from affiliates	**600,000**	5,193,301
Less investment expenses	**(1,066,728)**	(995,157)
	$ 12,379,280	$ 18,406,422

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

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 on the accompanying balance sheets for these financial instruments approximate fair value.

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

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

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

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

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

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

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.

The aggregate fair values of all financial instruments and their level within the fair value hierarchy at December 31, 2020 and 2019 are as follows:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	Level 1	Level 2	Level 3	Net Asset Value	Not Practical (Carrying Value)
2020							
Common stocks*	**$ 88,575,343**	**$ 88,575,343**	**$ 88,575,343**	**$ –**	**$ –**	**$ –**	**$ –**
Bonds	**426,688,290**	**394,465,378**	**39,672,563**	**387,015,727**	**–**	**–**	**–**
Short-term investments*	**6,291,404**	**6,291,404**	**6,291,404**	**–**	**–**	**–**	**–**
Surplus notes or debentures*	**2,376,600**	**2,376,600**	**–**	**–**	**2,376,600**	**–**	**–**
2019							
Common stocks*	$ 94,845,688	$ 94,845,688	$ 94,845,688	$ –	$ –	$ –	$ –
Bonds	402,572,963	385,033,579	32,335,884	370,237,079	–	–	–
Short-term investments*	1,380,979	1,380,979	1,380,979	–	–	–	–
Surplus notes or debentures*	2,190,000	2,190,000	–	–	2,190,000	–	–

*Measured at fair value on a recurring basis.

Fair Value Measurements in Level 3 of the Fair Value Hierarchy

Description	Beginning Balance at January 1, 2020	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Ending Balance at December 31, 2020
2020										
a) Assets:										
Surplus debentures – affiliate	**$ 2,190,000**	**$ –**	**$ –**	**$ –**	**$ 186,600**	**$ –**	**$ –**	**$ –**	**$ –**	**$2,376,000**
Total assets	**$ 2,190,000**	**$ –**	**$ –**	**$ –**	**$ 186,600**	**$ –**	**$ –**	**$ –**	**$ –**	**$2,376,000**

Description	Beginning Balance at January 1, 2019	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Issuances	Sales	Settlements	Ending Balance at December 31, 2019
2019										
a) Assets:										
Surplus debentures – affiliate	$ 1,169,600	$ –	$ –	$ –	$ 20,400	$1,000,000	$ –	$ –	$ –	$ 2,190,000
Total assets	$ 1,169,600	$ –	$ –	$ –	$ 20,400	$1,000,000	$ –	$ –	$ –	$ 2,190,000

4. Reinsurance

Under reinsurance agreements, the Company cedes various amounts of risk to other insurance companies. The professional liability reinsurance agreements that became effective January 1, 2020, provide for an initial retention by the Company of the first $1,000,000 of loss per event, with coverage of the excess up to $35,000,000. Prior to January 1, 2020, the Company retained the first $2,000,000 with respect to individual incidents. The stop-loss liability insurance coverage business was reinsured in 2020 and 2019 through a 50% quota share reinsurance arrangement. In 2020 and 2019, cyber liability coverage was reinsured at 100%. D&O coverage has been reinsured since July 1, 2016, under the same reinsurance agreements as the Company's professional liability agreements.

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

	Direct Business	Reinsurance Assumed Affiliated	Reinsurance Assumed Nonaffiliated	Reinsurance Ceded Nonaffiliated	Net Reported
Year ended December 31, 2020					
Premiums written	**$ 111,934,410**	**$ 29,602,080**	**$ 6,105,060**	**$ (32,424,323)**	**$ 115,217,227**
Premiums earned	**111,668,640**	**22,023,521**	**5,917,205**	**(29,976,980)**	**109,632,385**
Losses (recoveries)	**68,320,714**	**11,754,691**	**2,647,115**	**(23,171,504)**	**59,551,016**
Loss adjustment expenses (recoveries)	**30,381,660**	**3,876,128**	**784,288**	**(463,197)**	**34,578,879**
Underwriting expenses	**18,839,450**	**12,161,170**	**1,033,951**	**(1,645,855)**	**30,388,717**
Year ended December 31, 2019					
Premiums written	$ 108,243,113	$ 19,615,127	$ 4,148,507	$ (21,529,980)	$ 110,476,767
Premiums earned	102,545,959	16,787,855	3,586,347	(18,538,837)	104,381,324
Losses (recoveries)	55,686,175	8,617,135	171,478	(12,103,105)	52,371,683
Loss adjustment expenses (recoveries)	35,269,249	3,898,906	1,356,670	(549,860)	39,974,965
Underwriting expenses	17,314,959	6,639,442	733,794	(2,151,694)	22,536,501

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, 2020 and 2019, were $357,987 and $101,285, respectively.

