UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2011

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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of October 26, 2011, there were 30,535,667 shares of the registrant s common stock outstanding.

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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 certain risks 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 , may , optimistic , preliminary , potential , pro 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 liquidity and capital requirements, investment valuation and performance, return on equity, financial ratios, net income, premiums, losses and loss reserves, 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:

- general economic conditions, either nationally or in our market areas, that are different than anticipated;
- regulatory, legislative and judicial actions or decisions that could affect our business plans or operations;
- the enactment or repeal of tort reforms;
- formation or dissolution of state-sponsored medical professional liability insurance entities that could remove or add sizable groups of physicians from the private insurance market;
- the impact of deflation or inflation;
- changes in the interest rate environment;
- changes in U.S. laws or government regulations regarding financial markets or market activity that may affect the U.S. economy and 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 accounting policies and practices that may be adopted by our regulatory agencies and the Financial Accounting Standards Board, the Securities and Exchange Commission, or the Public Company Accounting Oversight Board;

changes in laws or government regulations affecting medical professional liability insurance or the financial community;

the effects of changes in the health care delivery system, including but not limited to the Patient Protection and Affordable Care Act;

uncertainties inherent in the estimate of loss and loss adjustment expense reserves and reinsurance, and 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;

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

loss of independent agents;

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- changes in our organization, compensation and benefit plans;
- our ability to retain and recruit senior management;
- our ability to purchase reinsurance and collect recoveries from our reinsurers;
- assessments from guaranty funds;
- our ability to achieve continued growth through expansion into other states or through acquisitions or business combinations;
- changes to the ratings assigned by rating agencies to our insurance subsidiaries, individually or as a group;
- insurance market conditions may alter the effectiveness of our current business strategy and impact our revenues;
- the 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 and key agents, increased operating costs or inability to achieve cost savings, and assumption of greater than expected liabilities, among other reasons.

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 Securities and Exchange Commission, 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 speak 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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ProAssurance Corporation and Subsidiaries

Condensed Consolidated Balance Sheets

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share data)

	September 30 2011	December 31 2010
Assets		
Investments		
Fixed maturities available for sale, at fair value	**$ 3,674,572**	$ 3,603,754
Equity securities, available for sale, at fair value	**22**	3,637
Equity securities, trading, at fair value	**73,939**	37,286
Short-term investments	**96,824**	168,438
Business owned life insurance	**52,174**	50,484
Investment in unconsolidated subsidiaries	**114,520**	88,754
Other investments	**34,460**	38,078
Total Investments	**4,046,511**	3,990,431
Cash and cash equivalents	**125,707**	50,851
Premiums receivable	**138,011**	120,950
Receivable from reinsurers on paid losses and loss adjustment expenses	**2,760**	4,582
Receivable from reinsurers on unpaid losses and loss adjustment expenses	**283,419**	277,436
Prepaid reinsurance premiums	**14,373**	11,023
Deferred policy acquisition costs	**27,998**	27,281
Deferred taxes	**20,359**	56,862
Real estate, net	**40,767**	43,951
Intangible assets	**54,834**	60,031
Goodwill	**159,625**	161,453
Other assets	**74,445**	70,205
Total Assets	**$ 4,988,809**	$ 4,875,056
Liabilities and Shareholders Equity		
Liabilities		
Policy liabilities and accruals		
Reserve for losses and loss adjustment expenses	**$ 2,393,092**	$ 2,414,100
Unearned premiums	**277,702**	256,050
Reinsurance premiums payable	**110,681**	111,680
Total Policy Liabilities	**2,781,475**	2,781,830
Other liabilities	**135,657**	186,259
Long-term debt, $35,503 and $35,488, at amortized cost, respectively; $14,411 and $15,616 at fair value, respectively	**49,914**	51,104
Total Liabilities	**2,967,046**	3,019,193
Shareholders Equity		
	345	344

Common shares, par value $0.01 per share, 100,000,000 shares authorized, 34,534,526 and 34,419,383 shares issued, respectively		
Additional paid-in capital	**537,039**	532,213
Accumulated other comprehensive income (loss), net of deferred tax expense (benefit) of $65,882 and $42,607, respectively	**122,348**	79,124
Retained earnings	**1,566,888**	1,428,026
	2,226,620	2,039,707
Treasury shares, at cost, 4,007,054 shares and 3,666,149 shares, respectively	**(204,857)**	(183,844)
Total Shareholders Equity	**2,021,763**	1,855,863
Total Liabilities and Shareholders Equity	**$ 4,988,809**	$ 4,875,056

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ProAssurance Corporation and Subsidiaries

Condensed Consolidated Statements of Changes in Capital

Condensed Consolidated Statements of Changes in Capital (Unaudited)

(In thousands)

	Total	**Accumulated Other Comprehensive Income (Loss)**	**Retained Earnings**	**Other Capital Accounts**
Balance at December 31, 2010	**$ 1,855,863**	**$ 79,124**	**$ 1,428,026**	**$ 348,713**
Net income	**146,494**		**146,494**	
Dividends to shareholders	**(7,632)**		**(7,632)**	
Change in net unrealized gains (losses) on investments, after tax, net of reclassification adjustments	**43,224**	**43,224**		
Common shares reacquired	**(21,013)**			**(21,013)**
Common shares issued for compensation and net effect of performance shares issued and stock options exercised	**(595)**			**(595)**
Share-based compensation	**5,422**			**5,422**
Balance at September 30, 2011	**$ 2,021,763**	**$ 122,348**	**$ 1,566,888**	**$ 332,527**

	Total	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Other Capital Accounts
Balance at December 31, 2009	$ 1,704,595	$ 59,254	$ 1,196,428	$ 448,913
Net income	129,545		129,545	
Change in net unrealized gains (losses) on investments, after tax, net of reclassification adjustments	73,263	73,263		
Common shares reacquired	(94,426)			(94,426)
Common shares issued for compensation and net effect of performance shares issued and stock options exercised	721			721
Share-based compensation	4,509			4,509
Balance at September 30, 2010	$ 1,818,207	$ 132,517	$ 1,325,973	$ 359,717

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ProAssurance Corporation and Subsidiaries

Condensed Consolidated Statements of Income

Condensed Consolidated Statements of Income (Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	**2011**	2010
Revenues				
Gross premiums written	**$ 174,680**	$ 158,998	**$ 450,795**	$ 414,697
Net premiums written	**$ 164,798**	$ 149,693	**$ 421,692**	$ 383,783
Premiums earned	**$ 145,844**	$ 140,802	**$ 429,627**	$ 411,006
Premiums ceded	**(11,217)**	(10,502)	**(25,861)**	(31,882)
Net premiums earned	**134,627**	130,300	**403,766**	379,124
Net investment income	**34,116**	35,639	**106,573**	110,348
Equity in earnings (loss) of unconsolidated subsidiaries	**(2,264)**	(1,281)	**(6,044)**	2,544
Net realized investment gains (losses):				
Other-than-temporary impairment losses (OTTI)	**(1,389)**	(698)	**(4,291)**	(13,077)
Portion of OTTI losses recognized in (reclassified from) other comprehensive income before taxes	**(142)**	113	**(823)**	119
Net impairment losses recognized in earnings	**(1,531)**	(585)	**(5,114)**	(12,958)
Other net realized investment gains (losses)	**(10,441)**	15,297	**(534)**	21,765
Total net realized investment gains (losses)	**(11,972)**	14,712	**(5,648)**	8,807
Other income	**7,471**	1,764	**11,745**	5,769
Total revenues	**161,978**	181,134	**510,392**	506,592
Expenses				
Losses and loss adjustment expenses	**71,777**	86,866	**218,270**	251,944
Reinsurance recoveries	**(8,601)**	(7,055)	**(20,319)**	(24,908)
Net losses and loss adjustment expenses	**63,176**	79,811	**197,951**	227,036
Underwriting, policy acquisition and operating expenses	**34,954**	32,095	**103,534**	94,940
Interest expense	**932**	832	**2,645**	2,472
Total expenses	**99,062**	112,738	**304,130**	324,448
Income before income taxes	**62,916**	68,396	**206,262**	182,144
Provision for income taxes				
Current expense (benefit)	**19,220**	24,155	**46,049**	56,080
Deferred expense (benefit)	**(9)**	(6,811)	**13,719**	(3,481)

