PROASSURANCE CORP
Form 10-Q
May 01, 2019

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Note 1 for discussion of accounting guidance adopted during the period. 0001127703 2019-01-01 2019-03-31 0001127703 2019-04-25 0001127703 2019-03-31 0001127703 2018-12-31 0001127703 pra:AccountingStandardsUpdate201807Member us-gaap:RetainedEarningsMember 2019-01-01 0001127703 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0001127703 pra:AccountingStandardsUpdate201807Member 2019-01-01 0001127703 us-gaap:CommonStockMember 2018-12-31 0001127703 2017-12-31 0001127703 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-03-31 0001127703 us-gaap:TreasuryStockMember 2018-12-31 0001127703 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0001127703 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0001127703 2018-01-01 2018-03-31 0001127703 us-gaap:TreasuryStockMember 2018-01-01 2018-03-31 0001127703 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0001127703 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0001127703 us-gaap:RetainedEarningsMember 2018-03-31 0001127703 us-gaap:CommonStockMember 2017-12-31 0001127703 us-gaap:TreasuryStockMember 2019-01-01 2019-03-31 0001127703 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0001127703 us-gaap:TreasuryStockMember 2019-03-31 0001127703 pra:AccountingStandardsUpdate201802Member us-gaap:RetainedEarningsMember 2018-01-01 0001127703 us-gaap:TreasuryStockMember 2018-03-31 0001127703 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0001127703 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0001127703 us-gaap:CommonStockMember 2019-03-31 0001127703 us-gaap:AccountingStandardsUpdate201601Member us-gaap:RetainedEarningsMember 2018-01-01 0001127703 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-03-31 0001127703 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0001127703 pra:AccountingStandardsUpdate201802Member us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 0001127703 us-gaap:CommonStockMember 2018-03-31 0001127703 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0001127703 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0001127703 us-gaap:RetainedEarningsMember 2018-12-31 0001127703 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0001127703 us-gaap:RetainedEarningsMember 2017-12-31 0001127703 us-gaap:RetainedEarningsMember 2019-03-31 0001127703 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0001127703 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0001127703 us-gaap:AccountingStandardsUpdate201601Member 2018-01-01 0001127703 us-gaap:TreasuryStockMember 2017-12-31 0001127703 2018-03-31 0001127703 2019-01-01 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:OtherInvestmentsMember 2018-12-31 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:OtherInvestmentsMember 2019-03-31 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:CashSurrenderValueMember 2018-12-31 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-12-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:CashSurrenderValueMember 2018-12-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2019-03-31 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:SeniorNotesMember 2019-03-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:CashSurrenderValueMember 2019-03-31 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:MortgagesMember 2019-03-31 0001127703 us-gaap:EstimateOfFairValueFairValueDisclosureMember us-gaap:SeniorNotesMember 2018-12-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:MortgagesMember 2018-12-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:SeniorNotesMember 2019-03-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:MortgagesMember 2019-03-31 0001127703 us-gaap:CarryingReportedAmountFairValueDisclosureMember us-gaap:OtherInvestmentsMember 2018-12-31 0001127703

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pra:segment iso4217:USD xbrli:shares iso4217:USD iso4217:GBP pra:Business pra:Issuer pra:investment_interest pra:Security pra:partition pra:derivative_instrument
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2019 or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ______ to ______
Commission file number 0-16533
ProAssurance Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**63-1261433**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**
100 Brookwood Place, Birmingham, AL	**35209**
(Address of Principal Executive Offices)	**(Zip Code)**
(205) 877-4400	
(Registrant's Telephone Number, Including Area Code)	**(Former Name, Former Address, and Former Fiscal Year, if Changed Since Last Report)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter), during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

As of April 25, 2019, there were 53,742,438 shares of the registrant’s common stock outstanding.

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Glossary of Terms and Acronyms

When the following terms and acronyms appear in the text of this report, they have the meanings indicated below.

Term	**Meaning**
AOCI	Accumulated other comprehensive income (loss)
ASU	Accounting Standards Update
BEAT	Base erosion anti-abuse tax
Board	Board of Directors of ProAssurance Corporation
BOLI	Business owned life insurance
Council of Lloyd's	The governing body for Lloyd's of London
CODM	Chief Operating Decision Maker
DDR	Death, disability and retirement
DPAC	Deferred policy acquisition costs
Eastern Re	Eastern Re, LTD, S.P.C.
EBUB	Earned but unbilled premium
FAL	Funds at Lloyd's
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GAAP	Generally accepted accounting principles in the United States of America
GILTI	Global intangible low-taxed income
GNMA	Government National Mortgage Association
HCPL	Healthcare professional liability
IBNR	Incurred but not reported
Inova Re	Inova Re, LTD, S.P.C.
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LLC	Limited liability company
Lloyd's	Lloyd's of London market
LP	Limited partnership
LPT	Loss portfolio transfer
Medical technology liability	Medical technology and life sciences products liability
Mortgage Loans	Two ten-year mortgage loans collectively with an original borrowing amount of approximately $40 million, each entered into by a subsidiary of ProAssurance
NAIC	National Association of Insurance Commissioners
NAV	Net asset value
NOL	Net operating loss
NRSRO	Nationally recognized statistical rating organization
NYSE	New York Stock Exchange
OCI	Other comprehensive income (loss)
OTTI	Other-than-temporary impairment
PCAOB	Public Company Accounting Oversight Board
Revolving Credit Agreement	ProAssurance's $250 million revolving credit agreement
ROE	Return on equity
ROU	Right-of-use
SAP	Statutory accounting principles

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Term	Meaning
SEC	Securities and Exchange Commission
SPA	Special Purpose Arrangement
SPC	Segregated portfolio cell
Specialty P&C	Specialty Property and Casualty
Syndicate 1729	Lloyd's of London Syndicate 1729
Syndicate 6131	Lloyd's of London Syndicate 6131, a Special Purpose Arrangement with Lloyd's of London Syndicate 1729
Syndicate Credit Agreement	Unconditional revolving credit agreement with the Premium Trust Fund of Syndicate 1729
TCJA	Tax Cuts and Jobs Act H.R.1 of 2017
U.K.	United Kingdom of Great Britain and Northern Ireland
ULAE	Unallocated loss adjustment expense
VIE	Variable interest entity

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Caution Regarding Forward-Looking Statements

Any statements in this Form 10-Q that are not historical facts are specifically identified as forward-looking statements. These statements are based upon our estimates and anticipation of future events and are subject to significant risks, assumptions and uncertainties that could cause actual results to vary materially from the expected results described in the forward-looking statements. Forward-looking statements are identified by words such as, but not limited to, "anticipate," "believe," "estimate," "expect," "hope," "hopeful," "intend," "likely," "may," "optimistic," "possible," "potential," "preliminary," "project," "should," "will" and other analogous expressions. There are numerous factors that could cause our actual results to differ materially from those in the forward-looking statements. Thus, sentences and phrases that we use to convey our view of future events and trends are expressly designated as forward-looking statements as are sections of this Form 10-Q that are identified as giving our outlook on future business.

Forward-looking statements relating to our business include among other things: statements concerning future liquidity and capital requirements, investment valuation and performance, return on equity, financial ratios, net income, premiums, losses and loss reserve, premium rates and retention of current business, competition and market conditions, the expansion of product lines, the development or acquisition of business in new geographical areas, the availability of acceptable reinsurance, actions by regulators and rating agencies, court actions, legislative actions, payment or performance of obligations under indebtedness, payment of dividends and other matters.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following factors that could affect the actual outcome of future events:

changes in general economic conditions, including the impact of inflation or deflation and unemployment;

our ability to maintain our dividend payments;

regulatory, legislative and judicial actions or decisions that could affect our business plans or operations, including the impact of Brexit;

the enactment or repeal of tort reforms;

formation or dissolution of state-sponsored insurance entities providing coverages now offered by ProAssurance which could remove or add sizable numbers of insureds from or to the private insurance market;

changes in the interest and tax rate environment;

resolution of uncertain tax matters and changes in tax laws, including the impact of the TCJA;

changes in laws or government regulations regarding financial markets or market activity that may affect our business;

changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business;

performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;

changes in requirements or accounting policies and practices that may be adopted by our regulatory agencies, the FASB, the SEC, the PCAOB or the NYSE that may affect our business;

changes in laws or government regulations affecting the financial services industry, the property and casualty insurance industry or particular insurance lines underwritten by our subsidiaries;

the effect on our insureds, particularly the insurance needs of our insureds, and our loss costs, of changes in the healthcare delivery system and/or changes in the U.S. political climate that may affect healthcare policy or our business;

consolidation of our insureds into or under larger entities which may be insured by competitors, or may not have a risk profile that meets our underwriting criteria or which may not use external providers for insuring or otherwise managing substantial portions of their liability risk;

uncertainties inherent in the estimate of our loss and loss adjustment expense reserve and reinsurance recoverable;

changes in the availability, cost, quality or collectability of insurance/reinsurance;

the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;

effects on our claims costs from mass tort litigation that are different from that anticipated by us;

allegations of bad faith which may arise from our handling of any particular claim, including failure to settle;

loss or consolidation of independent agents, agencies, brokers or brokerage firms;

changes in our organization, compensation and benefit plans;

changes in the business or competitive environment may limit the effectiveness of our business strategy and impact our revenues;
our ability to retain and recruit senior management;
the availability, integrity and security of our technology infrastructure or that of our third-party providers of technology infrastructure, including any susceptibility to cyber-attacks which might result in a loss of information or operating capability;
the impact of a catastrophic event, as it relates to both our operations and our insured risks;
the impact of acts of terrorism and acts of war;
the effects of terrorism-related insurance legislation and laws;
guaranty funds and other state assessments;
our ability to achieve continued growth through expansion into new markets or through acquisitions or business combinations;
changes to the ratings assigned by rating agencies to our insurance subsidiaries, individually or as a group;
provisions in our charter documents, Delaware law and state insurance laws may impede attempts to replace or remove management or may impede a takeover;
state insurance restrictions may prohibit assets held by our insurance subsidiaries, including cash and investment securities, from being used for general corporate purposes;
taxing authorities can take exception to our tax positions and cause us to incur significant amounts of legal and accounting costs and, if our defense is not successful, additional tax costs, including interest and penalties; and
expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected due to business disruption; loss of customers, employees or key agents; increased operating costs or inability to achieve cost savings; and assumption of greater than expected liabilities, among other reasons.

Additional risks, assumptions and uncertainties that could arise from our membership in the Lloyd's market and our participation in Lloyd's Syndicates include, but are not limited to, the following:

members of Lloyd's are subject to levies by the Council of Lloyd's based on a percentage of the member's underwriting capacity, currently a maximum of 3%, but can be increased by Lloyd's;
Syndicate operating results can be affected by decisions made by the Council of Lloyd's which the management of Syndicate 1729 and Syndicate 6131 have little ability to control, such as a decision to not approve the business plan of Syndicate 1729 or Syndicate 6131, or a decision to increase the capital required to continue operations, and by our obligation to pay levies to Lloyd's;
Lloyd's insurance and reinsurance relationships and distribution channels could be disrupted or Lloyd's trading licenses could be revoked, making it more difficult for a Lloyd's Syndicate to distribute and market its products;
rating agencies could downgrade their ratings of Lloyd's as a whole; and
Syndicate 1729 and Syndicate 6131 operations are dependent on a small, specialized management team and the loss of their services could adversely affect the Syndicate’s business. The inability to identify, hire and retain other highly qualified personnel in the future could adversely affect the quality and profitability of Syndicate 1729’s or Syndicate 6131's business.

Our results may differ materially from those we expect and discuss in any forward-looking statements. The principal risk factors that may cause these differences are described in "Item 1A, Risk Factors" in our Form 10-K and other documents we file with the SEC, such as our current reports on Form 8-K and our regular reports on Form 10-Q.

