CERTIFICATION

June 10, 2014

I, Bruce R. Ramge, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the

Financial Examination Report of

PHYSICIANS MUTUAL INSURANCE COMPANY

as of

December 31, 2012

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.

STATE OF NEBRSKA
DEPARTMENT OF INSURANCE

JUN 10 2014

FILED

GREAT SEAL OF THE STATE OF NEBRASKA
MARCH 1ST 1867

Bruce R. Ramge

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Take notice that the proposed report of the financial examination of

PHYSICIANS MUTUAL INSURANCE COMPANY

dated as of December 31, 2012, verified under oath by the examiner-in-charge on May 22, 2014, and received by the company on May 22, 2014, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 9 day of June, 2014.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

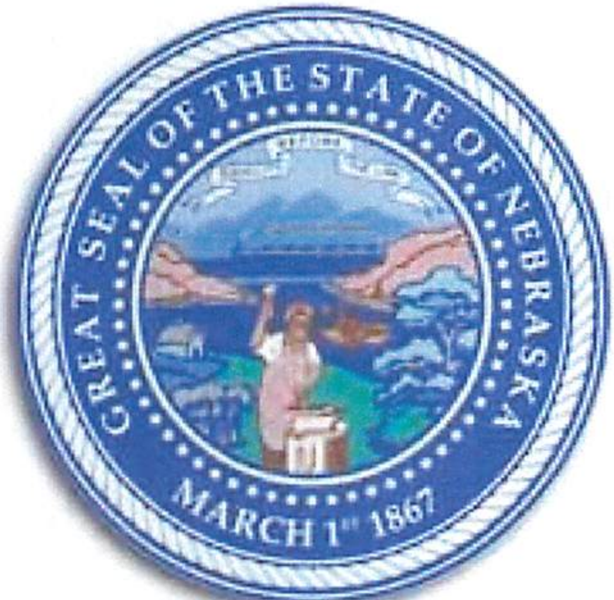
EXAMINATION REPORT

OF

PHYSICIANS MUTUAL INSURANCE COMPANY

as of

December 31, 2012



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Omaha, Nebraska
May 1, 2014

Honorable Joseph Torti, III
Chairman, Financial Condition (E) Committee, NAIC
Deputy Director and Superintendent of Insurance
Rhode Island Division of Insurance
1511 Pontiac Avenue, Bldg. #69-2
Cranston, Rhode Island 02920

Honorable Ted Nickel
Chair, Midwestern Zone, NAIC
Commissioner of Insurance
State of Wisconsin Office of the Commissioner of Insurance
125 South Webster Street
GEF III – 2nd Floor
Madison, Wisconsin 58703

Honorable Bruce R. Ramge
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

Dear Sirs:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

PHYSICIANS MUTUAL INSURANCE COMPANY
2600 Dodge Street
Omaha, NE 68131-2671

(hereinafter also referred to as the "Company") and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2008 by the State of Nebraska. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2012, and includes such subsequent events and transactions as were considered pertinent to this report. The State of Nebraska participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company's subsidiary, Physicians Life Insurance Company (PLIC).

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company." All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the policyholders, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed, as were plans for employee welfare and pension. Certificates of Authority to conduct the business of insurance in the various states were inspected and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report."

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance." Accounting records and procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Deloitte & Touche LLP, the Company's external auditors, during their audit of the Company's accounts for the years ended December 31, 2011 and 2012. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company commenced business as Physicians Casualty Association of America (Physicians Casualty), in Omaha, Nebraska, on February 15, 1902. Its original Articles of Incorporation provided for an existence of 50 years from said date and allowed for its nature of business to be that of an accident indemnity mutual assessment association. Such Articles were filed on May 17, 1902. Subsequent amendment to these Articles of Incorporation granted the Company perpetual existence effective February 1, 1952.

An affiliated entity, Physicians Health Association of America (Physicians Health), was formed on March 6, 1912. Its nature of business was that of a health indemnity mutual assessment association. The two associations jointly conducted business from offices located in Omaha, Nebraska, with their field of operations being limited to members of the medical and dental professions residing within the United States. Physicians Health was consolidated with and merged into Physicians Casualty under the provisions of a Consolidation Agreement, which was entered into on November 7, 1961, and approved by Order of the Nebraska Department of Insurance on December 15, 1961.