Total income tax expense (benefit)	**19,211**	17,344	**59,768**	52,599
Net income	**$ 43,705**	$ 51,052	**$ 146,494**	$ 129,545
Earnings per share:				
Basic	**$ 1.43**	$ 1.61	**$ 4.79**	$ 4.03
Diluted	**$ 1.42**	$ 1.59	**$ 4.75**	$ 3.99
Weighted average number of common shares outstanding:				
Basic	**30,557**	31,642	**30,577**	32,135
Diluted	**30,847**	32,047	**30,844**	32,508
Cash dividends declared per common share	$ 0.25		$ 0.25	

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ProAssurance Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(In thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	**2011**	2010
Comprehensive income:				
Net income	**$ 43,705**	$ 51,052	**$ 146,494**	$ 129,545
Change in net unrealized gains (losses) on investments, after tax, net of reclassification adjustments	**23,291**	27,878	**43,224**	73,263
Comprehensive income	**$ 66,996**	$ 78,930	**$ 189,718**	$ 202,808

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ProAssurance Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)

	Nine Months Ended September 30	
	2011	2010
Operating Activities		
Net income	**$ 146,494**	$ 129,545
Depreciation and amortization	**27,182**	19,571
Net realized investment (gains) losses	**5,648**	(8,807)
Share-based compensation	**5,422**	4,509
Deferred income taxes	**13,719**	(3,481)
Other	**(328)**	7,232
Other changes in assets and liabilities:		
Premiums receivable	**(17,061)**	(1,212)
Other assets	**4,090**	(9,423)
Reserve for losses and loss adjustment expenses	**(21,008)**	(16,402)
Unearned premiums	**21,652**	5,238
Reinsurance related assets and liabilities	**(8,510)**	7,158
Other liabilities	**(70,882)**	(25,302)
Net cash provided by operating activities	**106,418**	108,626
Investing Activities		
Purchases of:		
Fixed maturities available for sale	**(597,762)**	(663,341)
Equity securities trading	**(87,787)**	(13,450)
Other investments	**(429)**	(5,383)
(Investments in) distributions from unconsolidated subsidiaries, net:		
Tax credit limited partnerships	**(21,542)**	(8,783)
Other partnership investments		24,601
Proceeds from sale or maturities of:		
Fixed maturities available for sale	**586,455**	777,596
Equity securities available for sale	**3,836**	271
Equity securities trading	**40,648**	26,887
Other investments	**596**	1,242
Net sales or maturities (purchases) of short-term investments	**71,614**	(150,942)
Unsettled security transactions, net	**4,897**	9,344
Cash received (paid) for other assets	**(9,581)**	(2,752)
Net cash provided (used) by investing activities	**(9,055)**	(4,710)
Financing Activities		
Repurchase of treasury shares	**(21,013)**	(94,426)
Other	**(1,494)**	(1,868)

Net cash provided (used) by financing activities	**(22,507)**	(96,294)
Increase (decrease) in cash and cash equivalents	**74,856**	7,622
Cash and cash equivalents at beginning of period	**50,851**	40,642
Cash and cash equivalents at end of period	**$ 125,707**	$ 48,264

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ProAssurance Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of ProAssurance Corporation and its consolidated subsidiaries (ProAssurance or PRA). The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (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-month and nine-month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes contained in ProAssurance s December 31, 2010 report on Form 10-K. In connection with its preparation of the Condensed Consolidated Financial Statements, ProAssurance evaluated events that occurred subsequent to September 30, 2011 for recognition or disclosure in its financial statements and notes to financial statements.

Reclassifications

As of September 30, 2011, ProAssurance has reported intangible assets as a separate line item on the Balance Sheet. Prior period balances in this report have been reclassified to conform to the 2011 presentation. The reclassification had no effect on income from continuing operations, net income or total assets.

Accounting Changes Not Yet Adopted

Intangibles, Goodwill and Other

Effective for interim and annual reporting periods beginning after December 15, 2011, the FASB revised guidance related to goodwill impairment testing. The new guidance permits the assessment of qualitative factors to determine whether events or circumstances lead to the conclusion that it is necessary to perform the two-step goodwill impairment test. Entities are not required to calculate the fair value of a reporting unit unless they conclude that it is more likely than not that the unit s carrying value is greater than its fair value based on an assessment of events and circumstances. ProAssurance plans to adopt the guidance during the fourth quarter of 2011. Adoption of this guidance is not expected to have a material effect on ProAssurance s results of operations or financial position.

Presentation of Comprehensive Income

Effective for interim and annual reporting periods beginning after December 15, 2011, the FASB revised guidance related to the presentation of comprehensive income. The new guidance establishes two acceptable options for the presentation of comprehensive income: 1) separate consecutive statements of net income and comprehensive income or 2) a single continuous statement of comprehensive income that includes both the computation of net income and the computation of other comprehensive income. Regardless of the option chosen, reclassification adjustments between other comprehensive income and net income must be presented on the face of the financial statements; total comprehensive income must also be presented. The guidance is applicable to all periods presented. ProAssurance plans to adopt the guidance on January 1, 2012. Adoption of this guidance will have no effect on ProAssurance s results of operations or financial position.

ProAssurance Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

Fair Value Measurements

Effective for interim and annual reporting periods beginning after December 15, 2011, the FASB revised guidance related to fair value measurements and disclosures, all of which are to be applied prospectively. The new guidance increases disclosure requirements regarding valuation methods used to determine fair value measurements categorized as Level 3, as well as the sensitivity to change of those measurements, and requires additional disclosures regarding the consideration given to highest and best use in fair value measurements of nonfinancial assets. The guidance also requires that when fair value measurements of items not carried at fair value are disclosed, the fair value measurements are to be categorized by level of the fair value hierarchy. Additionally, the guidance also clarifies or revises certain fair value measurement principles related to the valuation of financial instruments managed within a portfolio, the valuation of instruments classified as a part of shareholders equity, the appropriate application of the highest and best use valuation premise, and the consideration of premium and discounts in a fair value measurement. ProAssurance plans to adopt the guidance beginning January 1, 2012. Adoption of this guidance is not expected to have a material effect on ProAssurance s results of operations or financial position.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

Effective for fiscal years beginning after December 15, 2011, the FASB revised guidance regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The guidance permits deferral of qualifying costs associated only with successful contract acquisitions. Internal selling agent and underwriter salary and benefit costs allocated to unsuccessful contracts, as well as advertising costs, are excluded. The guidance must be applied prospectively, but may be applied retrospectively for all prior periods. ProAssurance plans to adopt the guidance beginning January 1, 2012. Adoption of this guidance is not expected to have a material effect on ProAssurance s results of operations or financial position.