We caution readers not to place undue reliance on any such forward-looking statements, which are based upon conditions existing only as of the date made, and advise readers that these factors could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. Except as required by law or regulations, we do not undertake and specifically decline any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

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ProAssurance Corporation and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share data)

	March 31, 2019	December 31, 2018
Assets		
Investments		
Fixed maturities, available for sale, at fair value; amortized cost, $2,175,109 and $2,116,825, respectively	**$2,185,798**	$2,093,798
Fixed maturities, trading, at fair value; cost, $43,031 and $38,445, respectively	**42,973**	38,188
Equity investments, at fair value; cost, $451,925 and $450,931, respectively	**476,324**	442,937
Short-term investments	**217,788**	308,319
Business owned life insurance	**64,549**	64,096
Investment in unconsolidated subsidiaries	**390,854**	367,757
Other investments, $33,441 and $31,344 at fair value, respectively, otherwise at cost or amortized cost	**36,328**	34,287
Total Investments	**3,414,614**	3,349,382
Cash and cash equivalents	**71,830**	80,471
Premiums receivable	**289,126**	261,466
Receivable from reinsurers on paid losses and loss adjustment expenses	**27,956**	11,558
Receivable from reinsurers on unpaid losses and loss adjustment expenses	**349,319**	343,820
Prepaid reinsurance premiums	**45,095**	40,631
Deferred policy acquisition costs	**56,923**	54,116
Deferred tax asset, net	**15,685**	29,108
Real estate, net	**30,688**	31,114
Operating lease ROU assets	**17,227**	—
Intangible assets, net	**75,267**	76,776
Goodwill	**210,725**	210,725
Other assets	**112,653**	111,559
Total Assets	**$4,717,108**	$4,600,726
Liabilities and Shareholders' Equity		
Liabilities		
Policy liabilities and accruals		
Reserve for losses and loss adjustment expenses	**$2,158,995**	$2,119,847
Unearned premiums	**457,607**	415,211
Reinsurance premiums payable	**54,692**	55,614
Total Policy Liabilities	**2,671,294**	2,590,672
Operating lease liabilities	**18,036**	—
Other liabilities	**178,395**	199,295
Debt less debt issuance costs	**287,487**	287,757
Total Liabilities	**3,155,212**	3,077,724
Shareholders' Equity		
Common shares, par value $0.01 per share, 100,000,000 shares authorized, 63,093,580 and 62,989,421 shares issued, respectively	**631**	630
Additional paid-in capital	**383,494**	384,713
Accumulated other comprehensive income (loss), net of deferred tax expense (benefit) of $2,449 and ($4,355), respectively	**8,655**	(16,911)
Retained earnings	**1,586,393**	1,571,847
Treasury shares, at cost, 9,352,373 shares as of each respective period end	**(417,277)**	(417,277)

Total Shareholders' Equity	**1,561,896**	1,523,002
Total Liabilities and Shareholders' Equity	**$4,717,108**	$4,600,726

See accompanying notes.

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ProAssurance Corporation and Subsidiaries
Condensed Consolidated Statements of Changes in Capital (Unaudited)
(In thousands)

	Common Stock	**Additional Paid-in Capital**	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Treasury Stock**	**Total**
Balance at December 31, 2018	**$ 630**	**$384,713**	**$ (16,911)**	**$1,571,847**	**$(417,277)**	**$1,523,002**
Cumulative-effect adjustment- ASU 2018-07 adoption*	**—**	**—**	**—**	**(444)**	**—**	**(444)**
Common shares issued for compensation and effect of shares reissued to stock purchase plan	**—**	**176**	**—**	**—**	**—**	**176**
Share-based compensation	**—**	**1,237**	**—**	**—**	**—**	**1,237**
Net effect of restricted and performance shares issued	**1**	**(2,632)**	**—**	**—**	**—**	**(2,631)**
Dividends to shareholders	**—**	**—**	**—**	**(16,660)**	**—**	**(16,660)**
Other comprehensive income (loss)	**—**	**—**	**25,566**	**—**	**—**	**25,566**
Net income	**—**	**—**	**—**	**31,650**	**—**	**31,650**
Balance at March 31, 2019	**$ 631**	**$383,494**	**$ 8,655**	**$1,586,393**	**$(417,277)**	**$1,561,896**

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2017	$ 628	$383,077	$ 14,911	$1,614,186	$(418,007)	$1,594,795
Cumulative-effect adjustment- ASU 2016-01 adoption	—	—	—	8,334	—	8,334
Cumulative-effect adjustment- ASU 2018-02 adoption	—	—	3,416	(3,416)	—	—
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	122	—	—	(2)	120
Share-based compensation	—	902	—	—	—	902
Net effect of restricted and performance shares issued	2	(3,851)	—	—	—	(3,849)
Dividends to shareholders	—	—	—	(16,616)	—	(16,616)
Other comprehensive income (loss)	—	—	(26,373)	—	—	(26,373)
Net income	—	—	—	11,856	—	11,856
Balance at March 31, 2018	$ 630	$380,250	$ (8,046)	$1,614,344	$(418,009)	$1,569,169

* See Note 1 for discussion of accounting guidance adopted during the period.

See accompanying notes.

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ProAssurance Corporation and Subsidiaries
Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)
(In thousands, except per share data)

	Three Months Ended March 31	
	2019	2018
Revenues		
Net premiums earned	**$208,149**	$187,159
Net investment income	**22,818**	22,027
Equity in earnings (loss) of unconsolidated subsidiaries	**(810)**	1,640
Net realized investment gains (losses):		
OTTI losses	**(136)**	—
Portion of OTTI losses recognized in other comprehensive income before taxes	**87**	—
Net impairment losses recognized in earnings	**(49)**	—
Other net realized investment gains (losses)	**36,672**	(12,517)
Total net realized investment gains (losses)	**36,623**	(12,517)
Other income	**2,095**	2,723
Total revenues	**268,875**	201,032
Expenses		
Net losses and loss adjustment expenses	**159,755**	129,786
Underwriting, policy acquisition and operating expenses		
Operating expense	**33,290**	32,467
DPAC amortization	**28,102**	24,893
Segregated portfolio cells dividend expense (income)	**4,787**	1,747
Interest expense	**4,330**	3,705
Total expenses	**230,264**	192,598
Income before income taxes	**38,611**	8,434
Provision for income taxes		
Current expense (benefit)	**343**	(1,328)
Deferred expense (benefit)	**6,618**	(2,094)
Total income tax expense (benefit)	**6,961**	(3,422)
Net income	**31,650**	11,856
Other comprehensive income (loss), after tax, net of reclassification adjustments	**25,566**	(26,373)
Comprehensive income (loss)	**$57,216**	$(14,517)
Earnings per share		
Basic	**$0.59**	$0.22
Diluted	**$0.59**	$0.22
Weighted average number of common shares outstanding:		
Basic	**53,683**	53,515
Diluted	**53,808**	53,682
Cash dividends declared per common share	**$0.31**	$0.31

See accompanying notes.

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ProAssurance Corporation and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three Months Ended March 31	
	2019	2018
Operating Activities		
Net income	**$31,650**	$11,856
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	**5,036**	6,079
(Increase) decrease in cash surrender value of BOLI	**(453)**	(449)
Net realized investment (gains) losses	**(36,623)**	12,517
Share-based compensation	**1,228**	902
Deferred income tax expense (benefit)	**6,618**	(2,094)
Policy acquisition costs, net of amortization (net deferral)	**(2,807)**	(504)
Equity in (earnings) loss of unconsolidated subsidiaries	**810**	(1,640)
Distributed earnings from unconsolidated subsidiaries	**1,938**	7,018
Other	**1,337**	752
Other changes in assets and liabilities:		
Premiums receivable	**(27,660)**	(9,559)
Reinsurance related assets and liabilities	**(27,283)**	9,651
Other assets	**(1,447)**	6,254
Reserve for losses and loss adjustment expenses	**39,148**	8,420
Unearned premiums	**42,396**	27,743
Other liabilities	**504**	(3,592)
Net cash provided (used) by operating activities	**34,392**	73,354
Investing Activities		
Purchases of:		
Fixed maturities, available for sale	**(179,107)**	(367,872)
Fixed maturities, trading	**(4,614)**	(4,162)
Equity investments	**(25,016)**	(67,129)
Other investments	**(4,602)**	(7,108)
Funding of qualified affordable housing project tax credit partnerships	**(247)**	—
Investment in unconsolidated subsidiaries	**(31,150)**	(21,985)
Proceeds from sales or maturities of:		
Fixed maturities, available for sale	**119,425**	459,822
Equity investments	**25,812**	51,085
Other investments	**4,738**	6,092
Return of invested capital from unconsolidated subsidiaries	**5,305**	11,783
Net sales or maturities (purchases) of short-term investments	**90,698**	82,976
Unsettled security transactions, net change	**5,440**	22,421
Purchases of capital assets	**(2,572)**	(1,836)
Repayments (advances) under Syndicate Credit Agreement	**(212)**	(17,980)
Other	**(30)**	—
Net cash provided (used) by investing activities	**3,868**	146,107

Continued on the following page.

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	Three Months Ended March 31	
	2019	2018
Continued from the previous page.		
Financing Activities		
Borrowings (repayments) under Revolving Credit Agreement	**—**	(40,000)
Repayments of Mortgage Loans	**(362)**	(349)
Dividends to shareholders	**(43,338)**	(266,734)
Capital contribution received from (return of capital to) external segregated portfolio cell participants	**(562)**	251
Other	**(2,639)**	(3,877)
Net cash provided (used) by financing activities	**(46,901)**	(310,709)
Increase (decrease) in cash and cash equivalents	**(8,641)**	(91,248)
Cash and cash equivalents at beginning of period	**80,471**	134,495
Cash and cash equivalents at end of period	**$71,830**	$43,247
Significant Non-Cash Transactions		
Dividends declared and not yet paid	**$16,660**	$16,616

See accompanying notes.

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2019

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of ProAssurance Corporation and its consolidated subsidiaries (ProAssurance, PRA or the Company). The financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. ProAssurance's results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes contained in ProAssurance's December 31, 2018 report on Form 10-K. In connection with its preparation of the Condensed Consolidated Financial Statements, ProAssurance evaluated events that occurred subsequent to March 31, 2019 for recognition or disclosure in its financial statements and notes to financial statements.

Beginning in the third quarter of 2018, ProAssurance operates in five reportable segments as follows: Specialty P&C, Workers' Compensation Insurance, Segregated Portfolio Cell Reinsurance, Lloyd's Syndicates and Corporate. For more information on the Company's segment reporting, including the nature of products and services provided and financial information by segment, refer to Note 13.

Reclassifications

As a result of the third quarter of 2018 segment reorganization, prior period segment information in Note 13 has been recast to conform to the Company's current segment reporting (see Note 13 for further information).

Certain other insignificant prior period amounts have been reclassified to conform to the current period presentation.

Accounting Policies

Except as added below, the significant accounting policies followed by ProAssurance in making estimates that materially affect financial reporting are summarized in Note 1 of the Notes to Consolidated Financial Statements in ProAssurance's December 31, 2018 report on Form 10-K.

Leases

ProAssurance is involved in a number of leases primarily for office facilities. The Company determines if an arrangement is a lease at the inception date of the contract and classifies all leases as either financing or operating. Operating leases are included in operating lease ROU assets and operating lease liabilities on the Condensed Consolidated Balance Sheet as of March 31, 2019. The ROU asset represents the right to use the underlying asset (office space) for the lease term. As of March 31, 2019, ProAssurance has no leases that are classified as financing leases.

Operating ROU assets and operating lease liabilities are recognized as of the lease commencement date based on the present value of the remaining lease payments, discounted over the term of the lease using a discount rate determined based on information available as of the commencement date. As the majority of ProAssurance's lessors do not provide an implicit discount rate, the Company uses its collateralized incremental borrowing rate in determining the present value of remaining lease payments. Due to the adoption of ASU 2016-02 (see further discussion that follows), the Company used its collateralized incremental borrowing rate as of January 1, 2019 for operating leases that commenced prior to that date. Leases with an initial term of twelve months or less are considered short-term and are not recorded on the Condensed Consolidated Balance Sheet; lease expense for these leases is recognized on a straight-line basis over the lease term. Additionally, for leases entered into or reassessed after the adoption of ASU 2016-02, ProAssurance accounts for lease and non-lease components of a contract as a single lease component. Operating lease expense is included as a component of operating expense on the Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018.

Operating lease ROU assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a ROU asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the underlying leased asset over the remaining lease term. That assessment is based on the carrying amount of the ROU asset at the date it is tested for recoverability and an impairment loss is measured and recognized as the amount by which the carrying amount of the ROU asset exceeds its fair value.

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2019

Other Liabilities

Other liabilities consisted of the following:

(In thousands)	**March 31, 2019**	December 31, 2018
SPC dividends payable	**$59,129**	$53,604
Unpaid dividends	**16,660**	43,446
All other	**102,606**	102,245
Total other liabilities	**$178,395**	$199,295

SPC dividends payable are the cumulative undistributed earnings contractually payable to the external cell participants of SPCs operated by ProAssurance's Cayman Islands subsidiaries, Eastern Re and Inova Re.

Unpaid dividends represent common stock dividends declared by ProAssurance's Board that had not yet been paid as of March 31, 2019. Unpaid dividends at December 31, 2018 included a special dividend declared in the fourth quarter of 2018 that was paid in January 2019.

Accounting Changes Adopted

Leases (ASU 2016-02)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance that requires a lessee to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ProAssurance adopted the guidance as of January 1, 2019 using a modified retrospective application and elected the transition option provided that allows companies to continue to apply legacy GAAP in comparative periods. Also, ProAssurance elected the package of practical expedients permitted under the guidance, which allowed the Company to carryforward its historical lease classification, its assessment on whether a contract is or contains a lease and its initial direct costs for any leases that exist prior to adoption of the new standard. Furthermore, ProAssurance elected to combine lease and non-lease components and to keep leases with an initial term of 12 months or less off the Condensed Consolidated Balance Sheet and recognize the associated lease payments in the Condensed Consolidated Statements of Income and Comprehensive Income on a straight-line basis over the lease term. ProAssurance recognized a total ROU asset and total lease liabilities of approximately $19 million on the Condensed Consolidated Balance Sheet as of January 1, 2019 which relate to ProAssurance's real estate operating leases; the Company does not consider these leases to be material to its financial position. Adoption of this guidance had no material impact on ProAssurance's results of operation or cash flows.