The Company's present name, Physicians Mutual Insurance Company, was adopted, by proper amendment to its Articles of Incorporation, effective March 1, 1962. Its plan of operation changed at that time from that of an assessment association to a mutual legal reserve accident and health insurance company. Under provisions of its current charter, and in conformity with Nebraska Statutes, the Company is authorized to write the kinds of insurance prescribed in

Section 44-201, Subsection (4) of the Nebraska Insurance Statutes (sickness and accident insurance).

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the "Ultimate Controlling Person," as reported in the 2012 Annual Statement and amended during the examination, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Physicians Mutual Insurance Company
  - Physicians Life Insurance Company
  - MD45 Transport, LLC
  - Physicians Mutual Insurance Company Foundation
  - Physicians Mutual Employee Benefit Trust
  - Physicians Mutual Services Corporation
    - Seniors Information Network, LLC
      - National Association of Medicare Members, Inc.

Policyholders

Article IV of the Amended and Restated Articles of Incorporation states that, "every person, corporation, association or partnership which is a policyholder of the Company shall be a member and shall be entitled to one vote in person or by proxy at the annual or special meetings of the members." Article X of the Amended and Restated Articles of Incorporation states that, "annual meetings of the members shall be held at the home office of the Company...on the third Saturday of February of each year to receive the reports of the Officers, to elect Directors and to transact such other business as shall properly come before such meetings."

Board of Directors

Article V of the Amended and Restated Articles of Incorporation states that, "the Company shall be managed by a Board of Directors consisting of not less than five (5), nor more than twelve (12) members, divided into three (3) groups as nearly equal in number as is possible, who shall be elected from the members and a majority of whom shall be citizens of the State of Nebraska. At least one-third of the total number of Directors shall be persons who are not Officers or employees of the Company or any entity controlling, controlled by, or under common control with the Company and who are not beneficial owners of a controlling interest in the voting stock of the Company or any affiliated entity."

The following persons were serving as Directors at December 31, 2012:

Name and Residence	Principal Occupation	Term Expires
William R. Hamsa, Jr., M.D. Omaha, Nebraska	Retired Physician and Chairman of the Board of the Company	2013
Martin M. Mancuso, M.D. Omaha, Nebraska	Practicing Physician and Associate Medical Director of the Company and Chairman of the Claims Committee	2013
James T. Canedy, M.D. Omaha, Nebraska	Practicing Physician and Secretary of the Company	2014
John D. Woodbury, M.D. Omaha, Nebraska	Retired Physician, Associate Medical Director of the Company and Chairman of the Underwriting Committee	2014
Robert A. Reed, Jr. Omaha, Nebraska	Executive Vice President, Chief Operating Officer and Assistant Secretary of the Company	2014
Dale E. Brett, M.D. Omaha, Nebraska	Retired Physician and Treasurer of the Company	2015

Name and Residence	Principal Occupation	Term Expires
Robert A. Reed Omaha, Nebraska	President and Chief Executive Officer of the Company	2015

The Amended and Restated By-Laws state that, "the Board of Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting or a stated salary as a Director. No such payment shall preclude any Director from serving the Company in any other capacity and receiving compensation therefor."

Officers

Article VI of the Amended and Restated Articles of Incorporation state that, "the Officers of the Company shall consist of a President, a Secretary and a Treasurer, who shall be elected by the Directors and who shall hold office until their successors are elected and qualified. The Directors may select one or more Vice Presidents and may designate one or more other offices, and assign their duties and responsibilities."

The Officers are nominated by the Compensation Committee on an annual basis, with the exception of Robert Reed, Sr. and Robert Reed, Jr., who are under contract with the Company.