Accounting Changes

Intangibles, Goodwill and Other

Effective for interim and annual reporting periods beginning after December 15, 2010, the FASB revised guidance related to goodwill impairment testing. The revised guidance clarifies that when evaluating goodwill associated with a reporting unit that has a zero or negative carrying value, an initial determination should be made as to whether it is more likely than not that the goodwill is impaired. When impairment is more likely than not, the goodwill is required to be tested for impairment. ProAssurance adopted the guidance on January 1, 2011. Adoption had no material effect on ProAssurance s results of operations or financial position.

Fair Value Measurements

Effective for interim and annual reporting periods beginning after December 15, 2010, the FASB revised guidance to require additional disclosure about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. ProAssurance adopted the guidance on January 1, 2011. Adoption had no effect on ProAssurance s results of operations or financial position.

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ProAssurance Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

2. Acquisitions

All entities acquired have been accounted for in accordance with GAAP relating to business combinations and are considered to be a part of ProAssurance s sole reporting segment, the professional liability segment.

On November 30, 2010 ProAssurance acquired 100% of the outstanding shares of American Physicians Service Group, Inc. (APS) as a means of expanding its professional liability business. Total purchase consideration transferred had a fair value of $237 million on the acquisition date and included cash of $233 million and deferred compensation commitments of $4 million.

In the third quarter of 2011, Goodwill related to the purchase of APS was reduced by $1.8 million related to the completion of the valuation of pre-acquisition tax liabilities.

ProAssurance 2011 operating results include revenue and earnings attributable to the operations acquired from APS as follows:

(In thousands)	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Revenue	**$ 15,309**	**$ 46,899**
Earnings	**$ 3,035**	**$ 12,815**

The following table provides ProAssurance Pro Forma Consolidated Results as if ProAssurance had acquired APS on January 1, 2010. Pro Forma results reflect ProAssurance Consolidated results, adjusted, net of related tax effects, as follows: 1) in 2010, to include the operating results of APS, 2) to reflect APS related workforce reductions as if the transaction had occurred on January 1, 2010, 3) to exclude the direct costs of completing the APS transaction, 4) to include amortization of APS policy acquisition costs written off upon acquisition, and 5) to reflect amortization of certain purchase adjustments (valuation of investment assets at fair value; intangibles recorded as a part of the purchase price allocation) beginning January 1, 2010. ProAssurance Actual Consolidated Results are also presented for comparative purposes. The ProAssurance Actual Consolidated results for the three and nine months ended September 30, 2010 do not include the operating results of APS because the APS acquisition did not occur until November 30, 2010.

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
(In thousands)	ProAssurance Pro Forma Consolidated Results	ProAssurance Actual Consolidated Results	ProAssurance Pro Forma Consolidated Results	ProAssurance Actual Consolidated Results
Revenue	**$ 161,978**	**$ 161,978**	**$ 510,392**	**$ 510,392**
Earnings	**$ 44,555**	**$ 43,705**	**$ 147,923**	**$ 146,494**

	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
(In thousands)	ProAssurance Pro Forma Consolidated	ProAssurance Actual Consolidated Results	ProAssurance Pro Forma Consolidated	ProAssurance Actual Consolidated Results

	Results		Results	
Revenue	**$ 199,306**	**$ 181,134**	**$ 565,199**	**$ 506,592**
Earnings	**$ 55,413**	**$ 51,052**	**$ 143,786**	**$ 129,545**

For additional information regarding the acquisition, see Note 2 of the Notes to the Consolidated Financial Statements in ProAssurance s 2010 Form 10-K.

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ProAssurance Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

3. 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/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.

The following tables present information about ProAssurance s assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010 and indicate the fair value hierarchy of the valuation techniques utilized to determine such value. 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. ProAssurance s assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the assets being valued.

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ProAssurance Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010, including financial instruments for which ProAssurance has elected fair value accounting, are as follows:

	September 30, 2011			
	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	$	$ 310,547	$	$ 310,547
U.S. Agency obligations		87,079		87,079
State and municipal bonds		1,165,798	7,250	1,173,048
Corporate debt, multiple observable inputs		1,361,150		1,361,150
Corporate debt, limited observable inputs:				
Private placement senior notes			617	617
Other corporate debt, NRSRO ratings available			8,227	8,227
Other corporate debt, NRSRO ratings not available			1,252	1,252
Residential mortgage-backed securities		563,568		563,568
Commercial mortgage-backed securities		81,729		81,729
Other asset-backed securities		87,355		87,355
Equity securities, available for sale				
Financial	22			22
Equity securities, trading				
Financial	14,503			14,503
Energy	10,811			10,811
Consumer cyclical	7,114			7,114
Consumer non-cyclical	15,494			15,494
Technology	4,926			4,926
Industrial	7,511			7,511
Communications	4,802			4,802
Index funds	3,549			3,549
All other	5,229			5,229
Short-term investments	84,299	12,525		96,824
Financial instruments carried at fair value, classified as a part of:				
Investment in unconsolidated subsidiaries			24,830	24,830
Other investments			16,191	16,191
Total assets	$ 158,260	$ 3,669,751	$ 58,367	$ 3,886,378
Liabilities:				
2019 Note Payable			14,411	14,411
Interest rate swap agreement			4,749	4,749
Total liabilities	$	$	$ 19,160	$ 19,160

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ProAssurance Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

	December 31, 2010			
	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	$	$ 225,908	$	$ 225,908
U.S. Agency obligations		68,878		68,878
State and municipal bonds		1,236,374	7,550	1,243,924
Corporate debt, multiple observable inputs		1,312,035		1,312,035
Corporate debt, limited observable inputs:				
Private placement senior notes			9,356	9,356
Other corporate debt, NRSRO ratings available			10,414	10,414
Other corporate debt, NRSRO ratings not available			1,459	1,459
Residential mortgage-backed securities		567,640	2,198	569,838
Commercial mortgage-backed securities		99,386		99,386
Other asset-backed securities		62,534	22	62,556
Equity securities, available for sale				
Financial	392			392
Energy	257			257
Consumer cyclical	521			521
Consumer non-cyclical	656			656
Technology	768			768
Industrial	737			737
All Other	306			306
Equity securities, trading				
Financial	4,317			4,317
Energy	7,149			7,149
Consumer cyclical	1,599			1,599
Consumer non-cyclical	4,534			4,534
Technology	3,400			3,400
Industrial	2,403			2,403
Communications	2,623			2,623
Index funds	3,568			3,568
All other	7,693			7,693
Short-term investments	150,344	18,094		168,438
Financial instruments carried at fair value, classified as a part of Investment in unconsolidated subsidiaries			25,112	25,112
Total assets	$ 191,267	$ 3,590,849	$ 56,111	$ 3,838,227
Liabilities:				
2019 Note Payable			15,616	15,616
Interest rate swap agreement			3,658	3,658
Total liabilities	$	$	$ 19,274	$ 19,274

The fair values for securities included in the Level 2 category, with the few exceptions described below, have been developed by third party, nationally recognized pricing services. These services use complex methodologies to determine values for securities and subject the values they develop to quality control reviews. The services collect and utilize multiple inputs, although not all inputs are used for every security type or given the same priority in every evaluation. Inputs used include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, and offers. The services also consider credit ratings, where appropriate, including ratings updates and information available in appropriate market research publications. Management reviews service-provided values for reasonableness by comparing market yields indicated by the supplied value to yields observed in the market place. If a value does not appear reasonable, the valuation is discussed with the service that provided the value and would be adjusted, if necessary. No such adjustments have been necessary in 2011 or 2010.

