

Report
of the
Examination of
Physicians Insurance Company of Wisconsin, Inc.
Madison, Wisconsin
As of December 31, 2006

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Sean Dilweg, Commissioner

Wisconsin.gov

September 21, 2007

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Honorable Sean Dilweg
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions a compliance examination has been made of the affairs and financial condition of:

PHYSICIANS INSURANCE COMPANY OF WISCONSIN, INC.
Madison, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Physicians Insurance Company of Wisconsin, Inc., (hereinafter PIC Wisconsin or the company) was conducted in 2005 as of December 31, 2004. The current examination covered the intervening period ending December 31, 2006, and included a review of such 2007 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Physicians Insurance Company of Wisconsin, Inc., was organized in 1986 pursuant to a resolution passed by the House of Delegates of the State Medical Society of Wisconsin to organize an insurance company to provide its members with medical professional liability insurance. The company's primary line of business provides the layers of health care liability insurance coverage, as required by s. 655.23, Wis. Stat., for health care providers permanently practicing or operating in Wisconsin. The limits in effect as of the annual statement date for primary coverage, pursuant to s. 655.23 (4), Wis. Stat., were \$1,000,000 per occurrence and \$3,000,000 per annual aggregate.

Prior to 1996, operations of the company were limited to writing health care professional liability insurance and related coverages such as commercial multi-peril and umbrella insurance in Wisconsin. The premium volume of the company's core business, medical professional liability, was being eroded by consolidation within the health care field and increased competition due to the profitability of medical professional liability insurance in Wisconsin at that time. The company embarked on a diversification plan by entering into new lines of business covering dental professionals and small hospital facilities, marketing its products in new states, and offering high-limit deductible policies to its larger groups.

On December 21, 2005, ProAssurance Corporation (hereinafter also, ProAssurance) filed a plan with the Commissioner to acquire PIC Wisconsin through an all stock merger pursuant to s. 611.72, Wis. Stat., and ch. Ins 40, Wis. Adm. Code. The Agreement and Plan of Merger had previously been approved by the boards of directors of both companies. The agreement called for the conversion of each share of PIC Wisconsin stock into shares of ProAssurance common stock having a value of \$5,000. The exchange ratio was based on the average closing price of a share of ProAssurance stock on the 10 trading days preceding the effective date of the merger. At \$5,000 per share, ProAssurance paid approximately \$100 million for the company. The Agreement and Plan of Merger dated December 8, 2005, as amended on February 14, 2006, was approved by the Commissioner on May 17, 2006.

On February 15, 2006, ProAssurance filed an S-4 business combination statement, as amended on June 2, 2006, with the Securities and Exchange Commission (SEC) under the Securities Act of 1933 to register the shares of ProAssurance common stock to be used for the acquisition. The S-4 registration statement also served as the proxy statement for the solicitation of proxies from PIC Wisconsin shareholders in connection with the vote on the proposed merger at a special meeting that was held on July 26, 2006. PIC Wisconsin shareholders could vote their shares by ballot, if present, or by proxy, if not. On June 6, 2006, the SEC granted approval of the proposed merger and on July 26, 2006, the majority of PIC Wisconsin shareholders voted in favor of it as well.

After receiving regulatory and shareholder approval, PIC Wisconsin became a wholly owned subsidiary of ProAssurance Corporation with an effective date of August 1, 2006. On October 31, 2006, the Office of the Commissioner of Insurance granted approval to ProAssurance pursuant to its request to transfer ownership of the company to its subsidiary, PRA Professional Liability Group, Inc., (PRA) a Delaware holding company, with an effective date of December 6, 2006.

Based primarily on ProAssurance's needs as a publicly traded company, subject to Sarbanes-Oxley Act internal control requirements, it is their policy to have centralized accounting operations for its medical malpractice business. The company's accounting staff completed accounting for 2006 in Madison, Wisconsin, and a transition plan was put in place to transfer ongoing accounting functions to ProAssurance Corporation's headquarters in Birmingham, Alabama, starting January 1, 2007.

In addition to accounting operations, the company's legal, information technology, actuarial, investment oversight and accounting operations had been transferred to PRA during 2007, prior to examination fieldwork, as part of their policy to centrally manage certain operations.

Below is a summary of some of the other post-merger operational plans:

- The existing PIC Wisconsin claims office in Madison will remain in place.