ProAssurance's Revolving Credit Agreement contains a financial covenant regarding permitted leverage ratios based upon Consolidated Funded Indebtedness to Consolidated Total Capitalization; however, adoption of this guidance had no material impact on this covenant. ProAssurance’s Mortgage Loans also contain a financial covenant regarding permitted leverage ratios, principally based upon SAP Consolidated Net Worth; however, as the NAIC did not adopt the principles found in ASU 2016-02, adoption of the guidance had no impact on this covenant.

Premium Amortization on Purchased Callable Debt Securities (ASU 2017-08)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance that will require the premium for certain callable debt securities to be amortized over a shorter period than is currently required. Currently amortization is permitted over the contractual life of the instrument and the guidance shortens the amortization to the earliest call date. The purpose of the guidance is to more closely align the amortization period of premiums to expectations incorporated in market pricing on the underlying securities. ProAssurance adopted the guidance as of January 1, 2019. As ProAssurance amortizes premium on callable debt securities to the earliest call date, adoption of the guidance had no material effect on ProAssurance’s results of operations, financial position or cash flows.

Derivatives and Hedging (ASU 2017-12)
Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance to improve financial reporting of hedging relationships to better portray the entity's risk management activities in the consolidated financial statements. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness and requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. ProAssurance adopted the guidance as of January 1, 2019. ProAssurance's derivative

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2019

instrument at March 31, 2019 is not designated as a hedging instrument; therefore, adoption had no material effect on ProAssurance's results of operations, financial position or cash flows.

Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance which reduces the complexity in accounting for nonemployee share-based payment awards. The new guidance substantially aligns the accounting for nonemployee share-based payment awards with the accounting guidance for employee share-based payment awards with certain exceptions, including the inputs used in estimating the fair value of the nonemployee awards and the period of time and pattern of expense recognition. ProAssurance adopted the guidance as of January 1, 2019 using a modified retrospective application and recorded a cumulative-effect adjustment of approximately $0.4 million to beginning retained earnings in the Condensed Consolidated Statement of Changes in Capital for the three months ended March 31, 2019. Adoption had no material effect of ProAssurance's results of operations or cash flows.

Derivatives and Hedging - Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap as a Benchmark Interest Rate for Hedge Accounting Purposes (ASU 2018-16)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued new guidance that permits the use of the Overnight Index Swap Rate based on the Secured Financing Rate as a U.S.
benchmark interest rate for hedge accounting purposes. ProAssurance adopted the guidance as of January 1, 2019. As of March 31, 2019, ProAssurance's derivative instrument is not designated as a hedging instrument; therefore, adoption had no material effect on ProAssurance's results of operations, financial position or cash flows.

Accounting Changes Not Yet Adopted

Improvements to Financial Instruments - Credit Losses (ASU 2016-13)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that replaces the incurred loss impairment methodology, which delays recognition of credit losses until a probable loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new guidance, credit losses are required to be recorded through an allowance for credit losses account and the income statement reflects the measurement for newly recognized financial assets, as well as increases or decreases of expected credit losses that have taken place during the period. Credit losses on available-for-sale fixed maturity securities will be required to be presented as an allowance, rather than as a write-down of the asset, limited to the amount by which the fair value is below amortized cost. Adoption of this guidance is not expected to have a material impact on ProAssurance's available-for-sale fixed maturity portfolio. In addition, ProAssurance's premiums receivable and receivables from reinsurers are also included in the scope of this new guidance; however, ProAssurance has not historically experienced material credit losses due to the financial condition of an insurer or reinsurer. ProAssurance plans to adopt the guidance beginning January 1, 2020 and is in the process of evaluating the effect the new guidance would have on its results of operations and financial position.

Simplifying the Test for Goodwill Impairment (ASU 2017-04)

Effective for the fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that simplifies the requirements to test goodwill for impairment for business entities that have goodwill reported in their financial statements. The guidance eliminates the second step of the impairment test which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. In addition, the guidance also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. ProAssurance plans to adopt the guidance beginning January 1, 2020. Adoption is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows.

Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that eliminates, modifies and adds certain disclosure requirements related to fair value measurements. The new guidance eliminates the requirements to disclose the transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of transfers between levels of the fair value hierarchy and the valuation process for Level 3 fair value measurements while it modifies existing disclosure requirements related to measurement uncertainty and the requirement to disclose the timing of liquidation of an investee's assets for investments in certain entities that calculate NAV. The new guidance also adds requirements to disclose changes in unrealized gains and losses included in OCI for recurring Level 3 fair value measurements as well as the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. An entity is permitted to early adopt any eliminated or modified disclosure requirements and delay adoption of

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the additional disclosure requirements until the guidance is effective. During the third quarter of 2018, ProAssurance elected to early adopt the provisions that eliminate and modify certain disclosure requirements within Note 2 on a retrospective basis and adoption of these certain provisions had no material effect on ProAssurance's results of operations, financial position or cash flows as it affected disclosures only. ProAssurance plans to adopt the additional disclosure requirements beginning January 1, 2020 and adoption is not expected to have a material effect on ProAssurance's results of operations, financial position or cash flows.

Intangibles - Goodwill and Other-Internal-Use Software (ASU 2018-15)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB amended the new standard regarding accounting for implementation costs in cloud computing arrangements. The amended guidance substantially aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ProAssurance plans to adopt the guidance beginning January 1, 2020. Adoption is not expected to have a material effect on ProAssurance's results of operations, financial position or cash flows.

Targeted Improvements to Related Party Guidance for VIEs (ASU 2018-17)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB amended guidance which improves the consistency of the application of the VIE guidance for common control arrangements. The amended guidance requires an entity to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety when determining whether a decision-making fee is a variable interest. ProAssurance plans to adopt the guidance beginning January 1, 2020. As of March 31, 2019 ProAssurance does not have any material indirect interests held through related parties under common control; therefore, adoption is not expected to have a material effect on ProAssurance's results of operations, financial position or cash flows.

Collaborative Arrangements (ASU 2018-18)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued new guidance which clarifies how to assess whether certain transactions between participants in a collaborative arrangement should be accounted for under the revenue from contracts with customers accounting standard when the counterpart is a customer. In addition, the guidance precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. ProAssurance plans to adopt the guidance beginning January 1, 2020 and adoption is not expected to have a material effect on ProAssurance's results of operations, financial position or cash flows.

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2. Fair Value Measurement

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A three level hierarchy has been established for valuing assets and liabilities based on how transparent (observable) the inputs are that are used to determine fair value, with the inputs considered most observable categorized as Level 1 and those that are the least observable categorized as Level 3. Hierarchy levels are defined as follows:

Level 1:	quoted (unadjusted) market prices in active markets for identical assets and liabilities. For ProAssurance, Level 1 inputs are generally quotes for debt or equity securities actively traded in exchange or over-the-counter markets.
Level 2:	market data obtained from sources independent of the reporting entity (observable inputs). For ProAssurance, Level 2 inputs generally include quoted prices in markets that are not active, quoted prices for similar assets or liabilities, and results from pricing models that use observable inputs such as interest rates and yield curves that are generally available at commonly quoted intervals.
Level 3:	the reporting entity’s own assumptions about market participant assumptions based on the best information available in the circumstances (non-observable inputs). For ProAssurance, Level 3 inputs are used in situations where little or no Level 1 or 2 inputs are available or are inappropriate given the particular circumstances. Level 3 inputs include results from pricing models for which some or all of the inputs are not observable, discounted cash flow methodologies, single non-binding broker quotes and adjustments to externally quoted prices that are based on management judgment or estimation.

Fair values of assets measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 are shown in the following tables. Where applicable, the tables also indicate the fair value hierarchy of the valuation techniques utilized to determine those fair values. For some assets, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When this is the case, the asset is categorized based on the level of the most significant input to the fair value measurement. Assessments of the significance of a particular input to the fair value measurement require judgment and consideration of factors specific to the assets being valued.

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	March 31, 2019			
	Fair Value Measurements Using			Total
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Fixed maturities, available for sale				
U.S. Treasury obligations	$—	$119,590	$—	$119,590
U.S. Government-sponsored enterprise obligations	—	28,802	—	28,802
State and municipal bonds	—	297,812	—	297,812
Corporate debt, multiple observable inputs	—	1,256,519	—	1,256,519
Corporate debt, limited observable inputs	—	—	4,296	4,296
Residential mortgage-backed securities	—	189,513	—	189,513
Agency commercial mortgage-backed securities	—	11,541	—	11,541
Other commercial mortgage-backed securities	—	49,620	1,182	50,802
Other asset-backed securities	—	223,973	2,950	226,923
Fixed maturities, trading	—	42,973	—	42,973
Equity investments				
Financial	73,849	—	—	73,849
Utilities/Energy	57,712	—	—	57,712
Consumer oriented	53,592	—	—	53,592
Industrial	48,334	—	—	48,334
Bond funds	178,309	—	—	178,309
All other	43,813	—	—	43,813
Short-term investments	180,058	37,730	—	217,788
Other investments	—	33,438	3	33,441
Other assets	—	1,447	—	1,447
Total assets categorized within the fair value hierarchy	$635,667	$2,292,958	$8,431	2,937,056
Assets carried at NAV, which approximates fair value and which are not categorized within the fair value hierarchy, reported as a part of:				
Equity investments				20,715
Investment in unconsolidated subsidiaries				291,525
Total assets at fair value				$3,249,296

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	December 31, 2018			
	Fair Value Measurements Using			Total
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Fixed maturities, available for sale				
U.S. Treasury obligations	$—	$120,201	$—	$120,201
U.S. Government-sponsored enterprise obligations	—	35,354	—	35,354
State and municipal bonds	—	293,772	—	293,772
Corporate debt, multiple observable inputs	2,319	1,216,834	—	1,219,153
Corporate debt, limited observable inputs	—	—	4,322	4,322
Residential mortgage-backed securities	—	181,238	—	181,238
Agency commercial mortgage-backed securities	—	13,108	—	13,108
Other commercial mortgage-backed securities	—	30,993	—	30,993
Other asset-backed securities	—	191,807	3,850	195,657
Fixed maturities, trading	—	38,188	—	38,188
Equity investments				
Financial	62,344	—	—	62,344
Utilities/Energy	46,533	—	—	46,533
Consumer oriented	47,462	—	—	47,462
Industrial	41,487	—	—	41,487
Bond funds	174,753	—	—	174,753
All other	50,066	—	—	50,066
Short-term investments	265,910	42,409	—	308,319
Other investments	—	31,341	3	31,344
Other assets	—	1,884	—	1,884
Total assets categorized within the fair value hierarchy	$690,874	$2,197,129	$8,175	2,896,178
Assets carried at NAV, which approximates fair value and which are not categorized within the fair value hierarchy, reported as a part of:				
Equity investments				20,292
Investment in unconsolidated subsidiaries				268,436
Total assets at fair value				$3,184,906

The fair values for securities included in the Level 2 category, with the few exceptions described below, were developed by one of several third party, nationally recognized pricing services, including services that price only certain types of securities. Each service uses complex methodologies to determine values for securities and subject the values they develop to quality control reviews. Management selected a primary source for each type of security in the portfolio and reviewed the values provided for reasonableness by comparing data to alternate pricing services and to available market and trade data. Values that appeared inconsistent were further reviewed for appropriateness. Any value that did not appear reasonable was discussed with the service that provided the value and adjusted, if necessary. There were no material changes to the values supplied by the pricing services during the three months ended March 31, 2019.

Level 2 Valuations

Below is a summary description of the valuation methodologies primarily used by the pricing services for securities in the Level 2 category, by security type:

U.S. Treasury obligations were valued based on quoted prices for identical assets, or, in markets that are not active, quotes for similar assets, taking into consideration adjustments for variations in contractual cash flows and yields to maturity.

U.S. Government-sponsored enterprise obligations were valued using pricing models that consider current and historical market data, normal trading conventions, credit ratings, and the particular structure and characteristics of the security being valued, such as yield to maturity, redemption options, and contractual cash flows. Adjustments to model inputs or model results were included in the valuation process when necessary to reflect recent regulatory, government or corporate actions or significant economic, industry or geographic events affecting the security's fair value.

State and municipal bonds were valued using a series of matrices that considered credit ratings, the structure of the security, the sector in which the security falls, yields, and contractual cash flows. Valuations were further adjusted, when necessary, to reflect the expected effect on fair value of recent significant economic or geographic events or ratings changes.

Corporate debt, multiple observable inputs consisted primarily of corporate bonds, but also included a small number of bank loans. The methodology used to value Level 2 corporate bonds was the same as the methodology previously described for U.S. Government-sponsored enterprise obligations. Bank loans were valued based on an average of broker quotes for the loans in question, if available. If quotes were not available, the loans were valued based on quoted prices for comparable loans or, if the loan was newly issued, by comparison to similar seasoned issues. Broker quotes were compared to actual trade prices to permit assessment of the reliability of the quotes; unreliable quotes were not considered in quoted averages.

Residential and commercial mortgage-backed securities were valued using a pricing matrix which considers the issuer type, coupon rate and longest cash flows outstanding. The matrix used was based on the most recently available market information. Agency and non-agency collateralized mortgage obligations were both valued using models that consider the structure of the security, current and historical information regarding prepayment speeds, ratings and ratings updates, and current and historical interest rate and interest rate spread data.

Other asset-backed securities were valued using models that consider the structure of the security, monthly payment information, current and historical information regarding prepayment speeds, ratings and ratings updates, and current and historical interest rate and interest rate spread data. Spreads and prepayment speeds consider collateral type.