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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 are 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. Agency obligations are 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 are included in the valuation process when necessary to reflect recent events, such as regulatory, government or corporate actions or significant economic, industry or geographic events that would affect the security s fair value.

State and municipal bonds are valued using a series of matrices that consider credit ratings, the structure of the security, the sector in which the security falls, yields, and contractual cash flows. Valuations are further adjusted, when necessary, to reflect recent events such as significant economic or geographic events or ratings changes that would affect the security s fair value.

Corporate debt with multiple observable inputs, consists primarily of corporate bonds, but also includes a small number of bank loans. The methodology used to value Level 2 corporate bonds is the same as the methodology previously described for U.S. agency obligations. Bank loans are valued by an outside vendor based upon a widely distributed, loan-specific listing of average bid and ask prices published daily by an investment industry group. The publisher of the listing derives the averages from data received from multiple market-makers for bank loans.

Residential and commercial mortgage backed securities. Agency pass through securities are valued by a matrix, considering the issuer type, coupon rate and longest cash flows outstanding. The matrix is developed daily based on available market information. Agency and non-agency collateralized mortgage obligations are 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. Evaluations of Alt-A and subprime mortgages include a review of collateral performance data, which is generally updated monthly.

Other asset-backed securities are 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.

Short term investments, included in the Level 2 category, are commercial paper and certificates of deposit maturing within one year, carried at cost which approximates the fair value of the security due to the short term to maturity.

Below is a summary description of the valuation methodologies used to value securities in the Level 3 category by security type.

State and municipal bonds consists of auction rate municipal bonds valued internally using a model based on discounted cash flows using yields currently available on fixed rate securities with a similar term and collateral, adjusted to consider the effect of a floating rate and a premium for illiquidity. All are rated A or better.

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Corporate debt with limited observable inputs, exclusive of private placement senior notes, consist of corporate bonds valued internally using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities having like terms and payment features that are of comparable credit quality. Assessments of credit quality are based on NRSRO ratings, if available, or are subjectively determined by management if not available. At September 30, 2011, the average NRSRO rating of rated securities is BBB+. Private placement senior notes are valued by an outside vendor rather than a third-party pricing service. The valuation is prepared based on a widely available matrix that is produced daily by a leading seller of secondary private placements. The matrix considers the market sector, issuer credit ratings and the remaining loan term and is developed from market data such as interest rate yield curves, credit spreads, quoted market prices for comparable securities and other applicable market data. At both September 30, 2011 and December 31, 2010 Level 3 corporate debt includes private placement senior notes which are unconditionally guaranteed by large regional banks; other corporate debt securities in the Level 3 category are not guaranteed or fully collateralized.

Other asset-backed securities are valued using multiple inputs including multiple broker dealer quotes.

Investments in unconsolidated subsidiaries and Other investments, included in the Level 3 category, are comprised of limited partnership (LP) and limited liability company (LLC) interests that are valued using net asset values provided by the LP/LLC, which approximates the fair value of the interest. The following table provides additional information regarding these interests:

	Fair Value		**Unfunded Commitments**
(In thousands)	**September 30, 2011**	December 31, 2010	**September 30, 2011**
Investment in unconsolidated subsidiaries:			
LP primarily invested in long/short equities (1)	**$ 17,836**	$ 18,801	**None**
LP primarily invested in non-public equities (2)	**6,994**	6,311	**None**
	24,830	$ 25,112	
Other investments:			
LLC primarily invested in non-public investment companies (3)	**16,191**		**None**
	$ 41,021		

(1) The LP holds both long and short U.S. and North American equities, and targets absolute returns using a strategy designed to take advantage of event-driven market opportunities. Redemptions are allowed with a notice requirement of up to 45 days and are paid within 30 days of the redemption date, unless the redemption request is for 90% or more of the requestor s capital balance. Redemptions at the 90% and above level will be paid at 90%, with the remainder paid after the LP s annual audit.

(2) The LP is structured to provide capital appreciation through diversified investments in private equity, including investments in buyout, venture capital, mezzanine debt, distressed debt and other private equity-oriented LPs. Redemptions are not allowed, except by special permission of the LP. Income and capital are to be periodically distributed at the discretion of the LP over an anticipated time frame that spans 3 to 5 years.

(3) The LLC is structured to provide income through diversified investments in private equity, including mezzanine debt, distressed debt, syndicated bank loans and other private equity-oriented investments. Income and capital are required to be distributed back to equity

holders at the discretion of the fund manager over a ten year period ending July, 2016. Redemptions are not permitted. The LLC has obtained approval from equity holders to convert into a publicly traded investment fund; but the conversion has not yet occurred.

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September 30, 2011

The following tables (the Level 3 Tables) present summary information regarding changes in the fair value of assets and liabilities measured at fair value using Level 3 inputs, including financial instruments for which ProAssurance has elected fair value accounting.

	September 30, 2011 Level 3 Fair Value Measurements Assets					
(In thousands)	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance June 30, 2011	**$ 7,325**	**$ 7,830**	**$ 1,684**	**$ 25,127**	**$**	**$ 41,966**
Total gains (losses) realized and unrealized, included in earnings, as a part of:						
Equity in earnings of unconsolidated subsidiaries				**(297)**		**(297)**
Net realized investment gains (losses)						
Included in other comprehensive income		(638)				(638)
Purchases						
Sales	**(75)**					**(75)**
Transfers in		**2,904**			**16,191**	**19,095**
Transfers out			**(1,684)**			**(1,684)**
Balance September 30, 2011	**$ 7,250**	**$ 10,096**	**$**	**$ 24,830**	**$ 16,191**	**$ 58,367**
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	**$**	**$**	**$**	**$ (297)**	**$**	**$ (297)**

	September 30, 2011 Level 3 Fair Value Measurements Assets					
(In thousands)	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance December 31, 2010	**$ 7,550**	**$ 21,229**	**$ 2,220**	**$ 25,112**	**$**	**$ 56,111**
Total gains (losses) realized and unrealized, included in earnings, as a part of:						
Equity in earnings of unconsolidated subsidiaries				**(282)**		**(282)**
Net realized investment gains (losses)			**314**			**314**
Included in other comprehensive income		(1,352)	(15)			(1,367)
Purchases			**1,684**			**1,684**
Sales	**(300)**	**(8,504)**	**(1,921)**			**(10,725)**
Transfers in		**6,350**			**16,191**	**22,541**

Transfers out		**(7,627)**	**(2,282)**			**(9,909)**
Balance September 30, 2011	**$ 7,250**	**$ 10,096**	**$**	**$ 24,830**	**$ 16,191**	**$ 58,367**
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	**$**	**$**	**$**	**$ (282)**	**$**	**$ (282)**