- PIC Wisconsin claims management for all states as well as related support functions such as accounting and information systems are performed by PIC Wisconsin personnel at the Madison, Wisconsin, office.
- ProAssurance also intends to locate underwriting, policy administration, and risk management operations for admitted business written by any member of the ProAssurance Group in Wisconsin, Iowa, Minnesota, Nebraska, Nevada, and South Dakota within the company's Madison office, except for nonadmitted business written by Red Mountain Casualty Insurance Company, Inc. Excess and surplus lines business written in those states will be processed in Alabama by either Red Mountain Casualty or ProNational Insurance Company. Sometime in 2007, all of the dental professional book of business, other than that in Alabama, Indiana, and Michigan, will be transferred to PIC Wisconsin.

It is the intent of ProAssurance to continue the company as a Wisconsin-domiciled insurer and maintain its strong presence in Wisconsin by allowing it to continue to service its core market. PIC Wisconsin will serve as ProAssurance's northwest regional office.

The company will continue to specialize in writing professional liability insurance for health care professionals with an emphasis on medical malpractice insurance. Marketing operations are globally overseen by ProAssurance, so there will be some territorial changes in that area as well. In states in which business overlaps between PIC Wisconsin and other ProAssurance Group subsidiaries, business will be moved from one company to another, depending upon which company is the larger, dominant insurer in that state. As part of that plan, all Wisconsin and all Iowa physician business written by ProNational Insurance Company will be written by PIC Wisconsin and serviced out of the Madison office.

In 2006, the company was licensed and wrote direct premium in the following states:

Wisconsin	\$44,833,962	53.3%
Iowa	16,007,433	19.0
Nevada	11,031,310	13.1
Illinois	7,008,059	8.3
Nebraska	2,225,619	2.6
Minnesota	2,088,318	2.5
Kansas	647,124	0.8
South Dakota	<u>214,991</u>	<u>0.4</u>
Total	<u>\$84,056,816</u>	<u>100.0%</u>

The company is also licensed in Indiana, Michigan, Missouri, North Dakota and Ohio, but was not actively writing business in those states.

At the time of the examination there were no plans to change how the company markets or distributes its products. The company continues to market its products through authorized brokers and agents who specialize in health care professional liability. At the time of the examination there were 55 active agencies and 188 licensed agents. Agents contracted to write business on behalf of PIC Wisconsin are in the process of being converted over to the ProAssurance standard agency contract.

The following table is a summary of the net insurance premiums written by the company in 2006. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Commercial multiple peril	\$ 913,257	\$	\$ 365,609	\$ 547,648
Medical malpractice – occurrence	16,863,255		6,086,177	10,777,078
Medical malpractice – claims made	62,284,064		6,876,870	50,407,194
Other liability – occurrence	3,996,240		2,418,949	1,577,291
Surety		<u>23,206</u>		<u>23,206</u>
Total All Lines	<u>\$84,056,816</u>	<u>\$23,206</u>	<u>\$15,747,605</u>	<u>\$68,332,417</u>

Certain guidelines apply to claims-made policies. Generally, coverage is provided if a claim is reported related to medical incidents that occurred between the retroactive date and the expiration date of the policy. Occurrence policies provide coverage for medical incidents that occur within the policy term regardless of when they are reported. An extended reporting endorsement is available for physicians in the event of a death, disability, or retirement which has the effect of converting the claims-made policy to an occurrence policy when coverage is discontinued. Claims-made policies accounted for 74% of direct written premiums in 2006.

III. MANAGEMENT AND CONTROL

Ownership

On August 1, 2006, the company was a party to a reverse merger in which the company became a wholly owned subsidiary of ProAssurance Corporation. Under the terms and conditions of the merger, the company's treasury shares were cancelled and the company effectively issued additional shares such that the outstanding shares increased to 20,000. After receiving regulatory approval, ProAssurance transferred ownership of the company to its subsidiary PRA Professional Liability Group, Inc., a Delaware holding corporation. Additional information on the merger can be found in the "History and Plan of Operation" section of this report.