Fixed maturities, trading, are held by the Lloyd's Syndicates segment and include U.S. Treasury obligations, U.S. Government-sponsored enterprise obligations, corporate debt with multiple observable inputs and other asset-backed securities. These securities were valued using the respective valuation methodologies discussed above for each security type.

Short-term investments were securities maturing within one year, carried at fair value which approximated the cost of the securities due to their short-term nature.

Other investments consisted primarily of convertible bonds valued using a pricing model that incorporated selected dealer quotes as well as current market data regarding equity prices and risk free rates. If dealer quotes were unavailable for the security being valued, quotes for securities with similar terms and credit status were used in the pricing model. Dealer quotes selected for use were those considered most accurate based on parameters such as underwriter status and historical reliability.

Other assets consisted of an interest rate cap derivative instrument, which is discussed in Note 9, valued using a model which considers the volatilities from other instruments with similar maturities, strike prices, durations and forward yield curves.

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Level 3 Valuations

Below is a summary description of the valuation methodologies used as well as quantitative information regarding securities in the Level 3 category, by security type:

Level 3 Valuation Methodologies

Corporate debt, limited observable inputs consisted of corporate bonds valued using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities of comparable credit quality that have like terms and payment features. Assessments of credit quality were based on NRSRO ratings, if available, or were subjectively determined by management if not available. At March 31, 2019, 53% of the securities were rated and the average rating was AA-. At December 31, 2018, 54% of the securities were rated and the average rating was BBB+.

Other commercial mortgage-backed and other asset-backed securities consisted of securitizations of receivables valued using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities of comparable credit quality that have like terms and payment features. Assessments of credit quality were based on NRSRO ratings, if available, or were subjectively determined by management if not available. At March 31, 2019, 29% of the securities were rated and the average rating was A-. At December 31, 2018, 25% of the securities were rated and the average rating was AAA.

Other investments consisted of convertible securities for which limited observable inputs were available at March 31, 2019 and December 31, 2018. The securities were valued internally based on expected cash flows, including the expected final recovery, discounted at a yield that considered the lack of liquidity and the financial status of the issuer.

Quantitative Information Regarding Level 3 Valuations

($ in thousands)	**Fair Value at March 31, 2019**	December 31, 2018	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Assets:					
Corporate debt, limited observable inputs	**$4,296**	$4,322	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Other commercial mortgage-backed securities	**$1,182**	—	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Other asset-backed securities	**$2,950**	$3,850	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Other investments	**$3**	$3	Discounted Cash Flows	Comparability Adjustment	0% - 10% (5%)

The significant unobservable inputs used in the fair value measurement of the above listed securities were the valuations of comparable securities with similar issuers, credit quality and maturity. Changes in the availability of comparable securities could result in changes in the fair value measurements.

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Fair Value Measurements - Level 3 Assets

The following tables (the Level 3 Tables) present summary information regarding changes in the fair value of assets measured at fair value using Level 3 inputs.

	March 31, 2019 Level 3 Fair Value Measurements – Assets			
(In thousands)	Corporate Debt	Asset-backed Securities	Other investments	Total
Balance December 31, 2018	**$4,322**	**$ 3,850**	**$ 3**	**$8,175**
Total gains (losses) realized and unrealized:				
Included in earnings, as a part of:				
Net investment income	**2**	**(118)**	**—**	**(116)**
Net realized investment gains (losses)	**—**	**—**	**—**	**—**
Included in other comprehensive income	**3**	**157**	**—**	**160**
Purchases	**1,305**	**—**	**—**	**1,305**
Sales	**(136)**	**(6)**	**—**	**(142)**
Transfers in	**—**	**1,200**	**—**	**1,200**
Transfers out	**(1,200)**	**(951)**	**—**	**(2,151)**
Balance March 31, 2019	**$4,296**	**$ 4,132**	**$ 3**	**$8,431**
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	**$—**	**$ —**	**$ —**	**$—**

	March 31, 2018 Level 3 Fair Value Measurements – Assets			
(In thousands)	Corporate Debt	Asset-backed Securities	Other investments	Total
Balance December 31, 2017	$13,703	$4,986	$ 409	$19,098
Total gains (losses) realized and unrealized:				
Included in earnings, as a part of:				
Net investment income	(38)	—	—	(38)
Net realized investment gains (losses)	—	—	(44)	(44)
Included in other comprehensive income	(38)	(30)	—	(68)
Purchases	6,005	13,453	—	19,458
Sales	(2,905)	(27)	—	(2,932)
Transfers in	2,069	—	—	2,069
Transfers out	(3,699)	(1,059)	—	(4,758)
Balance March 31, 2018	$15,097	$17,323	$ 365	$32,785
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$—	$ —	$—

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Transfers

Transfers shown in the preceding Level 3 tables were as of the end of the quarter in which the transfer occurred. All transfers were to or from Level 2.

All transfers during the three months ended March 31, 2019 and 2018 related to securities held for which the level of market activity for identical or nearly identical securities varies from period to period. The securities were valued using multiple observable inputs when those inputs were available; otherwise the securities were valued using limited observable inputs.

Fair Values Not Categorized

At March 31, 2019 and December 31, 2018, certain LPs/LLCs and investment funds measure fund assets at fair value on a recurring basis and provide a NAV for ProAssurance's interest. The carrying value of these interests is based on the NAV provided and was considered to approximate the fair value of the interests. For investment in unconsolidated subsidiaries, ProAssurance recognizes any changes in the NAV of its interests in equity in earnings (loss) of unconsolidated subsidiaries during the period of change. In accordance with GAAP, the fair value of these investments was not classified within the fair value hierarchy. The amount of ProAssurance's unfunded commitments related to these investments as of March 31, 2019 and fair values of these investments as of March 31, 2019 and December 31, 2018 was as follows:

	Unfunded Commitments	**Fair Value**	
(In thousands)	**March 31, 2019**	**March 31, 2019**	December 31, 2018
Equity investments:			
Mortgage fund [(1)]	**None**	**$20,715**	$20,292
Investment in unconsolidated subsidiaries:			
Private debt funds [(2)]	**$19,850**	**16,474**	18,196
Long equity fund [(3)]	**None**	**6,811**	6,561
Long/short equity funds [(4)]	**None**	**28,966**	28,805
Non-public equity funds [(5)]	**$87,594**	**124,058**	114,811
Multi-strategy fund of funds [(6)]	**None**	**9,468**	9,322
Credit funds [(7)]	**$4,891**	**38,668**	29,164
Long/short commodities fund [(8)]	**None**	**14,276**	12,958
Strategy focused funds [(9)]	**$49,997**	**52,804**	48,619
		291,525	268,436
Total investments carried at NAV		**$312,240**	$288,728

Below is additional information regarding each of the investments listed in the table above as of March 31, 2019.

(1) This investment fund is focused on the structured mortgage market. The fund will primarily invest in U.S. Agency mortgage-backed securities. Redemptions are allowed at the end of any calendar quarter with a prior notice requirement of 65 days and are paid within 45 days at the end of the redemption dealing day.

(2) This investment is comprised of interests in three unrelated LP funds that are structured to provide interest distributions primarily through diversified portfolios of private debt instruments. One LP allows redemption by special consent; the other two do not permit redemption. Income and capital are to be periodically distributed at the discretion of the LPs over an anticipated time frame that spans from three to eight years.

(3) This fund is a LP that holds long equities of public international companies. Redemptions are allowed at the end of any calendar month with a prior notice requirement of 15 days and are paid within 10 days of the end of the calendar month of the redemption request.

(4) This investment is comprised of interests in multiple unrelated LP funds. The funds hold primarily long and short North American equities and target absolute returns using strategies designed to take advantage of market opportunities. The funds generally permit quarterly or semi-annual capital redemptions subject to notice

requirements of 30 to 90 days. For some funds, redemptions above specified thresholds (lowest threshold is 90%) may be only partially payable until after a fund audit is completed and are then payable within 30 days.

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(5) This investment is comprised of interests in multiple unrelated LP funds, each structured to provide capital appreciation through diversified investments in private equity, which can include investments in buyout, venture capital, debt including senior, second lien and mezzanine, distressed debt, collateralized loan obligations and other private equity-oriented LPs. Two of the LPs allow redemption by terms set forth in the LP agreements; the others do not permit redemption. Income and capital are to be periodically distributed at the discretion of the LP over time frames that are anticipated to span up to ten years.

(6) This fund is a LLC structured to build and manage low volatility, multi-manager portfolios that have little or no correlation to the broader fixed income and equity security markets. Redemptions are not permitted but offers to repurchase units of the LLC may be extended periodically.

(7) This investment is comprised of four unrelated LP funds. Two funds seek to obtain superior risk-adjusted absolute returns through a diversified portfolio of debt securities, including bonds, loans and other asset-backed instruments. A third fund focuses on private middle market company mezzanine loans, while the remaining fund seeks event driven opportunities across the corporate credit spectrum. Two funds are allowed redemptions at any quarter-end with a prior notice requirement of 90 days, one fund permits redemption at any quarter-end with a prior notice requirement of 180 days and one fund does not allow redemptions.

(8) This fund is a LLC invested across a broad range of commodities and focuses primarily on market neutral, relative value strategies, seeking to generate absolute returns with low correlation to broad commodity, equity and fixed income markets. Following an initial one-year lock-up period, redemptions are allowed with a prior notice requirement of 30 days and are payable within 30 days.

(9) This investment is comprised of multiple unrelated LPs/LLCs funds. One fund is a LLC focused on investing in North American consumer products companies, comprised of equity and equity-related securities, as well as debt instruments. A second fund is focused on aircraft investments, along with components and assets related to aircrafts. For both funds, redemptions are not permitted. Another fund is a LP focused on North American energy infrastructure assets that allows redemption with consent of the General Partner. The remaining funds are real estate focused LPs, one of which allows for redemption with prior notice.

ProAssurance may not sell, transfer or assign its interest in any of the above LPs/LLCs without special consent from the LPs/LLCs.

Nonrecurring Fair Value Measurement

At March 31, 2019 and December 31, 2018, ProAssurance did not have any assets or liabilities that were measured at fair value on a nonrecurring basis.

Financial Instruments - Methodologies Other Than Fair Value

The following table provides the estimated fair value of the Company's financial instruments that, in accordance with GAAP for the type of investment, are measured using a methodology other than fair value. All fair values provided primarily fall within the Level 3 fair value category.

	March 31, 2019		December 31, 2018	
(In thousands)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets:				
BOLI	**$64,549**	**$64,549**	$64,096	$64,096
Other investments	**$2,887**	**$2,887**	$2,943	$2,943
Other assets	**$39,272**	**$38,921**	$35,921	$35,468
Financial liabilities:				
Senior notes due 2023*	**$250,000**	**$267,008**	$250,000	$264,810
Mortgage Loans*	**$38,702**	**$38,702**	$39,064	$39,064
Other liabilities	**$23,928**	**$23,928**	$21,300	$21,300

* Carrying value excludes debt issuance costs.

The fair value of the BOLI was equal to the cash surrender value associated with the policies on the valuation date.

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Other investments listed in the table above include FHLB common stock carried at cost and an annuity investment carried at amortized cost. Two of ProAssurance's insurance subsidiaries are members of an FHLB. The estimated fair value of the FHLB common stock was based on the amount the subsidiaries would receive if their memberships were canceled, as the memberships cannot be sold. The fair value of the annuity represents the present value of the expected future cash flows discounted using a rate available in active markets for similarly structured instruments.

Other assets and other liabilities primarily consisted of related investment assets and liabilities associated with funded deferred compensation agreements. The fair value of the funded deferred compensation assets was based upon quoted market prices, which is categorized as a Level 1 valuation, and had a fair value of $23.9 million and $24.1 million at March 31, 2019 and December 31, 2018, respectively. The deferred compensation liabilities are adjusted to match the fair value of the deferred compensation assets. Other assets also included a secured note receivable and unsecured note receivable under two separate line of credit agreements. Fair value of these notes receivable was based on the present value of expected cash flows from the notes receivable, discounted at market rates on the valuation date for receivables with similar credit standings and similar payment structures.

The fair value of the debt was estimated based on the present value of expected future cash outflows, discounted at rates available on the valuation date for similar debt issued by entities with a similar credit standing to ProAssurance.