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September 30, 2011

	September 30, 2010 Level 3 Fair Value Measurements - Assets					
(In thousands)	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance June 30, 2010	$ 9,401	$ 25,660	$	$ 57,488	$ 930	$ 93,479
Total gains (losses) realized and unrealized, included in earnings, as a part of:						
Equity in earnings of unconsolidated subsidiaries				633		633
Net realized investment gains (losses)		59				59
Included in other comprehensive income	(1,131)	(130)			74	(1,187)
Purchases		3,959				3,959
Sales	(50)	(4,755)		(33,042)		(37,847)
Transfers in			1,004			1,004
Transfers out		(491)			(1,004)	(1,495)
Balance September 30, 2010	$ 8,220	$ 24,302	$ 1,004	$ 25,079	$	$ 58,605
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$	$ 59	$	$ 633	$	$ 692

	September 30, 2010 Level 3 Fair Value Measurements Assets					
(In thousands)	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance December 31, 2009	$ 9,495	$ 24,335	$ 940	$ 48,502	$ 10,932	$ 94,204
Total gains (losses) realized and unrealized, included in earnings, as a part of:						
Equity in earnings of unconsolidated subsidiaries				4,618		4,618
Net realized investment gains (losses)		59			(10,698)	(10,639)
Included in other comprehensive income	(1,049)	(106)	60		11,953	10,858
Purchases		5,510		5,000	731	11,241
Sales	(226)	(4,995)		(33,041)	(1,242)	(39,504)
Transfers in		151	1,004			1,155
Transfers out		(652)	(1,000)		(11,676)	(13,328)
Balance September 30, 2010	$ 8,220	$ 24,302	$ 1,004	$ 25,079	$	$ 58,605

Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$	$ 59	$	$ 4,618	$ (10,698)	$ (6,021)

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Transfers

There were no transfers between Level 1 and Level 2 for the three and nine months ended September 30, 2011, or for the three and nine months ended September 30, 2010.

Transfers shown in the preceding Level 3 Tables are as of the end of period and were to or from Level 2, unless otherwise noted.

Transfers summarized in the Level 3 Tables include:

For the three- and nine-month periods ended September 30, 2011, an interest in an LLC (classified as a part of Other Investments) began to be included in the Level 3 Tables. The interest is accounted for using the cost method, but due to the recognition of OTTIs, is carried at fair value, $16.2 million at September 30, 2011. The fund is expected to convert to a public fund in the near term. After conversion, the investment is expected to be classified as an available-for-sale security, valued at fair value.

For the three-month period ended September 30, 2010, asset-backed securities valued at $1 million that were previously held in a private investment fund became directly held and were reclassified from Other Investments to Asset-backed Securities.

For the nine-month period ended September 30, 2010, beneficially owned asset-backed securities held in a private investment fund (classified as a part of Other Investments) having a fair value of $10.7 million were transferred from Level 3 to Level 2 because the fund manager provided additional information regarding the valuation methodologies followed. Previously, the investments were 100% categorized as Level 3 because valuations were determined by the fund manager using various methodologies, not all of which were based on multiple observable inputs.

All remaining transfers relate to securities held for which there is little market activity for identical or nearly identical securities in a given quarter. Such securities are valued using multiple observable inputs when those inputs are available; otherwise the securities are valued using limited observable inputs.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

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	September 30, 2011 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Balance June 30, 2011	$ 15,863	$ 3,852	$ 19,715
Total (gains) losses realized and unrealized:			
Included in earnings as a part of net realized investment (gains) losses	(1,370)	897	(473)
Settlements	(82)		(82)
Balance September 30, 2011	$ 14,411	$ 4,749	$ 19,160
Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	$ (1,370)	$ 897	$ (473)

	September 30, 2011 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Balance December 31, 2010	$ 15,616	$ 3,658	$ 19,274
Total (gains) losses realized and unrealized:			
Included in earnings as a part of net realized investment (gains) losses	(962)	1,091	129
Settlements	(243)		(243)
Balance September 30, 2011	$ 14,411	$ 4,749	$ 19,160
Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	$ (962)	$ 1,091	$ 129

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Notes to Condensed Consolidated Financial Statements (Unaudited)

September 30, 2011

	September 30, 2010 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Balance June 30, 2010	$ 15,107	$ 4,284	$ 19,391
Total (gains) losses realized and unrealized:			
Included in earnings as a part of net realized investment (gains) losses	710	548	1,258
Settlements	(76)		(76)
Balance September 30, 2010	$ 15,741	$ 4,832	$ 20,573
Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	$ 710	$ 548	$ 1,258

	September 30, 2010 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Balance December 31, 2009	$ 14,740	$ 2,937	$ 17,677
Total (gains) losses realized and unrealized:			
Included in earnings as a part of net realized investment (gains) losses	1,229	1,895	3,124
Settlements	(228)		(228)
Balance September 30, 2010	$ 15,741	$ 4,832	$ 20,573
Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	$ 1,229	$ 1,895	$ 3,124

Fair Value Option Elections

The 2019 Note Payable and a related interest rate swap agreement (the Swap) are measured at fair value on a recurring basis, with changes in the fair value of each liability recorded in net realized gains (losses). ProAssurance assumed both liabilities as part of a previous acquisition. The fair value option was elected for the 2019 Note Payable and the Swap because valuation at fair value better reflects the economics of the related liabilities and eliminates the inconsistency that would otherwise result from carrying the 2019 Note Payable on an amortized cost basis and the Swap at fair value.

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Financial Instruments Not Measured At Fair Value

Financial assets and liabilities which are not measured at fair value on a recurring basis are as follows:

	September 30, 2011		December 31, 2010	
(In thousands)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial assets:				
Other investments	**$ 18,269**	**$ 23,793**	$ 38,078	$ 44,387
Investment in unconsolidated subsidiaries	**89,690**	**99,947**	63,642	66,862
BOLI	**52,174**	**52,174**	50,484	50,484
Other assets	**8,992**	**8,992**	7,743	7,743
Financial liabilities:				
Trust Preferred Securities	**$ 22,992**	**$ 22,992**	$ 22,992	$ 22,992
Surplus Notes due May 2034	**12,000**	**12,000**	12,000	12,000
Note Payable due February 2012	**511**	**518**	496	521
Other liabilities	**18,486**	**18,459**	22,367	21,837

Other Investments listed in the table above include interests in certain investment fund LP/LLCs accounted for using the cost method, investments in Federal Home Loan Bank (FHLB) common stock carried at cost, and an annuity investment carried at amortized cost. The estimated fair value of the LP/LLC interests is based on NAVs provided by the LP/LLC managers. The fair value of the FHLB common stock is estimated as the carrying value of the investment as it is the amount we would receive if we cancel our membership; the investment has been determined not to have suffered an OTTI and the membership cannot be sold. The fair value of the annuity is the present value of the expected future cash flows discounted using a rate available in active markets for similarly structured instruments.

Investment in Unconsolidated Subsidiaries consists primarily of investments in tax credit partnerships, and an interest in a non-controlling limited liability company. Fair values of investments in tax credit partnerships are based on the present value of the cash flows expected to be generated by the partnerships discounted at rates for investments with similar risk structures and repayment periods. The fair value of the interest in the LLC is estimated at our initial capital contribution which occurred less than one year ago and represented an arm s length transaction between market participants.

The fair value of the BOLI is the cash surrender value associated with the policies on the valuation date.