The following is a listing of Senior Officers elected and serving the Company at December 31, 2012:

Name	Office
Robert A. Reed	President and Chief Executive Officer
Dale E. Brett, M.D.	Treasurer
James T. Canedy, M.D.	Secretary
Robert A. Reed, Jr.	Executive Vice President – Chief Operating Officer and Assistant Secretary
Steven A. Scanlan	Senior Vice President – Chief Investment Officer and Assistant Treasurer
Michael J. Wade	Senior Vice President – Finance Group and Chief Financial Officer
Benjamin T. Baldwin	Senior Vice President – Agency Group
Melissa J. Crawford	Senior Vice President – Market, Products and Technology

Name	Office
Howard G. Daubert	Senior Vice President – Corporate Services
Robert L. Gunia	Senior Vice President – Public Affairs Group and Assistant Secretary
Michael J. Taylor	Senior Vice President – Strategic Development

Committees

Article IV of the Company's Amended and Restated By-Laws states that, "the Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from its members an Executive Committee, which shall consist of at least three (3) Directors, together with the Chairman of the Board, the President, and the Secretary, which shall have and may exercise all the authority of the Board of Directors when the entire Board of Directors are not in session."

The following persons were serving on the Executive Committee at December 31, 2012:

William R. Hamsa, M.D., Chairman	Dale E. Brett, M.D.
James T. Canedy, M.D.	Robert A. Reed
Robert A. Reed, Jr.	John D. Woodbury, M.D.

The Company's Amended and Restated By-Laws also state that, "the Board of Directors may also designate one (1) or more other committees consisting of at least (2) Directors, each of which committees, to the extent provided in the resolution designating such committee, shall have such designated authority of the Board of Directors when the entire Board is not in session." The Board of Directors has elected to establish several standing committees consisting of the following persons at December 31, 2012:

Compensation	Audit
William R. Hamsa, M.D., Chairman	William R. Hamsa, M.D., Chairman
Dale E. Brett, M.D.	Dale E. Brett, M.D.
Terrence D. O'Hare, General Counsel	Robert A. Reed
Robert A. Reed	Robert A. Reed, Jr.
Robert A. Reed, Jr.	Michael J. Wade
John D. Woodbury, M.D.	John D. Woodbury, M.D.

Claims
Martin M. Mancuso, M.D., Chairman
Dale E. Brett, M.D.
James T. Canedy, M.D.
William R. Hamsa, M.D.
Edward J. Kaspar
Robert A. Reed
Robert A. Reed, Jr.
John D. Woodbury, M.D.

Underwriting
John D. Woodbury, M.D., Chairman
Dale E. Brett, M.D.
James T. Canedy, M.D.
John C. Clark
William R. Hamsa, M.D.
Martin M. Mancuso, M.D.
Robert A. Reed
Robert A. Reed, Jr.

Investment
Dale E. Brett, M.D., Chairman
James T. Canedy, M.D.
William R. Hamsa, M.D.
Robert A. Reed
Robert A. Reed, Jr.
Steven A. Scanlan
Michael J. Wade
John D. Woodbury, M.D.

Benefits
Melissa J. Crawford
Howard G. Daubert
Mark Peters
Jane R. Phillips
Michael J. Taylor
Debra L. Walton

TRANSACTIONS WITH AFFILIATES

Service Agreement

The Company provides equipment, space and personnel necessary for the operations of its subsidiaries. By agreement dated June 24, 1997 and amended January 1, 2004, the Company agrees to perform all reasonable services necessary in connection with the solicitation, issuance, and servicing of policies and claims in connection with policies previously issued and hereafter issued by Physicians Life Insurance Company (PLIC). Compensation for these services is the actual salary represented by the time spent in the performance of such services, and costs and expenses associated with respect to equipment, office space and other overhead expenses represented by the time and use devoted to such services. The Company is also to receive payment for any direct expenses paid on behalf of PLIC. Upon 60 day's prior written notice to the other party, either party may terminate the Agreement. The total expenses allocated under this agreement to PLIC during 2012 and 2011 were $33,808,657 and $33,242,499, respectively.

Net Worth Agreement

The Company entered into a Net Worth Agreement with PLIC effective January 1, 1993, whereby the Company agrees to take any actions necessary to maintain PLIC's financial position with a surplus level in excess of Risk Based Capital requirements.