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3. Investments

Available-for-sale fixed maturities at March 31, 2019 and December 31, 2018 included the following:

	March 31, 2019			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities, available for sale				
U.S. Treasury obligations	**$119,631**	**$679**	**$720**	**$119,590**
U.S. Government-sponsored enterprise obligations	**28,873**	**70**	**141**	**28,802**
State and municipal bonds	**290,791**	**7,174**	**153**	**297,812**
Corporate debt	**1,256,756**	**10,680**	**6,621**	**1,260,815**
Residential mortgage-backed securities	**190,382**	**1,216**	**2,085**	**189,513**
Agency commercial mortgage-backed securities	**11,541**	**91**	**91**	**11,541**
Other commercial mortgage-backed securities	**50,527**	**500**	**225**	**50,802**
Other asset-backed securities	**226,608**	**817**	**502**	**226,923**
	$2,175,109	**$21,227**	**$10,538**	**$2,185,798**

	December 31, 2018			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities, available for sale				
U.S. Treasury obligations	$121,274	$331	$1,404	$120,201
U.S. Government-sponsored enterprise obligations	35,758	25	429	35,354
State and municipal bonds	289,544	4,877	649	293,772
Corporate debt	1,244,577	3,328	24,430	1,223,475
Residential mortgage-backed securities	184,463	814	4,039	181,238
Agency commercial mortgage-backed securities	13,296	12	200	13,108
Other commercial mortgage-backed securities	31,330	38	375	30,993
Other asset-backed securities	196,583	254	1,180	195,657
	$2,116,825	$9,679	$32,706	$2,093,798

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The recorded cost basis and estimated fair value of available-for-sale fixed maturities at March 31, 2019, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In thousands)	Amortized Cost	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Total Fair Value
Fixed maturities, available for sale						
U.S. Treasury obligations	**$119,631**	**$19,650**	**$75,723**	**$23,806**	**$ 411**	**$119,590**
U.S. Government-sponsored enterprise obligations	**28,873**	**3,583**	**7,943**	**17,138**	**138**	**28,802**
State and municipal bonds	**290,791**	**9,665**	**130,868**	**134,130**	**23,149**	**297,812**
Corporate debt	**1,256,756**	**163,168**	**776,105**	**305,216**	**16,326**	**1,260,815**
Residential mortgage-backed securities	**190,382**					**189,513**
Agency commercial mortgage-backed securities	**11,541**					**11,541**
Other commercial mortgage-backed securities	**50,527**					**50,802**
Other asset-backed securities	**226,608**					**226,923**
	$2,175,109					**$2,185,798**

Excluding obligations of the U.S. Government, U.S. Government-sponsored enterprises and a U.S. Government obligations money market fund, no investment in any entity or its affiliates exceeded 10% of shareholders' equity at March 31, 2019.

Cash and securities with a carrying value of $47.1 million at March 31, 2019 were on deposit with various state insurance departments to meet regulatory requirements.

As a member of Lloyd's and a capital provider to Syndicate 1729 and Syndicate 6131, ProAssurance is required to maintain capital at Lloyd's, referred to as FAL. ProAssurance's FAL investments at March 31, 2019 included available-for-sale fixed maturities with a fair value of $137.1 million and short-term investments with a fair value of approximately $7.4 million on deposit with Lloyd's in order to satisfy these FAL requirements.

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Investments Held in a Loss Position

The following tables provide summarized information with respect to investments held in an unrealized loss position at March 31, 2019 and December 31, 2018, including the length of time the investment had been held in a continuous unrealized loss position.

	March 31, 2019					
	Total		Less than 12 months		12 months or longer	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities, available for sale						
U.S. Treasury obligations	**$71,545**	**$720**	**$4,855**	**$ 39**	**$66,690**	**$ 681**
U.S. Government-sponsored enterprise obligations	**17,136**	**141**	**1,962**	**38**	**15,174**	**103**
State and municipal bonds	**19,776**	**153**	**2,470**	**23**	**17,306**	**130**
Corporate debt	**538,376**	**6,621**	**112,445**	**1,183**	**425,931**	**5,438**
Residential mortgage-backed securities	**128,567**	**2,085**	**10,327**	**12**	**118,240**	**2,073**
Agency commercial mortgage-backed securities	**7,048**	**91**	**1,384**	**2**	**5,664**	**89**
Other commercial mortgage-backed securities	**16,560**	**225**	**850**	**—**	**15,710**	**225**
Other asset-backed securities	**119,257**	**502**	**29,635**	**33**	**89,622**	**469**
	$918,265	**$10,538**	**$163,928**	**$ 1,330**	**$754,337**	**$ 9,208**

	December 31, 2018					
	Total		Less than 12 months		12 months or longer	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities, available for sale						
U.S. Treasury obligations	$97,969	$1,405	$20,221	$119	$77,748	$1,286
U.S. Government-sponsored enterprise obligations	33,677	429	20,479	126	13,198	303
State and municipal bonds	63,094	648	30,924	143	32,170	505
Corporate debt	938,651	24,429	447,891	8,804	490,760	15,625
Residential mortgage-backed securities	157,120	4,039	27,311	209	129,809	3,830
Agency commercial mortgage-backed securities	9,822	200	4,566	22	5,256	178
Other commercial mortgage-backed securities	22,924	375	13,348	164	9,576	211
Other asset-backed securities	142,470	1,181	70,218	236	72,252	945
	$1,465,727	$32,706	$634,958	$9,823	$830,769	$22,883

As of March 31, 2019, excluding U.S. Government or U.S. Government-sponsored enterprise obligations, there were 666 debt securities (31.8% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 412 issuers. The greatest and second greatest unrealized loss positions among those securities were each approximately $0.2 million. The securities were evaluated for OTTI as of March 31, 2019.

As of December 31, 2018, excluding U.S. Government or U.S. Government-sponsored enterprise obligations, there were 1,044 debt securities (50.6% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 550 issuers. The greatest and second greatest unrealized loss positions among those securities were approximately $0.6 million and $0.5 million, respectively. The securities were evaluated for OTTI as of December 31, 2018.

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Each quarter, ProAssurance performs a detailed analysis for the purpose of assessing whether any of the securities it holds in an unrealized loss position has suffered an OTTI. A detailed discussion of the factors considered in the assessment is included in Note 1 of the Notes to Consolidated Financial Statements included in ProAssurance's December 31, 2018 Form 10-K.

Fixed maturity securities held in an unrealized loss position at March 31, 2019, excluding asset-backed securities, have paid all scheduled contractual payments and are expected to continue doing so. Expected future cash flows of asset-backed securities, excluding those issued by GNMA, FNMA and FHLMC, held in an unrealized loss position were estimated as part of the March 31, 2019 OTTI evaluation using the most recently available six-month historical performance data for the collateral (loans) underlying the security or, if historical data was not available, sector based assumptions, and equaled or exceeded the current amortized cost basis of the security.

Other information regarding sales and purchases of fixed maturity available-for-sale securities is as follows:

	Three Months Ended March 31	
(In millions)	**2019**	2018
Proceeds from sales (exclusive of maturities and paydowns)	**$31.5**	$379.2
Purchases	**$179.1**	$367.9

Equity Investments

ProAssurance's equity investments are carried at fair value with changes in fair value recognized in income as a component of net realized investment gains (losses) during the period of change. Equity investments on the Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018 primarily included stocks, bond funds and investment funds.

Short-term Investments

ProAssurance's short-term investments, which have a maturity at purchase of one year or less, are primarily comprised of investments in U.S. treasury obligations, commercial paper and money market funds. Short-term investments are carried at fair value which approximates the cost of the securities due to their short-term nature.

BOLI

ProAssurance holds BOLI policies that are carried at the current cash surrender value of the policies (original cost $33 million). All insured individuals were members of ProAssurance management at the time the policies were acquired. The primary purpose of the program is to offset future employee benefit expenses through earnings on the cash value of the policies. ProAssurance is the owner and beneficiary of these policies.

Net Investment Income

Net investment income by investment category was as follows:

	Three Months Ended March 31	
(In thousands)	**2019**	2018
Fixed maturities	**$17,517**	$17,080
Equities	**4,823**	4,867
Short-term investments, including Other	**1,835**	1,308
BOLI	**453**	449
Investment fees and expenses	**(1,810)**	(1,677)
Net investment income	**$22,818**	$22,027

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Investment in Unconsolidated Subsidiaries

ProAssurance's investment in unconsolidated subsidiaries were as follows:

(In thousands)	March 31, 2019 Percentage Ownership	Carrying Value March 31, 2019	December 31, 2018
Qualified affordable housing project tax credit partnerships	See below	**$61,247**	$65,677
Other tax credit partnerships	See below	**3,568**	3,757
All other investments, primarily investment fund LPs/LLCs	See below	**326,039**	298,323
		$390,854	$367,757

Qualified affordable housing project tax credit partnership interests held by ProAssurance generate investment returns by providing tax benefits to fund investors in the form of tax credits and project operating losses. The carrying value of these investments reflects ProAssurance's total commitments (both funded and unfunded) to the partnerships, less any amortization. ProAssurance's ownership percentage relative to two of the tax credit partnership interests is almost 100%; these interests had a carrying value of $23.0 million at March 31, 2019 and $25.0 million at December 31, 2018. ProAssurance's ownership percentage relative to the remaining tax credit partnership interests is less than 20%; these interests had a carrying value of $38.2 million at March 31, 2019 and $40.7 million at December 31, 2018. Since ProAssurance has the ability to exert influence over the partnerships but does not control them, all are accounted for using the equity method. See further discussion of the entities in which ProAssurance holds passive interests in Note 11.

Other tax credit partnerships are comprised entirely of investments in historic tax credit partnerships. The historic tax credit partnerships generate investment returns by providing benefits to fund investors in the form of tax credits, tax deductible project operating losses and positive cash flows. The carrying value of these investments reflects ProAssurance's total funded commitments less any amortization. ProAssurance's ownership percentage relative to the historic tax credit partnerships is almost 100%. Since ProAssurance has the ability to exert influence over the partnerships but does not control them, all are accounted for using the equity method. See further discussion of the entities in which ProAssurance holds passive interests in Note 11.

ProAssurance holds interests in investment fund LPs/LLCs and other equity method investments and LPs/LLCs which are not considered to be investment funds. ProAssurance's ownership percentage relative to two of the LPs/LLCs is greater than 25%, which is expected to be reduced as the funds mature and other investors participate in the funds; these investments had a carrying value of $34.0 million at March 31, 2019 and $25.9 million at December 31, 2018. ProAssurance's ownership percentage relative to the remaining investments and LPs/LLCs is less than 25%; these interests had a carrying value of $292.0 million at March 31, 2019 and $272.4 million at December 31, 2018. ProAssurance does not have the ability to exert control over any of these funds.

Equity in Earnings (Loss) of Unconsolidated Subsidiaries

Equity in earnings (loss) of unconsolidated subsidiaries included losses from qualified affordable housing project tax credit partnerships and historic tax credit partnerships. Losses recorded reflect ProAssurance's allocable portion of partnership operating losses. Tax credits reduce income tax expense in the period they are recognized. Losses recorded and tax credits recognized related to ProAssurance's tax credit partnership investments were as follows:

(In thousands)	Three Months Ended March 31 2019	2018
Qualified affordable housing project tax credit partnerships		

Losses recorded	**$4,430**	$4,100
Tax credits recognized	**$4,531**	$4,612
Historic tax credit partnerships		
Losses recorded	**$189**	$1,876
Tax credits recognized	**$103**	$663

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Net Realized Investment Gains (Losses)

Realized investment gains and losses are recognized on the first-in, first-out basis. The following table provides detailed information regarding net realized investment gains (losses):

(In thousands)	**Three Months Ended March 31 2019**	2018
Total OTTI losses:		
Corporate debt	**$(136)**	$—
Portion of OTTI losses recognized in other comprehensive income before taxes:		
Corporate debt	**87**	—
Net impairment losses recognized in earnings	**(49)**	—
Gross realized gains, available-for-sale fixed maturities	**367**	4,464
Gross realized (losses), available-for-sale fixed maturities	**(336)**	(2,047)
Net realized gains (losses), trading fixed maturities	**(28)**	—
Net realized gains (losses), equity investments	**1,790**	9,219
Net realized gains (losses), other investments	**379**	688
Change in unrealized holding gains (losses), trading fixed maturities	**210**	(49)
Change in unrealized holding gains (losses), equity investments	**32,394**	(23,845)
Change in unrealized holding gains (losses), convertible securities, carried at fair value	**1,895**	(954)
Other	**1**	7
Net realized investment gains (losses)	**$36,623**	$(12,517)

For the 2019 three-month period, ProAssurance recognized a nominal amount of both credit related OTTI in earnings and non-credit OTTI in OCI, both of which related to a corporate bond. ProAssurance did not recognize any OTTI during the 2018 three-month period.

The following table presents a roll forward of cumulative credit losses recorded in earnings related to impaired debt securities for which a portion of the OTTI was recorded in OCI.

(In thousands)	**Three Months Ended March 31 2019**	2018
Balance beginning of period	**$93**	$1,313
Additional credit losses recognized during the period, related to securities for which:		
No OTTI has been previously recognized	**49**	—
Balance March 31	**$142**	$1,313

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4. Income Taxes

ProAssurance estimates its annual effective tax rate at the end of each quarterly reporting period and uses this estimated rate as well as the tax effect of discrete items to record the provision for income taxes in the interim financial statements. The provision for income taxes is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes primarily because a portion of ProAssurance’s investment income is tax-exempt, and because ProAssurance utilizes tax credit benefits transferred from tax credit partnership investments.

ProAssurance had a receivable for federal and U.K. income taxes carried as a part of other assets of $3.3 million at March 31, 2019 and $3.5 million at December 31, 2018. The liability for unrecognized tax benefits, which is included in the total receivable for federal and U.K. income taxes, was $4.4 million and $4.2 million at March 31, 2019 and December 31, 2018, respectively, which included an accrued liability for interest of approximately $0.7 million and $0.6 million, respectively.