Other Assets and Other Liabilities primarily consist of related investment assets and liabilities associated with funded deferred compensation agreements. Included in Other Liabilities are also certain contractual liabilities associated with business combinations completed in 2009 and 2010. Fair values of the funded deferred compensation assets/liabilities are based on the net asset value of the underlying securities. The fair values of the business combination liabilities are based on the present value of the expected cash flows, discounted at ProAssurance s assumed incremental borrowing rate on the valuation date for unsecured liabilities with similar repayment structures.

The fair value of the long-term debt is the present value of expected underlying cash flows of the debt, discounted at rates available on the valuation date for similar debt issued by entities with a similar credit standing to ProAssurance or, if issued by an insurance subsidiary, the subsidiary issuing the debt.

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September 30, 2011

4. Investments

The amortized cost and estimated fair value of available-for-sale fixed maturities and equity securities are as follows:

	September 30, 2011			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities				
U.S. Treasury obligations	**$ 293,301**	**$ 17,255**	**$ (9)**	**$ 310,547**
U.S. Agency obligations	**81,337**	**5,758**	**(16)**	**87,079**
State and municipal bonds	**1,100,718**	**72,500**	**(170)**	**1,173,048**
Corporate debt	**1,313,579**	**66,405**	**(8,738)**	**1,371,246**
Residential mortgage-backed securities	**533,195**	**32,418**	**(2,045)***	**563,568**
Commercial mortgage-backed securities	**77,958**	**3,849**	**(78)**	**81,729**
Other asset-backed securities	**86,267**	**1,113**	**(25)**	**87,355**
	3,486,355	**199,298**	**(11,081)**	**3,674,572**
Equity securities	**6**	**16**		**22**
	$ 3,486,361	**$ 199,314**	**$ (11,081)**	**$ 3,674,594**

	December 31, 2010			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities				
U.S. Treasury obligations	$ 219,631	$ 7,519	$ (1,242)	$ 225,908
U.S. Agency obligations	64,804	4,113	(39)	68,878
State and municipal bonds	1,204,327	44,047	(4,450)	1,243,924
Corporate debt	1,287,842	52,757	(7,335)	1,333,264
Residential mortgage-backed securities	549,543	25,409	(5,114)*	569,838
Commercial mortgage-backed securities	95,758	3,663	(35)	99,386
Other asset-backed securities	61,314	1,373	(131)	62,556
	3,483,219	138,881	(18,346)	3,603,754
Equity securities	2,438	1,212	(13)	3,637

	$ 3,485,657	$ 140,093	$ (18,359)	$ 3,607,391

* Includes other-than-temporary impairments recognized in accumulated other comprehensive income of $3.3 million at September 30, 2011 and $4.1 million at December 31, 2010.

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The recorded cost basis and estimated fair value of available-for-sale fixed maturities at September 30, 2011, 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. ProAssurance uses the call date as the contractual maturity for pre-refunded state and municipal bonds which are 100% backed by U.S. Treasury obligations.

(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	**$ 293,301**	**$ 25,105**	**$ 182,916**	**$ 98,257**	**$ 4,269**	**$ 310,547**
U.S. Agency obligations	**81,337**	**2,036**	**59,311**	**25,455**	**277**	**87,079**
State and municipal bonds	**1,100,718**	**34,708**	**349,435**	**549,262**	**239,643**	**1,173,048**
Corporate debt	**1,313,579**	**136,940**	**695,009**	**513,274**	**26,023**	**1,371,246**
Residential mortgage-backed securities	**533,195**					**563,568**
Commercial mortgage-backed securities	**77,958**					**81,729**
Other asset-backed securities	**86,267**					**87,355**
	$ 3,486,355					**$ 3,674,572**

Excluding investments in bonds and notes of the U.S. Government, a U.S. Government agency, or pre-refunded state and municipal bonds which are 100% backed by U.S. Treasury obligations, no investment in any entity or its affiliates exceeds 10% of shareholders equity at September 30, 2011.

At September 30, 2011, ProAssurance has available-for-sale securities with a fair value of $28.6 million on deposit with various state insurance departments to meet regulatory requirements. ProAssurance also has available-for-sale securities with a fair value of $28.3 million that are pledged as collateral security for the 2019 Note Payable (see Note 9).

Business Owned Life Insurance (BOLI)

ProAssurance holds BOLI policies on management employees that are carried at the current cash surrender value of the policies (original cost $35 million). 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 principal beneficiary of these policies.

Other Investments

ProAssurance has Other Investments comprised of the following:

(In millions)	**September 30 2011**	December 31 2010
Investments in LP/LLCs, at cost; estimated fair value of $33.7 and $37.5, respectively	**$ 28.1**	$ 31.2
FHLB capital stock, at cost	**4.6**	5.2
Other, principally an annuity, at amortized cost	**1.8**	1.7

$	**34.5**	$	38.1

FHLB capital stock is not marketable, but may be liquidated by terminating membership in the FHLB. The liquidation process can take up to five years.

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Unconsolidated Subsidiaries

ProAssurance holds investments in unconsolidated subsidiaries, accounted for under the equity method. The investments include the following:

	Carrying Value		Unfunded Commitments	Percentage Ownership
(*In millions*)	**September 30, 2011**	December, 31 2010	**September 30, 2011**	**September 30, 2011**
Investment LP/LLCs:				
Tax Credit Partnerships	**$ 88.4**	$ 60.3	**$ 57.2**	**<20%**
Long-short Equity Fund	**17.8**	18.8		**<20%**
Non-public Equity Fund	**7.0**	6.3		**<20%**
Business LLC	**1.3**	3.4		**See below**
	$ 114.5	$ 88.8	**$ 57.2**	

Investments in Tax Credit Partnerships are comprised of multiple separate limited partnership interests designed to generate investment returns by providing tax benefits to fund investors in the form of project operating losses and tax credits. The related properties are principally low income housing projects.

The Long/Short Equity Fund LP targets absolute returns using a strategy designed to take advantage of event-driven market opportunities.

The Non-public Equity Investment LP holds diversified private equities and is structured to provide capital appreciation.

The Business LLC interest is a convertible preferred interest in a service-related business that began business operations in 2011. The preferred interest can be converted into a non-controlling common interest in May 2015, but conversion is not required.

Investments Held in a Loss Position

The following tables provide summarized information with respect to investments held in an unrealized loss position at September 30, 2011 and December 31, 2010, including the length of time the investment has been held in a continuous unrealized loss position.