Board of Directors

The board of directors consists of six members. All directors are elected annually. Each director also serves as either an officer, director, or both for ProAssurance Corporation and other related organizations within the holding company group. Officers are elected at the board's annual meeting. The board members do not receive any compensation specifically due to their service on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
W. Stancil Starnes* Birmingham, Alabama	Chief Executive Officer ProAssurance Corporation	2008
Victor Thomas Adamo Birmingham, Alabama	President, Vice-Chairman, and Chief Operating Officer ProAssurance Corporation	2008
Howard Harley Friedman Timonium, Maryland	Chief Underwriting Officer ProAssurance Corporation	2008
Darryl Keith Thomas Hoover, Alabama	President and Chief Claims Officer ProAssurance Corporation	2008
Edward Lewis Rand, Jr. Birmingham, Alabama	Senior Vice President and Chief Financial Officer ProAssurance Corporation	2008

Officers of the Company

The officers serving at the time of this examination are as follows

Name	Office	2006 Compensation
Aubrey Derrill Crowe, M.D.	Chairman	\$
Darryl K. Thomas	President	
Kathryn Anne Neville	Secretary	
James Joseph Morello	Treasurer	
Victor Thomas Adamo	Vice Chairman	
David Lee Mauer*	Chief Operating Officer	350,992
Howard Harley Friedman	Chief Underwriting Officer	
Frank Berry O'Neil	Senior Vice President	
Jeffrey Lynn Bowlby	Senior Vice President	
Edward Lewis Rand, Jr.	Senior Vice President	
Hayes Vance Whiteside, M.D.	Senior Vice President	
Christopher James Brady*	Senior Vice President	224,341

* Denotes officers that were retained by ProAssurance Corporation. For the other officers, no compensation was allocated to the company. Compensation effective January 1, 2007, will be allocated to the company based on the terms of an intercompany expense allocation agreement between ProAssurance and its subsidiaries.

Committees of the Board

ProAssurance Corporation has three committees, appointed by their board of directors, that serve for the benefit of the corporation as well as each member of the holding company group. The Investment Committee is appointed by the company's board of directors to serve only for PIC Wisconsin.

Investment Committee

Aubrey Derrill Crowe, M.D, Chair
Victor T. Adamo
Edward L. Rand, Jr.
Howard H. Friedman
Darryl K. Thomas

Audit Committee

John P. North, Jr., Chair
Lucian Bloodworth
Ann Putallaz, Ph.D.