Tax Cuts and Jobs Act

ProAssurance recognized a nominal amount of tax expense related to the GILTI provision of the TCJA during the three months ended March 31, 2019. ProAssurance has not recognized any incremental tax expense related to the BEAT provision of the TCJA during the three months ended March 31, 2019. For additional information regarding ProAssurance's accounting for certain provisions of the TCJA, in Note 6 of the Notes to Consolidated Financial Statements in ProAssurance's December 31, 2018 Form 10-K.

5. Reserve for Losses and Loss Adjustment Expenses

The reserve for losses is established based on estimates of individual claims and actuarially determined estimates of future losses based on ProAssurance’s past loss experience, available industry data and projections as to future claims frequency, severity, inflationary trends and settlement patterns. Estimating the reserve, particularly the reserve appropriate for liability exposures, is a complex process. For a high proportion of the risks insured or reinsured by ProAssurance, claims may be resolved over an extended period of time, often five years or more, and may be subject to litigation. Estimating losses requires ProAssurance to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, the reserve estimate may vary considerably from the eventual outcome. The assumptions used in establishing ProAssurance’s reserve are regularly reviewed and updated by management as new data becomes available. Changes to estimates of previously established reserves are included in earnings in the period in which the estimate is changed.

ProAssurance believes that the methods it uses to establish reserves are reasonable and appropriate. Each year, ProAssurance uses internal actuaries to review the reserve for losses of each insurance subsidiary. ProAssurance also engages consulting actuaries to review ProAssurance claims data and provide observations regarding cost trends, rate adequacy and ultimate loss costs. ProAssurance considers the views of the actuaries as well as other factors, such as known, anticipated or estimated changes in frequency and severity of claims, loss retention levels and premium rates, in establishing the amount of its reserve for losses. The statutory filings of each insurance company with the insurance regulators must be accompanied by a consulting actuary's certification as to their respective reserves.

ProAssurance partitions its reserve by accident year, which is the year in which the claim becomes its liability. As claims are incurred (reported) and claim payments are made, they are aggregated by accident year for analysis purposes. ProAssurance also partitions its reserve by reserve type: case reserves and IBNR reserves. Case reserves are established by the claims department based upon the particular circumstances of each reported claim and represent ProAssurance’s estimate of the future loss costs (often referred to as expected losses) that will be paid on reported claims. Case reserves are decremented as claim payments are made and are periodically adjusted upward or downward as estimates regarding the amount of future losses are revised; a reported loss for an individual claim equates to the case reserve at any point in time plus the claim payments that have been made to date. IBNR reserves represent an estimate, in the aggregate, of future development on losses that have been reported to ProAssurance plus an estimate of losses that have been incurred but not reported.

Development of Prior Accident Years

In addition to setting the initial reserve for the current accident year, each period ProAssurance reassesses the amount of reserve required for prior accident years. The foundation of ProAssurance's reserve re-estimation process is an actuarial analysis that is performed by both the internal and consulting actuaries. This detailed analysis projects ultimate losses based on partitions which include line of business, geography, coverage layer and accident year. The procedure uses the most representative data for each partition, capturing its unique patterns of development and trends. In all, there are over 200 different partitions of ProAssurance's business for purposes of this analysis. ProAssurance believes that the use of consulting actuaries provides an independent view of the loss data as well as a broader perspective on industry loss trends.

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

(In thousands)	**Three Months Ended March 31, 2019**	Three Months Ended March 31, 2018	Year Ended December 31, 2018
Balance, beginning of year	**$2,119,847**	$2,048,381	$2,048,381
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	**343,820**	335,585	335,585
Net balance, beginning of year	**1,776,027**	1,712,796	1,712,796
Net losses:			
Current year*	**170,032**	152,572	685,326
Favorable development of reserves established in prior years, net	**(10,277)**	(22,786)	(92,116)
Total	**159,755**	129,786	593,210
Paid related to:			
Current year	**(17,027)**	(14,243)	(117,268)
Prior years	**(109,079)**	(101,078)	(412,711)
Total paid	**(126,106)**	(115,321)	(529,979)
Net balance, end of period	**1,809,676**	1,727,261	1,776,027
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	**349,319**	329,540	343,820
Balance, end of period	**$2,158,995**	$2,056,801	$2,119,847

* Current year net losses for the year ended December 31, 2018 included incurred losses of $25.4 million related to a loss portfolio transfer entered into during 2018. For additional information regarding the loss portfolio transfer, see Note 4 of the Notes to Consolidated Financial Statements included in ProAssurance's December 31, 2018 Form 10-K.

The favorable loss development recognized in the three months ended March 31, 2019 primarily reflected a lower than anticipated claims severity trend (i.e., the average size of a claim) for accident years 2012 through 2015. The favorable loss development recognized in the three months ended March 31, 2018 primarily reflected a lower than anticipated claims severity trend for accident years 2011 through 2015. The favorable loss development recognized in the twelve months ended December 31, 2018 primarily reflected a lower than anticipated claims severity trend for accident years 2011 through 2014.

For additional information regarding ProAssurance's reserve for losses, see Note 1 and Note 8 of the Notes to Consolidated Financial Statements included in ProAssurance's December 31, 2018 Form 10-K.

6. Commitments and Contingencies

ProAssurance is involved in various legal actions related to insurance policies and claims handling including, but not limited to, claims asserted by policyholders. These types of legal actions arise in the Company's ordinary course of business and, in accordance with GAAP for insurance entities, are considered as a part of the Company's loss reserving process, which is described in detail under the heading "Losses and Loss Adjustment Expenses" in the Accounting Policies section in Note 1 of the Notes to Consolidated Financial Statements in ProAssurance's December 31, 2018 Form 10-K.

As a member of Lloyd's, ProAssurance is required to provide capital to support its Lloyd's Syndicates through 2019 of up to $200 million, referred to as FAL. The Board, through a non-binding resolution, extended this commitment through 2022. At March 31, 2019, ProAssurance's FAL was comprised of investment securities on deposit with Lloyd's with a carrying value of $144.5 million (see Note 3).

ProAssurance has issued an unconditional revolving credit agreement to the Premium Trust Fund of Syndicate 1729 for the purpose of providing working capital with permitted borrowings of £30.0 million. In January 2019, the Syndicate Credit Agreement was amended to extend the current maturity to December 31, 2020 and to implement an annual auto-renewal feature which allows for ProAssurance to elect to non-renew if notice is given at least 30 days prior to the next auto-renewal date, which is one year prior to the maturity date. Under the Syndicate Credit Agreement, advances bear interest at 3.8% annually and may be repaid at any time but are repayable upon demand after December 31, 2020, subject to extension through the auto-renewal feature. As of March 31, 2019, the unused commitment under the Syndicate Credit Agreement approximated £6.5 million (approximately $8.5 million).

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On occasion, ProAssurance has entered into financial instrument transactions that may present off-balance sheet credit risk or market risk. These transactions include a short-term loan commitment and commitments to provide funding to non-public investment entities. Under the short-term loan commitment, ProAssurance has agreed to advance funds on a 30 day basis to a counterparty provided there is no violation of any condition established in the contract. As of March 31, 2019, ProAssurance had total funding commitments of approximately $274.7 million which primarily represented funding commitments related to non-public investment entities as well as the short-term loan commitment which included the amount at risk if the full short-term loan is extended and the counterparties default. However, the credit risk associated with the short-term loan commitment is minimal as the counterparties to the contract are highly rated commercial institutions and to-date have been performing in accordance with their contractual obligations.
In October 2018, ProAssurance entered into an agreement with a company to provide data analytics services for certain product lines within the Company's HCPL book of business. The agreement contains a minimum two year commitment with optional extension features for an annual fee of approximately $4.8 million per year with additional variable quarterly incentive fees based on service utilization metrics prescribed in the contract. ProAssurance incurred operating expense associated with this agreement of $1.0 million in the first quarter of 2019 and as of March 31, 2019, the remaining commitment under this agreement was approximately $7.6 million.

7. Leases

ProAssurance is involved in a number of operating leases primarily for office facilities. Office facility leases have remaining lease terms ranging from one year to thirteen years; some of which include options to extend the leases for up to ten years, and some of which include an option to terminate the lease within one year. ProAssurance subleases certain office facilities to third parties and classifies these leases as operating leases.
The following table provides a summary of the components of lease expense as well as the reporting location in the Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018.

(In thousands)	**Location in the Condensed Consolidated Statements of Income and Comprehensive Income**	**Three Months Ended March 31, 2019**	Three Months Ended March 31, 2018
Operating lease expense [(1)]	Operating expense	**$774**	$1,254
Sublease income [(2)]	Other income	**(38)**	(38)
Net lease expense		**$736**	$1,216

[(1)] Includes short-term lease costs and variable lease costs. For the three months ended March 31, 2019, no short-term lease costs were recognized and variable lease costs were nominal in amount. For the three months ended March 31, 2018, short-term lease costs and variable lease costs were each nominal in amount.
[(2)] Sublease income excludes rental income from owned properties of $0.6 million during each of the three months ended March 31, 2019 and 2018 which is included in other income. See “Item 2. Properties” in ProAssurance's December 31, 2018 report on Form 10-K for a listing of currently owned properties.

The following table provides supplemental lease information for operating leases on the Condensed Consolidated Balance Sheet as of March 31, 2019.

($ in thousands)	**March 31, 2019**
Operating lease ROU assets	**$17,227**
Operating lease liabilities	**$18,036**
Weighted-average remaining lease term	**8.57 years**
Weighted-average discount rate	**3.26 %**

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The following table provides supplemental lease information for the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018.

(In thousands)	**Three Months Ended March 31**	
	2019	**2018**
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	**$809**	$118

The following table is a schedule of remaining future minimum lease payments for operating leases that had an initial or remaining non-cancellable lease term in excess of one year as of March 31, 2019. Operating lease payments exclude $4.4 million of future minimum lease payments for a lease signed but not yet commenced as of March 31, 2019. This lease will commence in the second quarter of 2019 with a lease term of eleven years.

(In thousands)	
2019	**$3,049**
2020	**3,443**
2021	**3,078**
2022	**2,184**
2023	**1,479**
Thereafter	**7,461**
Total future minimum lease payments	**$20,694**
Less: Imputed interest	**2,658**
Total operating lease liabilities	**$18,036**

8. Debt

ProAssurance’s outstanding debt consisted of the following:

(In thousands)	**March 31, 2019**	December 31, 2018
Senior Notes due 2023, unsecured, interest at 5.3% annually	**$250,000**	$250,000
Revolving Credit Agreement, outstanding borrowings are not permitted to exceed $250 million aggregately; Revolving Credit Agreement expires in 2020. The interest rate on borrowings is set at the time the borrowing is initiated or renewed.	**—**	—
Mortgage Loans, outstanding borrowings are secured by first priority liens on two office buildings, and bear an interest rate of three-month LIBOR plus 1.325% (3.93% and 4.10%, respectively) determined on a quarterly basis.	**38,702**	39,064
Total principal	**288,702**	289,064
Less debt issuance costs	**1,215**	1,307
Debt less debt issuance costs	**$287,487**	$287,757

Covenant Compliance

There are no financial covenants associated with the Senior Notes due 2023.

The Revolving Credit Agreement contains customary representations, covenants and events constituting default, and remedies for default. The Revolving Credit Agreement also defines financial covenants regarding permitted leverage ratios. ProAssurance is currently in compliance with all covenants of the Revolving Credit Agreement.

The Mortgage Loans contain customary representations, covenants and events constituting default, and remedies for default. The Mortgage Loans also define a financial covenant regarding a permitted leverage ratio for each of the two ProAssurance subsidiaries that entered into the Mortgage Loans. ProAssurance's subsidiaries are currently in compliance with the financial covenant of the Mortgage Loans.

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Additional Information

For additional information regarding ProAssurance's debt, see Note 10 of the Notes to Consolidated Financial Statements included in ProAssurance's December 31, 2018 Form 10-K.

9. Derivatives

ProAssurance is exposed to certain risks relating to its ongoing business and investment activities. ProAssurance utilizes derivative instruments as part of its risk management strategy to reduce the market risk related to fluctuations in future interest rates associated with a portion of its variable-rate debt. As of March 31, 2019, ProAssurance has not designated any derivative instruments as hedging instruments and does not use derivative instruments for trading purposes.

ProAssurance utilizes an interest rate cap agreement with the objective of reducing the Company's exposure to interest rate risk related to its variable-rate Mortgage Loans. Additional information regarding the Company's Mortgage Loans is provided in Note 8. Under the terms of the interest rate cap agreement, ProAssurance paid a premium of $2 million for the right to receive cash payments based upon a notional amount of $35 million if and when the three-month LIBOR rises above 2.35%. The Company's variable-rate Mortgage Loans bear an interest rate of three-month LIBOR plus 1.325%. Therefore, this derivative instrument is effectively ensuring the interest rate related to the Mortgage Loans is capped at a maximum of 3.675% until expiration of the interest rate cap agreement in October 2027. During the three months ended March 31, 2019, ProAssurance received a nominal cash payment associated with this agreement as a result of the three-month LIBOR rising above 2.35%, which was recorded as a reduction to interest expense. ProAssurance has designated the interest rate cap as an economic hedge (non-hedging instrument) of interest rate exposure and any change in fair value of the derivative is immediately recognized in earnings during the period of change.