This agreement can be canceled by either party with a written 90 day notice provided such termination does not eliminate the obligation of the Company to infuse cash into PLIC with respect to the obligation to support, supplement, or permit the timely payment of contractual claims received by PLIC from policyholders of insurance contracts or annuity contracts during the term of the agreement.

Reinsurance Agreement

Effective January 1, 2004, the Company entered into a reinsurance agreement with PLIC, that replaced the previous reinsurance agreement effective January 1, 2003. Per the January 1, 2004 agreement, the Company assumes 100% of the liabilities associated with PLIC's Medicare Supplement insurance. PLIC is paid a "front fee allowance" of 3% of premiums. The Company paid approximately $2,600,000 and $2,800,000 in fees related to this agreement in 2012 and 2011, respectively. PLIC terminated sales of its Medicare Supplement business in 2009. Medicare Supplement business is currently sold through the Company.

Loan Agreement

During 2006, the Company made a loan of $7,376,053, to MD45 Transport LLC (MD45), a 100% owned LLC. The loan is 100% collateralized by an aircraft. Under the terms of a promissory note, the principal of the loan is to be repaid in quarterly installments with interest at the rate of 5.8% compounded quarterly. The first payment was due February 9, 2007. The balance of the loan at December 31, 2012 and 2011 was $904,826 and $1,958,550, respectively, and is included in Schedule BA – Part 1. The Company has also entered into an agreement to lease the aircraft from MD45. The agreement to lease air transportation equipment is effective from November 9, 2006 to November 9, 2013 with a final balloon payment of $5,532,039 on November 9, 2013. Under the terms of the agreement, the Company will make quarterly lease payments beginning February 9, 2007 and will additionally be responsible for all expenses associated with the operation and maintenance of the aircraft. Legal title is retained by the lessor and the Company has no option under this agreement to purchase the aircraft.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in all states and the District of Columbia.

During the period covered by this examination, business was produced by direct mail, television, radio, newspaper, email and internet advertisement through the Company's direct marketing channel and by personal solicitation through the Agency Division. The Brokerage Division was terminated in July, 2006. The Company continues to receive renewal premiums on policies sold by brokers. The business produced through the direct marketing channels produced approximately 25% of the Company's net written premium during 2012. Renewal business from the Brokerage Division accounted for approximately 6% of the Company's net written premium. The Agency Division produced approximately 69% of net written premium.

The direct marketing channels include the Direct Marketing Group, the Telesales Department and the eCommerce Department. These departments are each under the direction of an Officer of the Company and focus on both the acquisition of new customers and gaining additional sales from existing customers.

The Agency Division is under the direction of the Agency Senior Vice President who is assisted by two Vice Presidents of Agency Administration. In addition, the Company utilizes the services of three salaried full-time field employees as Regional Managers. Each Regional Manager has a proportionate number of Division Managers under his or her supervision. The Division Managers are full-time employees and act exclusively for the Company. They are authorized to recruit, appoint and train agents within their territories, subject to Home Office approval. They receive remuneration in the form of overwrite commissions on business produced by agents under their supervision.

At December 31, 2012, the Company's agency force was comprised of the following:

Division Managers	19
Contracted Agents	898

The contracted agents are independent contractors who act as career agents for the Company. All contracted agents receive commissions and can also earn cash bonuses and lead or advertising credits by meeting production and persistency requirements.

REINSURANCE

Assumed

The Company assumed approximately $170,700,000 in premiums in 2012. Approximately $88,100,000 was from PLIC (see discussion under "Transactions with Affiliates" above). The Company assumed approximately $75,500,000 in premiums from RGA Reinsurance Company (RGA) in 2012.

On July 1, 2010, PMIC entered into a combination coinsurance and modified coinsurance reinsurance agreement with RGA on an in-force block of group disability insurance policies with a third party. The Company assumed approximately $75,500,000 and $66,500,000 of premiums in 2012 and 2011, respectively.