4. Reinsurance (continued)

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

Unsecured reinsurance recoverables in excess of 3% of surplus as of December 31, 2020 or 2019 are as follows

	Federal ID Number	Name of Reinsurer	Unsecured Amount
2020	AA-1340125	Hannover Ruck SE	**$ 16,223,266**
2019	None		

There would be no commissions due if reinsurance were canceled.

Contingent commissions of $503,794 and $49,376 were accrued as of December 31, 2020 and 2019, respectively.

Assumed retroactive reinsurance as of December 31, 2020 and 2019, is $1,926,177 and $3,564,856, respectively. In January 2017, the Company 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 $5,657,853 and $4,519,174 of loss and loss adjustment expenses paid as of December 31, 2020 and 2019, respectively. In 2020, favorable development of $500,000 in reserves related to retroactive reinsurance in assumed business was recognized in other income.

5. Reserves for Losses and Loss Adjustment Expenses

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

	2020	**2019**
Balance – January 1, net of reinsurance recoverables of $22,709,122 and $22,791,438	**$ 203,822,431**	$ 190,963,656
Incurred related to:		
Current year	**94,394,500**	98,309,792
Prior years	**(264,605)**	(5,963,144)
Total incurred	**94,129,895**	92,346,648
Paid related to:		
Current year	**13,051,248**	9,652,015
Prior years	**76,427,802**	69,835,858
Total paid	**89,479,050**	79,487,873
Balance – December 31, net of reinsurance recoverables of $30,316,774 and $22,709,122	**$ 208,473,276**	$ 203,822,431

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by $264,605 and $5,963,144 in 2020 and 2019, respectively, due to lower than anticipated losses on professional liability claims. Positive reserve development came principally from accident years 2015 and 2019; this was offset by reserve strengthening for accident years 2016 and 2018.

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 their terms.

6. Federal Income Taxes

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

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

Alestri (formerly Western Professional Insurance Company) withdrew from the agreement effective December 31, 2019, which was the final year it is consolidated with the Company.

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)

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

	2020			2019			Change		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
Gross deferred tax assets	**$8,199,470**	**$ –**	**$8,199,470**	$ –	$ –	$ 8,316,191	$ (116,721)	$ –	$ (116,721)
Statutory valuation allowance adjustments	**–**	**–**	**–**	–	–	–	–	–	–
Adjusted gross deferred tax assets	**8,199,470**	**–**	**8,199,470**	8,316,191	–	8,316,191	(116,721)	–	(116,721)
Deferred tax assets nonadmitted	**–**	**–**	**–**	–	–	–	–	–	–
Subtotal net admitted deferred tax asset	**8,199,470**	**–**	**8,199,470**	8,316,191	–	8,316,191	(116,721)	–	(116,721)
Deferred tax liabilities	**(1,089,347)**	**(9,532,282)**	**(10,621,629)**	1,346,920	9,502,248	10,849,168	257,573	(30,034)	227,539
Net admitted deferred tax asset (net deferred tax liability)	**$ 7,110,123**	**$ (9,532,282)**	**$ (2,422,159)**	$ 6,969,271	$ (9,502,248)	$ (2,532,977)	$ 140,852	$ (30,034)	$ 110,818

The admission calculation components are as follows:

	2020			2019			Change		
	Ordinary	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**	**Ordinary**	**Capital**	**Total**
(a) Federal income taxes paid in prior years recoverable through loss carrybacks	**$ 1,758,149**	**$ –**	**$ 1,758,149**	$ 2,697,410	$ –	$ 2,697,410	$ (939,261)	$ –	$ (939,261)
(b) Adjusted gross deferred tax assets expected to be realized after application of the threshold limitation	**2,968,548**	**–**	**2,968,548**	1,951,624	–	1,951,624	1,016,924	–	1,016,924
1. Adjusted gross DTA expected to be realized following the balance sheet date	**2,968,548**	**–**	**2,968,548**	1,951,624	NA	1,951,624	NA	NA	1,016,924
2. Adjusted gross deferred tax assets allowed per limitation threshold	**NA**	**NA**	**41,483,571**	NA	NA	40,911,841	NA	NA	571,730
(c) Adjusted gross deferred tax assets offset by gross deferred tax liabilities	**3,472,773**	**–**	**3,472,773**	3,667,157	–	3,667,157	(194,384)	–	(194,384)
(d) Deferred tax assets admitted as the result of application of SSAP No. 101 Total (2)(a) + 2(b) + 2(c)	**$ 8,199,470**	**$ –**	**$ 8,199,470**	$ 8,316,191	$ –	$ 8,316,191	$ (116,721)	$ –	$ (116,721)

6. Federal Income Taxes (continued)

	2020	2019
(a) Ratio percentage used to determine recovery period and threshold limitation amount	**983%**	1,073%
(b) Amount of adjusted capital and surplus used to determine recovery period and threshold limitation in 2(b)2 above	**$ 275,890,476**	$ 270,075,875

The Company did not utilize any reinsurance tax planning or any other tax planning strategies in 2020 or 2019 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:

	2020	2019	Change
1. Current income tax:			
(a) Federal	**$ (1,253,318)**	$ 165,328	$ (1,418,646)
(b) Foreign	**–**	–	–
(c) Subtotal	**(1,253,318)**	165,328	(1,418,646)
(d) Federal income tax on net realized capital gains	**2,660,305**	306,071	2,354,234
(e) Other, including prior year adjustment	**(112,947)**	(92,479)	(20,468)
(f) Federal and foreign income taxes incurred	**$ 1,294,040**	$ 378,920	$ 915,120

6. Federal Income Taxes (continued)

The main components of deferred tax amounts are as follows:

	December 31		
	2020	**2019**	**Change**
2. Deferred tax assets:			
(a) Ordinary:			
Loss reserve discounting	**$ 3,523,080**	$ 3,476,010	$ 47,070
Unearned premium reserves and premium deposits	**2,112,338**	1,986,458	125,880
Investments	**451,632**	488,732	(37,100)
Fixed assets	**71,566**	189,664	(118,098)
Deferred compensation and benefits accrual	**220,314**	175,845	44,469
Receivable – nonadmitted	**19,579**	69,601	(50,022)
Intangible Asset/ Goodwill	**1,438,937**	1,657,510	(218,573)
Other	**362,024**	272,371	89,653
Subtotal gross ordinary deferred tax assets	**8,199,470**	8,316,191	(116,721)
(b) Statutory valuation allowance adjustment – ordinary	**–**	–	–
(c) Nonadmitted deferred tax assets – ordinary	**–**	–	–
(d) Admitted deferred tax assets – ordinary	**8,199,470**	8,316,191	(116,721)
(e) Capital	**–**	–	–
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	**8,199,470**	8,316,191	(116,721)
3. Deferred tax liabilities:			
(a) Ordinary:			
Depreciation	**45,315**	94,082	48,767
Tax Reconciliation Act Limited Risk Distributor	**1,044,032**	1,252,838	208,806
Subtotal ordinary deferred tax liabilities	**1,089,347**	1,346,920	257,573
(b) Capital:			
Tax effect of unrealized capital gains	**9,532,282**	9,502,248	(30,034)
Subtotal capital deferred tax liabilities	**9,532,282**	9,502,248	(30,034)
(c) Total	**10,621,629**	10,849,168	227,539
4. Net deferred tax assets (liabilities)	**$ (2,422,159)**	$ (2,532,977)	$ 110,818

6. Federal Income Taxes (continued)

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

	December 31		
	2020	**2019**	**Change**
Total deferred tax assets	**$ 8,199,470**	$ 8,316,191	$ (116,721)
Total deferred tax liabilities	**(10,621,629)**	(10,849,168)	227,539
Net deferred tax asset	**(2,422,159)**	(2,532,977)	110,818
Net deferred tax assets/liabilities after valuation allowance	**$ (2,422,159)**	$ (2,532,977)	110,818
Tax effect of unrealized gains			67,134
Change in net deferred income tax			$ 177,952

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, 2020 and 2019. The significant items causing this difference were tax-exempt interest income, dividends received deduction, change in non-admitted assets and income from Alternative Insurance Management Services (AIMS).