The following table provides a summary of the volume and fair value position of the interest rate cap as well as the reporting location in the Condensed Consolidated Balance Sheets as of March 31, 2019 and December 31, 2018.

($ in thousands)		**March 31, 2019**			December 31, 2018		
Derivatives Not Designated as Hedging Instruments	**Location in the Condensed Consolidated Balance Sheets**	**Number of Instruments**	**Notional Amount [1]**	**Estimated Fair Value [2]**	Number of Instruments	Notional Amount [1]	Estimated Fair Value [2]
Interest Rate Cap	Other assets	**1**	**$35,000**	**$1,447**	1	$35,000	$1,884

[1] Volume is represented by the derivative instrument's notional amount.

[2] Additional information regarding the fair value of the Company's interest rate cap is provided in Note 2.

The following table presents the pre-tax impact of the change in the fair value of the interest rate cap and the reporting location in the Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018.

(In thousands)		**Gains (Losses) Recognized in Income on Derivatives Three Months Ended March 31**	
Derivatives Not Designated as Hedging Instruments	**Location in the Condensed Consolidated Statements of Income and Comprehensive Income**	**2019**	2018
Interest Rate Cap	Interest expense	**$(437)**	$575

As a result of this derivative instrument, ProAssurance is exposed to risk that the counterparty will fail to meet its contractual obligations. To mitigate this counterparty credit risk, ProAssurance only enters into derivative contracts with carefully selected major financial institutions based upon their credit ratings and monitors their creditworthiness. As of March 31, 2019, the counterparty had an investment grade rating of BBB- and has performed in accordance with their contractual obligations.

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10. Shareholders' Equity

At March 31, 2019 and December 31, 2018, ProAssurance had 100 million shares of authorized common stock and 50 million shares of authorized preferred stock. The Board has the authority to determine provisions for the issuance of preferred shares, including the number of shares to be issued, the designations, powers, preferences and rights, and the qualifications, limitations or restrictions of such shares. To date, the Board has not approved the issuance of preferred stock.

ProAssurance declared cash dividends of $0.31 per share during the first quarters of both 2019 and 2018, totaling $16.7 million and $16.6 million, respectively.

At March 31, 2019, Board authorizations for the repurchase of common shares or the retirement of outstanding debt of $109.6 million remained available for use. ProAssurance did not repurchase any common shares during the three months ended March 31, 2019 and 2018.

Share-based compensation expense and related tax benefits were as follows:

	Three Months Ended March 31	
(In thousands)	**2019**	2018
Share-based compensation expense	**$1,228**	$902
Related tax benefits	**$258**	$190

ProAssurance awarded approximately 109,000 restricted share units and 25,000 base performance share units to employees in February 2019. The fair value of each unit awarded was estimated at $40.18, equal to the market value of a ProAssurance common share on the date of grant less the estimated present value of dividends during the vesting period. The majority of awards are charged to expense as an increase to additional paid-in capital over the service period (generally the vesting period) associated with the award. However, a nominal amount of awards are recorded as a liability as they are structured to be settled in cash. Restricted share units and performance share units vest in their entirety at the end of a three-year period following the grant date based on a continuous service requirement and, for performance share units, achievement of a performance objective. Partial vesting is permitted for retirees. For equity classified awards, a ProAssurance common share is issued for each unit once vesting requirements are met, except that units sufficient to satisfy required tax withholdings are paid in cash. The number of common shares issued for performance share units varies from 50% to 200% of base awards depending upon the degree to which stated performance objectives are achieved. ProAssurance issued approximately 64,500 and 34,300 common shares to employees in February 2019 related to restricted share units and performance share units, respectively, granted in 2016. Performance share units for the 2016 award were issued at a level of 95%. Liability classified awards, which are nominal in amount, are settled in cash at the end of the vesting period.

ProAssurance issued approximately 2,000 common shares to employees in February 2019 as bonus compensation, as approved by the Compensation Committee of the Board. The shares issued were valued at fair value (the market price of a ProAssurance common share on the date of award).

Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

For the three months ended March 31, 2019 and 2018, OCI was almost entirely comprised of unrealized gains and losses, including non-credit impairment losses, arising during the period related to fixed maturity available-for-sale securities, less reclassification adjustments, as shown in the table that follows, net of tax. For the three months ended March 31, 2019 and 2018, OCI included changes related to the reestimation of the defined benefit plan liability assumed in the Eastern acquisition which were nominal in amount. The defined benefit plan is frozen as to the earnings of additional benefits and the benefit plan liability is reestimated annually.

At March 31, 2019 and December 31, 2018, AOCI was almost entirely comprised of accumulated unrealized gains and losses from fixed maturity available-for-sale securities, including accumulated non-credit impairments recognized through OCI of $0.2 million and $0.1 million, respectively, net of tax. At March 31, 2019 and December 31, 2018, accumulated changes in the defined benefit plan liability not yet recognized in earnings were nominal in amount. Due to the adoption of accounting guidance in the first quarter of 2018 related to certain impacts of the TCJA, ProAssurance increased AOCI by approximately $3.4 million with a corresponding decrease to retained earnings of the same amount as of the beginning of 2018. At March 31, 2019 and December 31, 2018, tax effects were computed using the enacted federal corporate tax rate of 21% with the exception of unrealized gains and losses on available-for-sale securities held at the Company's U.K. and Cayman Islands entities which in both periods were immaterial in amount.

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Amounts reclassified from AOCI to net income and the amounts of deferred tax expense (benefit) included in OCI were as follows:

(In thousands)	**Three Months Ended March 31**	
	2019	2018
Reclassifications from AOCI to net income:		
Realized investment gains (losses)	**$(17)**	$2,417
Tax effect, calculated using the 21% federal statutory tax rate	**4**	(508)
Net reclassification adjustments	**$(13)**	$1,909
Deferred tax expense (benefit) included in OCI	**$6,804**	$(7,060)

11. Variable Interest Entities

ProAssurance holds passive interests in a number of entities that are considered to be VIEs under GAAP guidance. ProAssurance's VIE interests principally consist of interests in LPs/LLCs formed for the purpose of achieving diversified equity and debt returns. ProAssurance's VIE interests, carried as a part of investment in unconsolidated subsidiaries, totaled $308.3 million at March 31, 2019 and $285.8 million at December 31, 2018.

ProAssurance does not have power over the activities that most significantly impact the economic performance of these VIEs and thus is not the primary beneficiary. Therefore, ProAssurance has not consolidated these VIEs. ProAssurance's involvement with each VIE is limited to its direct ownership interest in the VIE. Except for the funding commitments disclosed in Note 6, ProAssurance has no arrangements with any of the VIEs to provide other financial support to or on behalf of the VIE. At March 31, 2019, ProAssurance's maximum loss exposure relative to these investments was limited to the carrying value of ProAssurance's investment in the VIE.

12. Earnings Per Share

Diluted weighted average shares is calculated as basic weighted average shares plus the effect, calculated using the treasury stock method, of assuming that restricted share units, performance share units and purchase match units have vested. The following table provides the weighted average number of common shares outstanding used in the calculation of the Company's basic and diluted earnings per share:

(In thousands, except per share data)	**Three Months Ended March 31**	
	2019	2018
Weighted average number of common shares outstanding, basic	**53,683**	53,515
Dilutive effect of securities:		
Restricted Share Units	**82**	82
Performance Share Units	**29**	66
Purchase Match Units	**14**	19
Weighted average number of common shares outstanding, diluted	**53,808**	53,682
Effect of dilutive shares on earnings per share	**$ —**	$ —

All dilutive common share equivalents are reflected in the earnings per share calculation while antidilutive common share equivalents are not reflected in the earnings per share calculation. There were no antidilutive common share equivalents for the three months ended March 31, 2019 or 2018.

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13. Segment Information

ProAssurance's segments are based on the Company's internal management reporting structure for which financial results are regularly evaluated by the Company's CODM to determine resource allocation and assess operating performance. The Company continually assesses its internal management reporting structure and information evaluated by the CODM to determine whether any changes have occurred that would impact its segment reporting structure.

Segment Reorganization

During the third quarter of 2018, ProAssurance altered its internal management reporting structure and the financial results evaluated by its CODM; therefore, ProAssurance changed its operating segments to align with how the CODM currently oversees the business, allocates resources and evaluates operating performance. As a result of the segment reorganization, ProAssurance added an operating and reportable segment: Segregated Portfolio Cell Reinsurance. The Segregated Portfolio Cell Reinsurance segment provides the operating results of SPCs that assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two. The underwriting results of the SPCs that assume workers' compensation business and healthcare professional liability business were previously reported in the Company's Workers' Compensation and Specialty P&C segments, respectively, and the results of investment assets solely allocated to SPC operations, previously reported in the Company's Corporate segment, are now reported in the Segregated Portfolio Cell Reinsurance segment. The Workers' Compensation segment has also been renamed "Workers' Compensation Insurance." All prior period segment information has been recast to conform to the current period presentation. The segment reorganization had no impact on previously reported consolidated financial results.

Descriptions of ProAssurance's five operating and reportable segments are as follows:

Specialty P&C is primarily focused on professional liability insurance and medical technology liability insurance. Professional liability insurance is primarily offered to healthcare providers and institutions and to attorneys and their firms. Medical technology liability insurance is offered to medical technology and life sciences companies that manufacture or distribute products including entities conducting human clinical trials. Prior to 2018, the Specialty P&C segment ceded certain premium to the Lloyd's Syndicates segment under a quota share agreement with Syndicate 1729; however, this agreement was not renewed on January 1, 2018. As discussed below, the Lloyd's Syndicates segment results are typically reported on a quarter delay. For consistency purposes, results from this ceding arrangement, other than cash receipts or disbursements, are reported within the Specialty P&C segment on the same one-quarter delay. Additionally, the Specialty P&C segment cedes healthcare professional liability business to certain SPCs in the Segregated Portfolio Cell Reinsurance segment.

Workers' Compensation Insurance provides workers' compensation products primarily to employers with 1,000 or fewer employees. The segment's products include guaranteed cost, policyholder dividend policies, retrospectively-rated policies, deductible polices and alternative market solutions. Alternative market products include program design, fronting, claims administration, risk management, SPC rental, asset management and SPC management services. Alternative market premiums are 100% ceded to either SPCs in the Company's Segregated Portfolio Cell Reinsurance segment or, to a limited extent, to a captive insurer unaffiliated with ProAssurance.

Segregated Portfolio Cell Reinsurance reflects the operating results (underwriting profit or loss, plus investment results) of SPCs at Eastern Re and Inova Re, the Company's Cayman Islands SPC operations. The majority of SPCs assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two from the Workers' Compensation Insurance and Specialty P&C segments. During the first quarter of 2019, one SPC at Eastern Re assumed an errors and omissions liability policy from a captive insurer unaffiliated with ProAssurance. Each SPC is owned, fully or in part, by an agency, group or association and the operating results of the SPCs are due to the participants of that cell. ProAssurance participates to a varying degree in the results of selected SPCs. SPC operating results due to external cell participants are reflected as a SPC dividend expense in the Segregated Portfolio Cell Reinsurance segment and in ProAssurance's Condensed Consolidated Statements of Income and Comprehensive

Income. In addition, the Segregated Portfolio Cell Reinsurance segment includes the SPC investment results as the investments are solely for the benefit of the cell participants and investment results due to external cell participants are reflected in the SPC dividend expense. The segment operating results reflects ProAssurance's share of the underwriting and investment results of the SPCs in which ProAssurance participates.

Lloyd's Syndicates includes operating results from ProAssurance's participation in Lloyd's of London Syndicate 1729 and Syndicate 6131, which is an SPA that underwrites on a quota share basis with Syndicate 1729. The results of this segment are normally reported on a quarter delay, except when information is available that is material to the current period. Furthermore, investment results associated with the majority of investment assets solely allocated to Lloyd's Syndicate operations and certain U.S. paid administrative expenses are reported concurrently as that information is available on an earlier time frame. For the 2019 underwriting year, ProAssurance slightly decreased its participation in the operating results of Syndicate 1729 from 62% to 61%; however, due to the quarter delay these changes will not be reflected in the Lloyd's Syndicates segment results until the

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second quarter of 2019. Furthermore, ProAssurance's 100% participation in Syndicate 6131 was not reflected in the Lloyd's Syndicates segment results until the second quarter of 2018 as Syndicate 6131 began writing business effective January 1, 2018. Syndicate 1729 underwrites risks over a wide range of property and casualty insurance and reinsurance lines in both the U.S. and international markets. Syndicate 6131 focuses on contingency and specialty property business, also within the U.S. and international markets.

Corporate includes ProAssurance's investment operations, other than those reported in the Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments, interest expense and U.S. income taxes. The segment also includes non-premium revenues generated outside of the Company's insurance entities and corporate expenses.

The accounting policies of the segments are the same as those described in Note 1 of the Notes to Consolidated Financial Statements in ProAssurance’s December 31, 2018 report on Form 10-K and Note 1 herein. ProAssurance evaluates the performance of its Specialty P&C and Workers' Compensation Insurance segments based on before tax underwriting profit or loss, which excludes investment performance. ProAssurance evaluates the performance of its Segregated Portfolio Cell Reinsurance segment based on before tax operating profit or loss, which includes the investment performance of assets solely allocated to SPC operations. Performance of the Lloyd's Syndicates segment is evaluated based on underwriting profit or loss, plus investment results of investment assets solely allocated to Lloyd's Syndicate operations, net of U.K. income tax expense. Performance of the Corporate segment is evaluated based on the contribution made to consolidated after-tax results. ProAssurance accounts for inter-segment transactions as if the transactions were to third parties at current market prices. Assets are not allocated to segments because investments, other than the investments discussed above that are solely allocated to the Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments, and other assets are not managed at the segment level.