Compensation Committee

Wilfred W. Yeagan, Jr., M.D., Chair
John McMahon

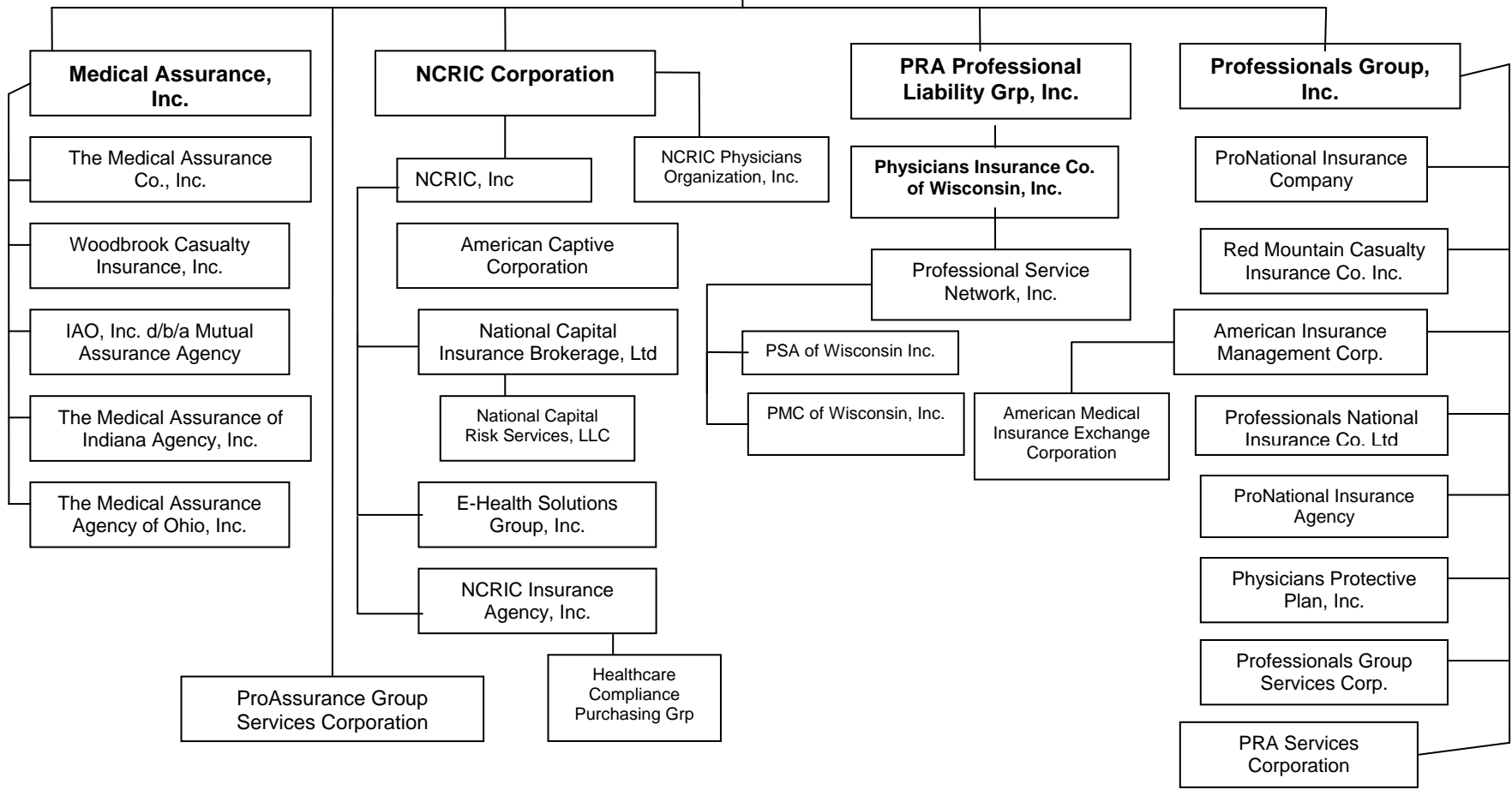
Governance Committee

John McMahon, Chair
William H. Woodhams, M.D.

IV. AFFILIATED COMPANIES

Physicians Insurance Company of Wisconsin is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group as of December 31, 2006. A brief description of the significant affiliates follows the organizational chart.

ProAssurance Corporation



ProAssurance Corporation

ProAssurance Corporation is a publicly traded holding company for property and casualty companies specializing in professional liability insurance. ProAssurance's subsidiaries market their products primarily to physicians, dentists, other health care providers and health care facilities, principally in the mid-Atlantic, Midwest and Southeast regions of the United States.

As of December 31, 2006, the audited consolidated financial statements of ProAssurance Corporation reported assets of \$4.3 billion, liabilities of \$3.2 billion and stockholders' equity of \$1.1 billion. Operations for 2006 produced net income of \$236 million.

Medical Assurance, Inc.

Medical Assurance, Inc., a Delaware holding company, is 100% owned by ProAssurance. Through its two insurance subsidiaries, The Medical Assurance Company, Inc., and Woodbrook Casualty Insurance, Inc., it provides medical malpractice insurance for health care providers, hospitals, and clinics principally in the Eastern portion of the United States. Policies are primarily issued on a claims-made basis. Individual limits are available for physicians, surgeons and dentists up to \$10 million. Higher limits are available to hospitals under joint insurance arrangements and to groups on a shared basis.

NCRIC Corporation

NCRIC Corporation, a wholly owned subsidiary of ProAssurance, is a Delaware holding company that provides medical professional liability coverage through its 100% owned insurance subsidiary, NCRIC, Inc. NCRIC, Inc., writes coverage for independent physicians who practice individually or in small groups with available limits up to \$5 million per occurrence and \$7 million in aggregate. Extended reporting endorsement coverage is available for physicians in the event of death, disability, retirement or relocation. Business is written in Washington, D.C., Delaware, Maryland, Virginia and West Virginia.

Professionals Group, Inc.

Professionals Group, Inc., a Michigan holding company, is 100% owned by ProAssurance Corporation. ProNational Insurance Company is the larger of two insurance companies under the ownership of Professionals Group, Inc. ProNational Insurance Company

provides professional liability coverage for physicians, dentists, hospitals, health care groups and facilities, and other professionals, including lawyers and law firms, primarily in Michigan, certain other Midwestern states, and Florida.

Agreements with Affiliates

On August 1, 2006, the company entered into a Management Services Agreement and an Expense Allocation Agreement with ProAssurance Corporation and subsidiaries. These agreements establish the terms for sharing management services and associated indirect expenses of certain group wide operations, such as administration, accounting, actuarial, legal and human resources functions. Examples of indirect costs are employee salaries and benefits, department staff expenses and vendor services such as actuarial consulting. Both agreements became effective on January 1, 2007, subject to annual automatic renewal unless amended or modified.