Ceded

The Company ceded an immaterial amount, approximately $3,400,000, of accident and health premiums to various reinsurers in 2012.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	2009	2010	2011	2012
Bonds	$1,291,299,247	$1,378,667,758	$1,433,297,171	$1,534,289,942
Admitted assets	1,539,420,201	1,641,087,536	1,732,476,430	1,829,659,460
Aggregate reserves for accident and health contracts	609,387,992	677,412,309	741,699,751	801,727,797
Total liabilities	740,307,864	816,517,486	889,051,597	963,551,729
Capital and surplus	799,112,337	824,570,050	843,424,833	866,107,731
Premium income	386,004,590	380,519,622	434,264,922	477,606,305
Net investment income	73,540,742	79,527,897	84,885,904	85,306,361
Benefits under accident and health contracts	238,199,904	237,777,178	265,091,181	283,355,719
Net income	25,041,430	35,359,527	35,777,961	30,225,614

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2012 and its transactions during the year 2012 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2012

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,534,289,942		$1,534,289,942
Preferred stocks	32,041,594		32,041,594
Common stocks	184,807,097		184,807,097
Real estate	9,914,304		9,914,304
Cash and short-term investments	33,323,389		33,323,389
Other invested assets	964,360		964,360
Receivable for securities	69,976		69,976
Subtotal, cash and invested assets	$1,795,410,663		$1,795,410,663
Investment income due and accrued	20,025,816		20,025,816
Other amounts receivable under reinsurance contracts	90,981		90,981
Current federal income tax recoverable	1,631,377		1,631,377
Net deferred tax asset	35,961,396	$24,234,636	11,726,760
Guaranty funds receivable or on deposit	125,981		125,981
Electronic data processing equipment	23,036,802	22,815,154	221,648
Furniture and equipment	1,161,751	1,161,751	
Receivables from subsidiaries and affiliates	426,232		426,232
Other amounts receivable	2,366,650	2,366,650	
Funds on deposit	49,351	49,351	
Prepaid expenses	16,459,611	16,459,611	
Debit suspense	195,227	195,227	
Prepaid pension expense	15,472,414	15,472,414	
Total assets	$1,912,414,253	$82,754,793	$1,829,659,460

Liabilities, Surplus, and Other Funds

Aggregate reserve for accident and health contracts	$ 801,727,797
Contract claims – accident and health	39,196,041
Premiums received in advance	7,277,643
Other amounts payable on reinsurance	818,534
Interest maintenance reserve	9,386,934
Commissions to agents due or accrued	509,156
General expenses due or accrued	9,337,105
Taxes, licenses, and fees due or accrued	1,956,200
Current federal and foreign income taxes	107,231
Amounts withheld or retained by company	116,871
Remittances and items not allocated	11,235,011
Asset valuation reserve	23,525,936
Drafts outstanding	13,286,633
Payable for securities	1,699,874
Commitment on prepaid expenses	7,442,755
Pension benefit recovery plan	35,928,007
Total liabilities	$ 963,551,729
Unassigned funds (surplus)	$ 866,107,731
Total capital and surplus	$ 866,107,731
Totals	$1,829,659,460

SUMMARY OF OPERATIONS – 2012

Premiums for accident and health contracts	$447,606,305
Net investment income	85,306,361
Amortization of interest maintenance reserve	2,551,740
Commissions and expense allowances on reinsurance ceded	669,297
Miscellaneous income	1,637,540
Totals	$537,771,243
Disability benefits and benefits under accident and health contracts	$283,355,719
Increase in aggregate reserves for life and accident and health contracts	60,028,047
Totals	$343,383,766
Commissions on premiums	$ 24,677,165
Commissions and expense allowances on reinsurance assumed	24,136,191
General insurance expenses	92,638,892
Insurance taxes, licenses and fees, excluding federal income taxes	9,214,481
Reserve adjustment on reinsurance assumed	8,247,151
Totals	$502,297,646
Net gain from operations before federal income taxes and net realized capital gains	$ 35,473,597
Federal and foreign income taxes incurred	$ 6,226,943
Net realized capital gains (losses)	978,960
Net income	$ 30,225,614