Financial results by segment were as follows:

	Three Months Ended March 31, 2019						
(In thousands)	**Specialty P&C**	**Workers' Compensation Insurance**	**Segregated Portfolio Cell Reinsurance**	**Lloyd's Syndicates**	**Corporate**	**Inter-segment Eliminations**	**Consolidated**
Net premiums earned	**$ 124,067**	**$ 45,939**	**$ 19,502**	**$ 18,641**	**$ —**	**$ —**	**$ 208,149**
Net investment income	**—**	**—**	**448**	**1,006**	**21,364**	**—**	**22,818**
Equity in earnings (loss) of unconsolidated subsidiaries	**—**	**—**	**—**	**—**	**(810)**	**—**	**(810)**
Net realized gains (losses)	**—**	**—**	**2,141**	**178**	**34,304**	**—**	**36,623**
Other income (expense)*	**1,209**	**729**	**87**	**(146)**	**905**	**(689)**	**2,095**
Net losses and loss adjustment expenses	**(107,658)**	**(30,443)**	**(10,745)**	**(10,909)**	**—**	**—**	**(159,755)**
Underwriting, policy acquisition and operating expenses*	**(29,615)**	**(14,192)**	**(5,235)**	**(8,469)**	**(4,570)**	**689**	**(61,392)**
Segregated portfolio cells dividend (expense) income	**—**	**—**	**(4,787)**	**—**	**—**	**—**	**(4,787)**
Interest expense	**—**	**—**	**—**	**—**	**(4,330)**	**—**	**(4,330)**
Income tax benefit (expense)	**—**	**—**	**—**	**(304)**	**(6,657)**	**—**	**(6,961)**
Segment operating results	**$ (11,997)**	**$ 2,033**	**$ 1,411**	**$ (3)**	**$ 40,206**	**$ —**	**$ 31,650**
Significant non-cash items:							
Depreciation and amortization, net of accretion	**$ 1,736**	**$ 977**	**$ 46**	**$ (3)**	**$ 2,280**	**$ —**	**$ 5,036**

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	Three Months Ended March 31, 2018						
(In thousands)	Specialty P&C	Workers' Compensation Insurance	Segregated Portfolio Cell Reinsurance	Lloyd's Syndicates	Corporate	Inter-segment Eliminations	Consolidated
Net premiums earned	$ 114,947	$ 42,700	$ 17,036	$ 12,476	$ —	$ —	$ 187,159
Net investment income	—	—	356	751	20,920	—	22,027
Equity in earnings (loss) of unconsolidated subsidiaries	—	—	—	—	1,640	—	1,640
Net realized gains (losses)	—	—	(473)	(54)	(11,990)	—	(12,517)
Other income (expense)*	1,256	851	30	331	943	(688)	2,723
Net losses and loss adjustment expenses	(83,522)	(27,825)	(9,953)	(8,486)	—	—	(129,786)
Underwriting, policy acquisition and operating expenses*	(27,980)	(13,030)	(5,114)	(7,246)	(4,678)	688	(57,360)
Segregated portfolio cells dividend (expense) income	—	—	(1,747)	—	—	—	(1,747)
Interest expense	—	—	—	—	(3,705)	—	(3,705)
Income tax benefit (expense)	—	—	—	(6)	3,428	—	3,422
Segment operating results	$ 4,701	$ 2,696	$ 135	$ (2,234)	$ 6,558	$ —	$ 11,856
Significant non-cash items:							
Depreciation and amortization, net of accretion	$ 1,867	$ 956	$ 165	$ (1)	$ 3,092	$ —	$ 6,079

* As a result of the third quarter 2018 segment reorganization, certain fees for services provided to the SPCs at Eastern Re and Inova Re are recorded as expenses within the Segregated Portfolio Cell Reinsurance segment and as other income within the Workers' Compensation Insurance segment. These fees are eliminated between segments in consolidation. These services primarily include SPC rental fees and were previously eliminated within the Company's Workers' Compensation segment.

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The following table provides detailed information regarding ProAssurance's gross premiums earned by product as well as a reconciliation to net premiums earned. All gross premiums earned are from external customers except as noted. ProAssurance's insured risks are primarily within the U.S.

	Three Months Ended March 31	
(In thousands)	**2019**	2018
Specialty P&C Segment		
Gross premiums earned:		
Healthcare professional liability	**$128,021**	$118,685
Legal professional liability	**6,560**	6,391
Medical technology liability	**8,302**	8,512
Other	**136**	110
Ceded premiums earned	**(18,952)**	(18,751)
Segment net premiums earned	**124,067**	114,947
Workers' Compensation Insurance Segment		
Gross premiums earned:		
Traditional business	**49,285**	46,233
Alternative market business	**20,991**	19,381
Ceded premiums earned	**(24,337)**	(22,914)
Segment net premiums earned	**45,939**	42,700
Segregated Portfolio Cell Reinsurance Segment		
Gross premiums earned:		
Workers' compensation[(1)]	**20,496**	17,839
Healthcare professional liability[(2)]	**1,323**	1,329
Other	**120**	—
Ceded premiums earned	**(2,437)**	(2,132)
Segment net premiums earned	**19,502**	17,036
Lloyd's Syndicates Segment		
Gross premiums earned:		
Property and casualty[(3)]	**23,828**	17,967
Ceded premiums earned	**(5,187)**	(5,491)
Segment net premiums earned	**18,641**	12,476
Consolidated net premiums earned	**$208,149**	$187,159

(1) Premium for all periods is assumed from the Workers' Compensation Insurance segment.

(2) Premium for all periods is assumed from the Specialty P&C segment.

(3) Includes premium assumed from the Specialty P&C segment of $0.1 million and $1.9 million for the three months ended March 31, 2019 and 2018, respectively.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and Notes to those statements which accompany this report. Throughout the discussion we use certain terms and abbreviations, which can be found in the Glossary of Terms and Acronyms at the beginning of this report. In addition, a glossary of insurance terms and phrases is available on the investor section of our website. Throughout the discussion, references to "ProAssurance," "PRA," "Company," "we," "us" and "our" refer to ProAssurance Corporation and its consolidated subsidiaries. The discussion contains certain forward-looking information that involves significant risks, assumptions and uncertainties. As discussed under the heading "Caution Regarding Forward-Looking Statements," our actual financial condition and operating results could differ significantly from these forward-looking statements.

ProAssurance Overview

ProAssurance Corporation is a holding company for property and casualty insurance companies. Our wholly owned insurance subsidiaries provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys and their firms, liability insurance for medical technology and life sciences risks and workers' compensation insurance. We are also the majority capital provider for Syndicate 1729 and the sole capital provider for Syndicate 6131 at Lloyd's of London.

We operate in five segments which are based on our internal management reporting structure for which financial results are regularly evaluated by our CODM to determine resource allocation and assess operating performance. During the third quarter of 2018, we reorganized our segment reporting and as a result, the number of our segments increased from four to five, described as follows:

- *Specialty P&C* - This segment includes our professional liability business and medical technology liability business. Professional liability insurance is primarily offered to healthcare providers and institutions and, to a lesser extent, to attorneys and their firms. Medical technology liability insurance is offered to medical technology and life sciences companies that manufacture or distribute products including entities conducting human clinical trials. The underwriting results of SPCs that assume healthcare professional liability business were previously reported in this segment and are now reported in our Segregated Portfolio Cell Reinsurance segment.
- *Workers' Compensation Insurance* - This segment includes our workers' compensation insurance business which is provided primarily to employers with 1,000 or fewer employees. Our workers' compensation products include guaranteed cost, policyholder dividend policies, retrospectively-rated policies, deductible policies and alternative market solutions. The underwriting results of SPCs that assume workers’ compensation business were previously reported in this segment and are now reported in our Segregated Portfolio Cell Reinsurance segment.
- *Segregated Portfolio Cell Reinsurance* - This segment reflects the operating results (underwriting profit or loss, plus investment results) of SPCs at Eastern Re and Inova Re, our Cayman Islands SPC operations. The majority of SPCs only assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two from our Workers' Compensation Insurance and Specialty P&C segments. During the first quarter of 2019, one SPC at Eastern Re assumed an errors and omissions liability policy from a captive insurer unaffiliated with ProAssurance.
- *Lloyd's Syndicates* - This segment includes the operating results from our participation in Lloyd's of London Syndicate 1729 and our 100% participation in Syndicate 6131, which is an SPA that underwrites on a quota share basis with Syndicate 1729. The results of this segment are normally reported on a quarter delay, except when information is available that is material to the current period. For the 2019 underwriting year, we slightly decreased our participation in the operating results of Syndicate 1729 from 62% to 61%; however, due to the quarter delay these changes will not be reflected in our Lloyd's Syndicates segment results until the second quarter of 2019. Furthermore, our participation in Syndicate 6131 was not reflected in our Lloyd's Syndicates segment results until the second quarter of 2018 as Syndicate 6131 began writing business effective January 1, 2018. Syndicate 1729 underwrites risks over a wide range of property and casualty insurance and reinsurance lines in both the U.S. and international markets while Syndicate 6131 focuses on contingency and specialty property business, also within the U.S. and international markets.
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Corporate - This segment includes our investment operations, other than those reported in our Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments, interest expense and U.S. income taxes. The results of investment assets solely allocated to SPC operations were previously reported in this segment and are now reported in our Segregated Portfolio Cell Reinsurance segment. This segment also includes non-premium revenues generated outside of our insurance entities and corporate expenses.

All prior period segment information has been recast to conform to the current period presentation and the segment reorganization had no impact on previously reported consolidated financial results. Additional information regarding our

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segments is included in Note 13 of the Notes to Condensed Consolidated Financial Statements and the Segment Operating Results sections that follow.

Critical Accounting Estimates

Our Condensed Consolidated Financial Statements are prepared in conformity with GAAP. Preparation of these financial statements requires us to make estimates and assumptions that affect the amounts we report on those statements. We evaluate these estimates and assumptions on an ongoing basis based on current and historical developments, market conditions, industry trends and other information that we believe to be reasonable under the circumstances. There can be no assurance that actual results will conform to our estimates and assumptions; reported results of operations may be materially affected by changes in these estimates and assumptions.

Management considers the following accounting estimates to be critical because they involve significant judgment by management and those judgments could result in a material effect on our financial statements.

Reserve for Losses and Loss Adjustment Expenses

The largest component of our liabilities is our reserve for losses and loss adjustment expenses ("reserve for losses" or "reserve"), and the largest component of expense for our operations is incurred losses and loss adjustment expenses (also referred to as “losses and loss adjustment expenses,” “incurred losses,” “losses incurred” and “losses”). Incurred losses reported in any period reflect our estimate of losses incurred related to the premiums earned in that period as well as any changes to our previous estimate of the reserve required for prior periods.

As of March 31, 2019, our reserve is comprised almost entirely of long-tail exposures. The estimation of long-tailed losses is inherently difficult and is subject to significant judgment on the part of management. Due to the nature of our claims, our loss costs, even for claims with similar characteristics, can vary significantly depending upon many factors, including but not limited to the specific characteristics of the claim and the manner in which the claim is resolved. Long-tailed insurance is characterized by the extended period of time typically required both to assess the viability of a claim and potential damages, if any, and to reach a resolution of the claim. The claims resolution process may extend to more than five years. The combination of continually changing conditions and the extended time required for claim resolution results in a loss cost estimation process that requires actuarial skill and the application of significant judgment, and such estimates require periodic modification.

Our reserve is established by management after taking into consideration a variety of factors including premium rates, claims frequency and severity, historical paid and incurred loss development trends, the expected effect of inflation, general economic trends, the legal and political environment and the conclusions reached by our internal and consulting actuaries. We update and review the data underlying the estimation of our reserve for losses each reporting period and make adjustments to loss estimation assumptions that we believe best reflect emerging data. Both our internal and consulting actuaries perform an in-depth review of our reserve for losses on at least a semi-annual basis using the loss and exposure data of our insurance subsidiaries.

Our reserving process can be broadly grouped into three areas: the establishment of the reserve for the current accident year (the initial reserve), the re-estimation of the reserve for prior accident years (development of prior accident years) and the establishment of the initial reserve for risks assumed in business combinations, applicable only in periods in which acquisitions occur (the acquired reserve).

Current Accident Year - Initial Reserve

Considerable judgment is required in establishing our initial reserve for any current accident year period, as there is limited data available upon which to base our estimate. Our process for setting an initial reserve considers the unique characteristics of each product, but in general we rely heavily on the loss assumptions that were used to price business, as our pricing reflects our analysis of loss costs that we expect to incur relative to the insurance product being priced.

Specialty P&C Segment. Loss costs within this segment are impacted by many factors including but not limited to the nature of the claim, including whether or not the claim is an individual or a mass tort claim, the personal situation of the claimant or the claimant's family, the outcome of jury trials, the legislative and judicial cli