Effective August 1, 2006, the company entered into a tax allocation agreement with ProAssurance (Parent) and its subsidiaries (each a Member) for the purpose of filing a consolidated federal income tax form. Allocations between participants are based on Internal Revenue Code regulations. Each Member is required to pay the Parent its share of any tax liability on the applicable due date(s) that said amount would have been payable had the Member filed on an individual basis. In lieu of payments, adjustments are made to intercompany accounts. If any Member should have a tax benefit exceeding their liability, a cash payment will be made to it by the Parent.

V. REINSURANCE

The company's current reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Nonaffiliated Ceding Contracts

1. Type: Property Quota Share
Reinsurer: 15.00% Aspen Insurance UK, Ltd.
4.76% W R Berkley Insurance LTD
80.24% Various Syndicates at Lloyd's of London
Scope: Property sections of Professional Office Package policies issued by the company to Medical and Dental Practitioners
Retention: 50%
Limits: Maximum of \$4,000,000 any one risk and \$3,000,000 any one building. Reinsurers are liable for its proportionate share of loss adjusting expense.
Premium: Proportionate share of original gross net written premium
Commissions: 22.5%
Contingent commissions: 25% of reinsurer's net profit by formula from the contract during each underwriting year.
Effective date: Each January 1
Reporting and settlement: Within 60 days after the end of each calendar quarter the company needs to furnish report of premium with payment and a paid and outstanding loss bordereau. If the loss exceeds \$100,000, the reinsurer shall pay immediately.
Termination: Contract is automatically renewed, but may be terminated on anniversary date with 90 days' prior written notice by either party
2. Type: Excess of Loss
Reinsurer: Section 1
22.50% AXA Re
20.00% Hanover Ruckversicherungs-Aktiengesellschaft
15.00% Aspen Insurance UK, Ltd.
32.50% Various Syndicates of Lloyds of London
Section 2
25.00% AXA Re
22.22% Hanover Ruckversicherungs-Aktiengesellschaft
16.68% Aspen Insurance UK, Ltd.
36.10% Various Syndicates of Lloyds of London

Effective date: October 1, 2006 – September 30, 2007

Scope: Business classified as Medical Professional Liability, Facilities Professional Liability including associated long-term care exposures, Druggist Professional Liability, Home Healthcare Professional Liability, Umbrella Excess Liability, Dental Professional Liability and Medical Practitioners' Liability on both a claims-made and loss-occurrence basis; Liability Sections of Professional Office Package Policies issued to Medical and Dental Practitioners on an occurrence basis; Liability Sections of Commercial General Liability Policies issued to Hospitals and other Medical and Dental Facilities on both a claims-made and occurrence basis.

Retention: 10%

Coverage: Section 1
 Excess of \$1,000,000 of Ultimate Net Loss, per loss and per policy/insured, and/or \$3,000,000 in aggregate, per policy/insured; subject to the combined subscribing reinsurer participation of 90% of \$5,000,000 of Ultimate Net Loss, per loss and per policy/insured and in aggregate, per policy/insured.

Ultimate Net Loss is defined to be actual loss, including any pre-judgment interest included as part of any award or judgment, but excluding Loss Adjustment Expense, paid or due.

Liability incurred from extra contractual obligations and/or losses in excess of policy limits are covered 90% after the limits available under the quota share reinsurance contract effective January 1, 2006, have been exhausted.

Proportionate share of loss adjusting expense.

Section 2
 Coverage is limited to one insured, therefore specific coverage terms are not disclosed.

Premium: Section 1
 90% of gross net premium written

Commissions: 22.5% of reinsurance premium

Contingent commission: 10% of net profit, by formula as described in the contract, accruing to the Reinsurer during the term of this Contract.

Reporting and settlement: Within 60 days of each calendar quarter end – ceded gross net premium written (Section 1) and Section 2 premium less ceding commission

Quarterly bordereau of all losses under Policies subject to this Contract which are reserved at \$500,000 or more (exclusive of LAE, Extra Contract Obligations & Loss in Excess of Policy Limits)

Termination: Contract is automatically renewed, but may be terminated on anniversary date with 90 days' prior written notice by either party

In addition to the contracts noted above, there are several reinsurance contracts covering prior periods for which the reinsurers remain liable for covered policies issued on a claims-made basis.