The Company has no capital loss carryforwards and no tax credit carryforwards as of December 31, 2020 or 2019.

6. Federal Income Taxes (continued)

The following represents income tax expense that is available for recoupment in the event of future net losses:

	Ordinary	Capital	Total
2020	**$ –**	**$ 1,406,987**	**$ 1,406,987**
2019	45,091	306,071	351,162
2018	NA	401,095	401,095
	$ 45,091	$ 2,114,153	$ 2,159,244

The Company has no admitted deposits under Section 6603 of the Internal Revenue Code. Tax years 2017 through 2020 remain open and are available for examination by the Internal Revenue Service.

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.

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 five-year periods. Annual rental expense under these lease agreements was $918,574 and $937,093 in 2020 and 2019, respectively.

Future minimum commitments under these leases as of December 31, 2020, are as follows:

2021	$ 849,391
2022	716,028
2023	–
Thereafter	–
	$ 1,565,419

7. Commitments and Contingencies (continued)

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

Through December 31, 2019, Western Professional Insurance Company (WPIC) was a wholly owned subsidiary of PI. Until 2004, WPIC provided medical professional liability insurance to hospitals, stop-loss insurance, and business office insurance. WPIC ceased writing nearly all business in 2004 and has reported no earned premium since 2007. WPIC was 100% reinsured by PI for policy limits up to $5 million. Limits above $5 million were placed in the facultative market. The personnel of the parent company conducted the management of WPIC's affairs. On December 31, 2019, PI sold two-thirds of WPIC common stock to COPIC Insurance Company (COPIC) and Michigan Professional Insurance Exchange (MPIE) in a transaction that was approved by the Washington Office of Insurance Commissioner (OIC) on December 2, 2019. WPIC changed its name to Alestri Insurance Company effective as of January 1, 2020. Gains recognized from this transaction were $266,666. Prior to the sale, WPIC declared extraordinary dividends of $6,088,177 and $605,125 on February 27, 2019 and December 31, 2019, respectively. Such amounts were paid to the Company on August 12, 2019 and March 6, 2020, respectively. The portion of WPIC's dividend distribution that exceeded accumulated retained earnings was $2,500,000 and was recorded by the Company as return of paid-in capital. On December 7, 2020 PI entered into an agreement to sell its remaining one-third share of Alestri to COPIC and MPIE during the first quarter of 2021 for $2,000,000.

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

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.

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

	2020	**2019**
EDP equipment	**$ 1,231,056**	$ 998,571
Accumulated depreciation	**(1,046,151)**	(908,499)
Balance, net	**$ 184,905**	$ 90,072

Depreciation expense related to EDP equipment and operating and nonoperating system software, including non-admitted assets, totaled $153,667 and $165,026 for the years ended December 31, 2020 and 2019, 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 $2,043,474 and $1,770,528 for 2020 and 2019, 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, 2020 and 2019, were $131,873 and $251,085, respectively.

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

The following table shows the amounts accumulated within unassigned funds related to the following items:

	As of December 31	
	2020	**2019**
Unauthorized reinsurance	**$ (357,987)**	$ (101,285)
Non-admitted assets and other	**(2,367,594)**	(3,483,777)
Unrealized capital gains on investments, net of taxes	**17,402,822**	16,914,330

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 2021. Dividends declared and paid were $5,001,642 and $5,002,244 during 2020 and 2019, 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, 2020 and 2019, the Company's RBC exceeded the required amount.

12. Subsequent Events

The Company has evaluated subsequent events through June 1, 2021, the date on which the Company's financial statements were available to be issued.

On March 31, 2021, the Company sold its remaining 33.3% ownership of Alestri Insurance Company to COPIC and MPIE. Loss recognized from this transaction was $500,000.