CAPITAL AND SURPLUS ACCOUNT

	2009	2010	2011	2012
Capital and surplus, beginning	$771,936,557	$799,112,337	$824,570,050	$843,424,833
Net income	$ 25,041,430	$ 35,359,527	$ 35,777,961	$ 30,225,614
Change in net unrealized capital gains	22,915,905	4,204,672	836,076	9,656,744
Change in net deferred income tax	(1,522,652)	1,365,315	(3,192,247)	(2,311,009)
Change in nonadmitted assets	10,932,022	(211,670)	(10,008,698)	(2,002,633)
Change in asset valuation reserve	(5,406,599)	(5,852,062)	(3,687,852)	(7,051,315)
Cumulative effect of changes in accounting principles		(728,309)	300,000	
Change in surplus as a result of reinsurance		(12,500,000)		
Additional deferred tax assets admissible under SSAP 10R		3,324,553	2,951,604	
Pension benefit recovery plan	(24,784,327)	495,687	(4,122,061)	(5,834,503)
Net change for the year	$ 27,175,780	$ 25,457,713	$ 18,854,784	$ 22,682,898
Capital and surplus, ending	$799,112,337	$824,570,050	$843,424,833	$866,107,731

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of $866,107,731, as reported in the Company's 2012 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

Custodial Agreement

Some provisions of Nebraska Regulation Title 210, Chapter 81 were missing, or only partially covered, in the Company's custodial agreement with the Federal Home Loan Bank of Topeka (FHLB of Topeka).

It is recommended that the Company revise its custodial agreement with FHLB of Topeka to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

Schedule Y

The Company did not disclose the Physicians Mutual Insurance Company Foundation or the Company's trusts for the benefit of employees on its Schedule Y Part 1 - Organizational Chart, Schedule Y Part 1A - Detail of Insurance Holding Company System and Schedule Y Part 2 - Summary of Insurer's Transactions with any Affiliates, in accordance with SSAP No. 25, *Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties* and NAIC Annual Statement Instructions.

It is recommended the Company disclose the Physicians Mutual Insurance Company Foundation and the Company's trusts for the benefit of employees in its Schedule Y in each of the individual annual statements in accordance with NAIC Annual Statement Instructions and SSAP No. 25.

Investment in PMSC

The Company owns 100% of the stock of Physicians Mutual Service Corporation (PMSC). PMSC has 50 shares outstanding with a par value of $1 per share. The fair value of PMSC's common stock was reported on the Company's 2012 Schedule D - Part 2 - Section 2 as $176,803. PMSC does not have audited financials.

It is recommended that the Company follow SSAP No. 97 *Investments in Subsidiary, Controlled and Affiliated Entities* guidance and obtain an annual GAAP financial statement audit for PMSC or nonadmit the investment in PMSC. An exam adjustment was not necessary as the amount is immaterial.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following comments and recommendations have been made as a result of this examination:

Custodial Agreements - It is recommended that the Company revise its custodial agreement with FHLB of Topeka to include all provisions related to safeguards and controls of securities pursuant to Title 210 (Nebraska Department of Insurance Rules and Regulations), Chapter 81.

Schedule Y – It is recommended that the Company disclose the Physicians Mutual Insurance Company Foundation and the Company's trusts for the benefit of employees in its Schedule Y in accordance with NAIC Annual Statement Instructions and SSAP No. 25.

Investment in PMSC – It is recommended that the Company report its investment in PMSC in accordance with SSAP No. 97 *Investments in Subsidiary, Controlled and Affiliated Entities.*

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Derek Petersen, CFE, Brian Davis and Kim Shannon, Financial Examiners; Linda Scholl, CFE, Information Systems Specialist; and Dan Eckstein, ASA, CIE, Life and Health Actuarial Specialist; all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,

Susan L. Carroll, CPA, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Susan Carroll ______________________________, being duly sworn, states as follows:

1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Physicians Mutual Insurance Company and Physicians Life Insurance Company.

2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.

3. I have reviewed the examination work papers and examination report, and the examination of Physicians Mutual Insurance Company and Physicians Life Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

____
Examiner-in-Charge's Signature

Subscribed and sworn before me by Susan L. Carroll on this 22nd day of May, 2014.

(SEAL) DANIEL KELLY WILSON
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2018

____
Notary Public

My commission expires 01/31/2018 [date].