The company reports a liability for funds withheld under reinsurance treaties related to one of those contracts.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2006, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Physicians Insurance Company of Wisconsin, Inc.
Assets
As of December 31, 2006

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$245,574,301	\$	\$245,574,301
Real estate:			
Occupied by the company	2,465,695		2,465,695
Properties held for sale	540,000		540,000
Cash, cash equivalents, and short-term investments	26,280,870		26,280,870
Receivables for securities	21,103		21,103
Investment income due and accrued	1,463,601		1,463,601
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	3,485,085		3,485,085
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	14,930,715		14,930,715
Reinsurance:			
Amounts recoverable from reinsurers	2,178,044		2,178,044
Other amounts receivable under reinsurance contracts	6,962,165		6,962,165
Current federal and foreign income tax recoverable and interest thereon	8,648,215		8,648,215
Net deferred tax asset	10,793,281	5,032,859	5,760,422
Electronic data processing equipment and software	444,961	293,842	151,119
Furniture and equipment, including health care delivery assets	336,172	336,172	
Receivable from parent, subsidiaries, and affiliates	20,026,765		20,026,765
Write-ins for other than invested assets:			
Amounts receivable under high-deductible policies	697,238		697,238
Prepaid expenses	421,742	421,742	
Accounts receivable – other	164,384	150,788	13,596
Total Assets	<u>\$345,434,337</u>	<u>\$6,235,403</u>	<u>\$339,198,934</u>

Physicians Insurance Company of Wisconsin, Inc.
Liabilities, Surplus, and Other Funds
As of December 31, 2006

Losses		\$111,313,284
Loss adjustment expenses		74,052,106
Commissions payable, contingent commissions, and other similar charges		1,878,571
Other expenses (excluding taxes, licenses, and fees)		3,765,906
Taxes, licenses, and fees (excluding federal and foreign income taxes)		(275,193)
Unearned premiums		25,392,599
Advance premium		5,803,694
Ceded reinsurance premiums payable (net of ceding commissions)		6,781,540
Funds held by company under reinsurance treaties		24,292,276
Amounts withheld or retained by company for account of others		11,135
Provision for reinsurance		25,600
Write-ins for liabilities:		
Judgment liability		1,015,270
Deferred service revenue		190,808
Surety escrow deposit		40,541
Retroactive reinsurance reserve		<u>499,237</u>
Total liabilities		254,787,374
Common capital stock	\$ 5,000,000	
Surplus notes	12,000,000	
Gross paid in and contributed surplus	22,775,034	
Unassigned funds (surplus)	<u>44,636,524</u>	
Surplus as regards policyholders		<u>84,411,558</u>
Total Liabilities and Surplus		<u>\$339,198,932</u>

Physicians Insurance Company of Wisconsin, Inc.
Summary of Operations
For the Year 2006

Underwriting Income		
Premiums earned		\$ 62,055,675
Deductions:		
Losses incurred	\$26,674,926	
Loss expenses incurred	39,428,997	
Other underwriting expenses incurred	<u>15,345,774</u>	
Total underwriting deductions		<u>81,449,697</u>
Net underwriting gain (loss)		(19,394,022)
Investment Income		
Net investment income earned	11,081,194	
Net realized capital gains (losses)	<u>(5,848,310)</u>	
Net investment gain (loss)		5,232,884
Other Income		
Net gain (loss) from agents' or premium balances charged off	(118,795)	
Write-ins for miscellaneous income:		
Miscellaneous income	513,335	
Impairment of internally developed software	(6,394,117)	
Net gain/loss on sale of equipment	(480)	
Retroactive reinsurance gain/(loss)	<u>69,134</u>	
Total other income		<u>(5,930,923)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(20,092,061)
Dividends to policyholders		<u>(1,182,934)</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(21,274,995)
Federal and foreign income taxes incurred		<u>(5,053,935)</u>
Net Income (Loss)		<u><u>\$ (16,221,060)</u></u>