	September 30, 2011					
	Total		Less than 12 months		More than 12 months	
(*In thousands*)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities, available for sale						
U.S. Treasury obligations	**$ 633**	**$ (9)**	**$ 633**	**$ (9)**	**$**	**$**
U.S. Agency obligations	**4,730**	**(16)**	**4,730**	**(16)**		
State and municipal bonds	**10,034**	**(170)**	**5,112**	**(26)**	**4,922**	**(144)**
Corporate debt	**237,870**	**(8,738)**	**224,735**	**(7,371)**	**13,135**	**(1,367)**

Residential mortgage-backed securities	**41,651**	**(2,045)**	**33,867**	**(351)**	**7,784**	**(1,694)**
Commercial mortgage-backed securities	**9,486**	**(78)**	**6,675**	**(5)**	**2,811**	**(73)**
Other asset-backed securities	**20,001**	**(25)**	**20,001**	**(25)**		
	$ 324,405	**$ (11,081)**	**$ 295,753**	**$ (7,803)**	**$ 28,652**	**$ (3,278)**
Equity securities, available for sale	**$**	**$**	**$**	**$**	**$**	**$**
Other investments						
Investments in LP/LLCs carried at cost of $0.9 million	**$ 729**	**$ (211)**	**$ 729**	**$ (211)**	**$**	**$**

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	December 31, 2010					
	Total		Less than 12 months		More than 12 months	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities, available for sale						
U.S. Treasury obligations	$ 61,127	$ (1,242)	$ 61,127	$ (1,242)	$	$
U.S. Agency obligations	6,340	(39)	6,340	(39)		
State and municipal bonds	199,079	(4,450)	191,157	(3,893)	7,922	(557)
Corporate debt	287,418	(7,335)	275,808	(5,695)	11,610	(1,640)
Residential mortgage-backed securities	121,956	(5,114)	105,193	(1,927)	16,763	(3,187)
Commercial mortgage-backed securities	7,507	(35)	6,537	(5)	970	(30)
Other asset-backed securities	11,692	(131)	11,246	(103)	446	(28)
	$ 695,119	$ (18,346)	$ 657,408	$ (12,904)	$ 37,711	$ (5,442)
Equity securities, available for sale	$ 499	$ (13)	$ 335	$ (3)	$ 164	$ (10)
Other investments						
Investments in LP/LLCs carried at cost of $19.7 million	$ 19,298	$ (401)	$	$	$ 19,298	$ (401)

As of September 30, 2011, there are 263 debt securities (10.2% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 231 issuers. The single greatest unrealized loss position is approximately $1.0 million; the second greatest unrealized loss position is approximately $0.6 million. The securities were evaluated for impairment as of September 30, 2011.

As of December 31, 2010, there were 510 debt securities (19% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 309 issuers. The single greatest unrealized loss position approximated $0.8 million; the second greatest unrealized loss position approximated $0.6 million. The securities were evaluated for impairment as of December 31, 2010.

Each quarter, ProAssurance performs a detailed analysis for the purpose of assessing whether any of the securities it holds in an unrealized loss position have suffered an other-than-temporary impairment in value. A detailed discussion of the factors considered in the assessment is included in Note 1 of the Notes to the Consolidated Financial Statements included in ProAssurance s December 31, 2010 Form 10-K.

At September 30, 2011 fixed maturity securities held in an unrealized loss position, 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 held in an unrealized loss position equaled or exceeded the current amortized cost basis of the security; such future cash flows were estimated 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.

Net Investment Income

Net investment income by investment category is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2011**	2010	**2011**	2010
Fixed maturities	**$ 33,939**	$ 35,952	**$ 106,573**	$ 110,349
Equities	**569**	142	**985**	597
Short-term investments	**20**	115	**93**	279
Other invested assets	**573**	548	**2,137**	2,153
Business owned life insurance	**635**	340	**1,571**	1,161
	35,736	37,097	**111,359**	114,539
Investment expenses	**(1,620)**	(1,458)	**(4,786)**	(4,191)
Net investment income	**$ 34,116**	$ 35,639	**$ 106,573**	$ 110,348

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Net Realized Investment Gains (Losses)

Net realized investment gains (losses) are comprised of the following:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2011**	2010	**2011**	2010
Total other-than-temporary impairment losses:				
Residential mortgage-backed securities	**$ (13)**	$ (166)	**$ (782)**	$ (189)
Other investments	**(1,376)**		**(3,509)**	(3,373)
High yield asset-backed securities		(532)		(9,515)
Portion recognized in (reclassified from) Other Comprehensive Income:				
Residential mortgage-backed securities	**(142)**	113	**(823)**	119
Net impairment losses recognized in earnings	**(1,531)**	(585)	**(5,114)**	(12,958)
Gross realized gains, available-for-sale securities	**1,441**	13,213	**11,733**	23,310
Gross realized (losses), available-for-sale securities	**(296)**	(244)	**(1,653)**	(445)
Net realized gains (losses), short-term		200		200
Net realized gains (losses), trading securities	**(357)**	26	**2,558**	4,926
Change in unrealized holding gains (losses), trading securities	**(11,702)**	3,360	**(13,043)**	(3,102)
Decrease (increase) in the fair value of liabilities carried at fair value	**473**	(1,258)	**(129)**	(3,124)
Net realized investment gains (losses)	**$ (11,972)**	$ 14,712	**$ (5,648)**	$ 8,807

ProAssurance recognized impairments of $3.5 million in 2011 related to an interest in an LLC, accounted for on a cost basis. The LLC has notified ProAssurance of its intention to be sold publicly in the next few months, and the Company has reduced the carrying value of its interest in the LLC to reflect the expected market value of the assets.

ProAssurance recognized credit-related impairments in earnings of $1.6 million in 2011, related to residential mortgage-backed securities. Expected future cash flows were less than ProAssurance s carrying value for these securities; therefore, ProAssurance reduced the carrying value of its interest in these securities and recognized the loss in its 2011 net income.

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 other-than-temporary impairment has been recorded in Other Comprehensive Income.

(In thousands)	**Three Months Ended September 30, 2011**	**Nine Months Ended September 30, 2011**
Balance beginning of period	**$ 5,728**	**$ 4,446**
Additional credit losses recognized during the period, related to securities for which:		

No OTTI has been previously recognized		
OTTI has been previously recognized	**142**	**1,424**
Reductions due to:		
Securities sold during the period (realized)		
Securities which will be sold in coming periods		
Securities for which it is more likely than not that the security will be required to be sold prior to anticipated recovery of amortized cost basis		
Accretion recognized during the period related to cash flows that are expected to exceed the amortized cost basis of the security		
Balance September 30, 2011	**$ 5,870**	**$ 5,870**

Proceeds from the sales of available-for-sale securities during the three and nine months ended September 30, 2011 are $60.7 million and $371.6 million, respectively, as compared to $232.2 million and $625.5 million for the same respective periods of 2010. Purchases of available-for-sale securities are $144.9 million and $597.8 million during the three and nine months ended September 30, 2011, respectively, as compared to $215.0 million and $673.3 million for the same respective periods of 2010.

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5. Income Taxes

ProAssurance estimates its annual effective tax rate at the end of each quarterly reporting period which is used 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 taxes primarily because a portion of ProAssurance s investment income is tax-exempt.

ProAssurance files income tax returns in the U.S. federal jurisdiction and various states. The Internal Revenue Service has completed an examination of the Company s 2005 through 2008 returns (the 2005-2008 exam) and has begun an examination of the 2009 return. The 2005-2008 exam principally resulted in delaying the deductibility of certain bonus compensation which increased taxes due for the 2007 and 2008 tax years but decreased taxes due for the 2009 tax year by an offsetting amount, the effect of which had previously been recorded as an uncertain tax position. The 2005-2008 exam resulted in no adjustment to tax expense (exclusive of interest accruals) and no penalties or fines. Upon finalization of the 2005-2008 exam, uncertain tax positions totaling $8.3 million were deemed effectively settled and were reversed (along with approximately $324,000 of related accrued interest) in the first quarter of 2011.

ProAssurance s liability for unrecognized tax benefits is $0.4 million at September 30, 2011 and $8.3 million at December 31, 2010.