Physicians Insurance Company of Wisconsin, Inc.
Cash Flow
For the Year 2006

Premiums collected net of reinsurance		\$72,281,287
Net investment income		10,331,226
Miscellaneous income		<u>(5,133,456)</u>
Total		77,479,057
Benefit- and loss-related payments	\$ 13,547,684	
Commissions, expenses paid, and aggregate write-ins for deductions	40,977,662	
Dividends paid to policyholders	1,182,934	
Federal and foreign income taxes paid (recovered)	<u>(1,843,222)</u>	
Total deductions		<u>53,865,058</u>
Net cash from operations		23,613,999
Proceeds from investments sold, matured, or repaid:		
Bonds	\$ 79,551,631	
Stocks	45,596,676	
Miscellaneous proceeds	<u>(21,103)</u>	
Total investment proceeds		125,127,204
Cost of investments acquired (long-term only):		
Bonds	127,740,341	
Stocks	7,777,072	
Real estate	<u>7,275</u>	
Total investments acquired		<u>135,524,688</u>
Net cash from investments		(10,397,484)
Cash from financing and miscellaneous sources:		
Capital and paid-in surplus	20,228,295	
Other cash provided (applied)	<u>(14,376,997)</u>	
Net cash from financing and miscellaneous sources		<u>5,851,298</u>
Reconciliation:		
Net change in cash, cash equivalents, and short-term investments		19,067,813
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>7,213,058</u>
End of Year		<u>\$ 26,280,871</u>

**Physicians Insurance Company of Wisconsin, Inc.
Compulsory and Security Surplus Calculation
December 31, 2006**

Assets		\$339,198,934	
Less liabilities		<u>254,787,374</u>	
Adjusted surplus			\$84,411,560
Annual premium:			
Medical malpractice (less dividends)	\$65,001,337		
Factor	<u>50.0%</u>		
		32,500,669	
Lines other than accident and health	2,148,145		
Factor	<u>33.3%</u>		
		<u>715,332</u>	
Total		33,216,001	
Compulsory surplus (subject to a minimum of \$2 million)			<u>33,216,001</u>
Compulsory surplus excess (or deficit)			<u>\$51,195,559</u>
Adjusted surplus (from above)			\$84,411,560
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)			<u>46,170,241</u>
Security Surplus Excess (or Deficit)			<u>\$38,241,319</u>

**Physicians Insurance Company of Wisconsin, Inc.
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2006**

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2006	2005	2004
Surplus, beginning of year	\$ 76,198,733	\$89,299,976	\$76,300,304
Net income	(16,221,060)	(8,637,601)	3,103,392
Change in net unrealized capital gains/losses	(2,939,542)	(1,296,705)	1,499,705
Change in net deferred income tax	30,486	2,135,841	403,566
Change in nonadmitted assets	7,140,249	(5,581,281)	(3,741,430)
Change in provision for reinsurance	(25,600)		
Change in surplus notes			12,000,000
Capital changes:			
Paid in	(1,607,523)	25,665	4,805
Transferred from surplus			1,669,848
Surplus adjustments:			
Paid in	11,632,876	255,049	42,106
Transferred to capital			(1,669,848)
Change in treasury stock	10,202,942	(2,211)	(351,491)
Write-ins for gains and (losses) in surplus:			
Transfer of nonadmitted receivables on sale of Century American Casualty Company			39,016
Rounding	_____	_____	_____ 3
Surplus, end of year	<u>\$ 84,411,561</u>	<u>\$76,198,733</u>	<u>\$89,299,976</u>

**Physicians Insurance Company of Wisconsin, Inc.
Insurance Regulatory Information System
For the Two-Year Period Ending December 31, 2006**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2006	2005
#1	Gross Premium to Surplus	100%	102%
#2	Net Premium to Surplus	81	74
#3	Change in Net Premiums Written	20	(1)
#4	Surplus Aid to Surplus	2	3
#5	Two-Year Overall Operating Ratio	119*	106*
#6	Investment Yield	4.3	3.4
#7	Gross Change in Surplus	11	(15)*
#8	Net Change in Adjusted Surplus (established in 2005)	(2)	(15)*
#9	Liabilities to Liquid Assets	88	80
#10	Agents' Balances to Surplus	4	5
#11	One-Year Reserve Development to Surplus	10	16
#12	Two-Year Reserve Development to Surplus	24*	7
#13	Estimated Current Reserve Deficiency to Surplus	(6)	(30)

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2005 and 2006 were due to significantly higher incurred claims resulting in net losses for both years.

Ratio No. 12 measures reserve development as a percentage of surplus. The exceptional result in 2006 was due to a reserve deficiency for losses incurred in 2004 and prior. Development on 2003 loss reserves made up 61% of that total.

Ratio Nos. 7 and 8 measure the company's change in surplus from the prior year. The exceptional results were due to the company reporting increased nonadmitted assets and a net loss in 2005 compared to increased surplus in 2004. The 2005 increase in nonadmitted assets related to a prepaid asset for new software development.

Growth of Physicians Insurance Company of Wisconsin, Inc

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2006	\$339,198,934	\$254,787,374	\$84,411,558	\$(16,221,060)
2005	287,273,299	211,074,571	76,198,731	(8,637,601)
2004	274,954,432	185,654,458	89,299,974	3,103,392

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2006	\$84,080,022	\$68,332,417	\$62,055,675	106.5%	31.1%	137.6%
2005	77,821,357	56,740,259	56,817,604	107.0	20.6	127.6
2004	79,437,680	57,165,783	56,488,655	82.9	22.8	105.7

In 2005 the company reported a net loss primarily due to the following events which contributed to a high loss ratio. Net written premium in 2005 decreased as a result of two situations. One was the loss of a large account with an annual premium of around \$1.6 million. The other factor was changes in the amount of ceded premium of approximately \$6 million. In addition, the company made a \$13 million adjustment to unpaid losses.

In 2006 the company switched from an excess of loss reinsurance contract to a quota share contract resulting in increased net written premiums. Rate increases were a factor behind the increase in gross written premiums. PIC Wisconsin reported another net loss in 2006 due to adjustments made to unpaid loss reserves, increased loss adjusting expense and increased incurred loss and loss expense, which included losses from prior years.

During the last half of 2006 the company was acquired by ProAssurance Corporation through an all stock merger. The table below illustrates the effect on capital and surplus of this transaction:

Year	Common Capital Stock	Surplus Note	Gross Paid in and Contributed Surplus	Treasury Stock	Unassigned Funds (surplus)	Surplus As Regards Policyholders
2006	\$5,000,000	\$12,000,000	\$22,775,034	\$	\$44,636,524	\$84,411,558
2005	6,607,523	12,000,000	11,142,158	10,202,942	56,651,992	76,198,731

The year-end 2006 statement includes an accrual for the \$20 million capital contribution it received in 2007 from its direct parent, PRA Professional Liability Group, Inc., consistent with Statement of Statutory Accounting Principles No. 72. The accrual was offset by the elimination of treasury stock and approximately an \$11 million increase in paid in and contributed surplus as shown in the above table.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2006, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Disaster Recovery Plan—It is recommended that the company continue to update its business resumption plan to properly address issues necessary to continue operations in the event of a disaster, and test its business resumption plan at least annually.

Action—Compliance

2. Affiliated Balances—It is recommended that the company settle its affiliated balances on a timely basis in accordance with the applicable agreements filed with and approved by the Commissioner.

Action—Compliance

Summary of Current Examination Results

Loss Reserve Development

The current examination included a review of the company's first and second quarter 2007 financial statements. It was noted that as of June 30, 2007, the company had paid out \$16.6 million on claims open as of December 31, 2006, but had not reported either a deficiency or redundancy on prior year-end reserves. It is recommended that the company review its reserves on prior year claims quarterly and report the development in its future quarterly statements.

VIII. CONCLUSION

On July 26, 2006, the stockholders of PIC Wisconsin voted in favor of an all stock merger into ProAssurance Corporation. The merger was effective on August 1, 2006. Each share of PIC Wisconsin common stock was converted into shares of ProAssurance common stock having a value of \$5,000. The exchange ratio was based on the average closing price of a share of ProAssurance stock on the ten trading days preceding the effective date of the merger.

At the time of the examination, there had been a significant change in operations for the company. Based on ProAssurance Corporation's desire to have certain operations handled out of its Birmingham office, all PIC Wisconsin's accounting, actuarial, finance, information technology, and investment management functions had been transferred to ProAssurance's Birmingham home office. Underwriting, claims handling, and risk management functions remained in Madison, Wisconsin. In addition, a plan had been adopted for the transferring of certain lines of business among affiliates. All Wisconsin business will be administered and written by PIC Wisconsin.

During 2005 the company increased reserve estimates by \$13 million, which contributed to the year-end net loss and decrease in surplus. In 2006 the company reported an increase in surplus of \$8.2 million due to a \$20 million capital contribution from its new immediate parent, PRA Professional Liability Group, Inc., which offset another net loss for the year.

The examination resulted in one recommendation to have the company report reserve development on a quarterly basis. The examination did not result in any adjustments to surplus or reclassifications between accounts. The company had complied with all previous examination recommendations.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 27 - Loss Reserve Development—It is recommended that the company review its reserves on prior year claims quarterly and report the development in its future quarterly statements.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
DuWayne Kottwitz	Insurance Financial Examiner
Terry Lorenz	Insurance Financial Examiner

Respectfully submitted,

Eleanor Opprecht
Examiner-in-Charge