6. Deferred Policy Acquisition Costs

Policy acquisition costs, most significantly commissions, premium taxes, and underwriting salaries, that are primarily and directly related to the production of new and renewal premiums are capitalized as policy acquisition costs and amortized to expense as the related premium revenues are earned.

Amortization of deferred policy acquisition costs is $15.5 million and $44.5 million for the three and nine months ended September 30, 2011, respectively, and $14.8 million and $43.9 million for the three and nine months ended September, 2010, respectively.

7. 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 reserves, and particularly liability reserves, is a complex process. Claims may be resolved over an extended period of time, often five years or more, and may be subject to litigation. Estimating losses for liability claims requires ProAssurance to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, reserve estimates may vary significantly from the eventual outcome. The assumptions used in establishing ProAssurance s reserves 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 recognized favorable net loss development of $52.1 million and $142.3 million related to previously established reserves for the three and nine months ended September 30, 2011, respectively. The favorable net loss development reflects reductions in the Company s estimates of claims severity, principally for the 2004 through 2009 accident years.

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For the three and nine months ended September 30, 2010, ProAssurance recognized favorable net loss development of $33.4 million and $95.9 million, respectively, to reflect reductions in estimated claim severity principally for accident years 2004 through 2008, offset by a $1.6 million loss on the commutation of a reinsurance agreement.

8. 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 Accounting Policies - Losses and Loss Adjustment Expenses in Note 1 of the Notes to the Consolidated Financial Statements in ProAssurance s 2010 Form 10-K.

As a result of its acquisition of APS, ProAssurance assumed risk of loss related to certain non-claims related legal actions previously asserted against APS subsidiaries. ProAssurance included a liability of $5.6 million related to these actions as a component of the fair value of assets acquired and liabilities assumed in the purchase price allocation. The value of the reserve was based on management s assessment of the expected outcome of the actions and a reasonable estimate of losses expected to be incurred. The majority of these actions have been resolved during 2011; resolution had no significant effect on operating results. In the best judgment of management, the remaining reserve is adequate to cover the expected ultimate losses of the remaining open litigation.

ProAssurance has commitments to fund approximately $57.2 million in capital contributions to tax credit partnerships as of September 30, 2011. Funding of the commitments is primarily expected to occur in 2011 and 2012; additional information regarding tax credit partnership investments is provided in Note 4. ProAssurance has also entered into agreements with several LP/LLCs, totaling approximately $52.1 million at September 30, 2011, to be funded within the next five years as requested by the partnership.

9. Long-term Debt

ProAssurance s outstanding long-term debt consists of the following:

	(In thousands)	
	September 30 2011	December 31 2010
Trust Preferred Securities due 2034, unsecured. Bears interest at a variable rate of LIBOR plus 3.85%, adjusted quarterly, set as 4.1% at September 30, 2011.	**$ 22,992**	$ 22,992
Surplus Notes due May 2034, unsecured. Bears interest at a variable rate of LIBOR plus 3.85%, adjusted quarterly, set as 4.2% at September 30, 2011.	**12,000**	12,000
Note Payable due February 2019, carried at fair value, principal of $17.2 million at September 30, 2011 and $17.4 million at December 31, 2010. Secured by available-for-sale securities having a fair value at September 30, 2011 of approximately $28.3 million. Bears interest at a variable rate of LIBOR plus 0.7%. See information below regarding the associated interest rate swap.	**14,411**	15,616
Note Payable due February 2012, unsecured, principal of $517,000 at September 30, 2011 and December 31, 2010. Bears interest at the U.S. prime rate, paid and adjusted quarterly, set as 3.3% at September 30, 2011.	**511**	496
	$ 49,914	$ 51,104

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Interest Rate Swap

ProAssurance, through its PICA subsidiary, is party to an interest rate swap agreement (the Swap) with the issuing bank of the Note Payable due February 2019 (the 2019 Note Payable). The purpose of the Swap is to reduce the market risk from changes in future interest rates relative to the 2019 Note Payable. The Swap, which terminates February 1, 2019, effectively fixes the interest rate related to the 2019 Note Payable at 6.6%. The notional amount of the Swap corresponds directly to the unamortized portion of the debt being hedged each month. Under the Swap agreement, PICA agrees to exchange, at monthly intervals, the difference between the fixed-rate and LIBOR variable rate by reference to the notional principal amount. The liability associated with the Swap is measured at fair value on a recurring basis which approximates $4.7 million at September 30, 2011 and $3.7 million at December 31, 2010. The Swap liability is classified as a part of other liabilities.

Revolving Credit Agreement

On April 15, 2011 ProAssurance entered into a revolving credit agreement (the Agreement) with five participating lenders. The Agreement permits ProAssurance to borrow, repay and reborrow from the lenders during the term of the Agreement; aggregate outstanding borrowings are not permitted to exceed $150 million at any time. All borrowings are required to be repaid prior to the expiration date of the Agreement (April 15, 2014). ProAssurance is required to pay a commitment fee during the term of the Agreement, ranging from 20 to 40 basis points , based on the average unused portion of the credit line and ProAssurance s credit ratings, initially set at 25 basis points. The interest rate applicable to borrowings under the Agreement is set at the time funds are borrowed, and is an adjusted rate based on the Eurocurrency rate, if so selected by ProAssurance, or the higher of the Prime rate, the Eurocurrency rate plus 100 basis points, or the Federal Funds rate plus 50 basis points. The amount of the rate adjustment can vary from 0 to 225 basis points, depending upon ProAssurance s credit ratings at the time funds are borrowed, and on whether the borrowing is secured or unsecured. The Agreement contains customary representations, covenants and events constituting default, and remedies for default. Additionally, the Agreement carries the following financial covenants:

(1) ProAssurance is not permitted to have a leverage ratio of Consolidated Funded Indebtedness (principally, obligations for borrowed money, obligations evidenced by instruments such as notes or acceptances, standby and commercial Letters of Credit, and contingent obligations) to Consolidated Total Capitalization (principally, total non-trade liabilities on a consolidated basis plus consolidated shareholders equity, exclusive of accumulated other comprehensive income) greater than 0.35 to 1.0, determined at the end of each fiscal quarter.

(2) ProAssurance is required to maintain a minimum net worth of not less than the sum of 75% of Consolidated Net Worth (consolidated shareholders equity, exclusive of accumulated other comprehensive income) at December 31, 2010, plus 50% of consolidated net income earned each fiscal quarter, if positive, beginning with the quarter ending March 31, 2011, plus 100% of net cash proceeds resulting from the issuance of ProAssurance capital stock.

Funds borrowed under the terms of the Revolving Credit Agreement will be used for general corporate purposes, including, but not limited to, use as short-term working capital, funding for share repurchases as authorized by the Board, and for support of other activities ProAssurance enters into in the normal course of business. To date, ProAssurance has not borrowed any funds under the Agreement.

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Covenant Compliance

ProAssurance is currently in compliance with all covenants.

Additional Information

For additional information regarding the terms of ProAssurance s outstanding long-term debt, see Note 10 of the Notes to the Consolidated Financial Statements included in ProAssurance s December 31, 2010 Form 10-K.

10. Shareholders Equity

At September 30, 2011 and December 31, 2010, ProAssurance had 100 million shares of authorized common stock and 50 million shares of authorized preferred stock. The Board of Directors of ProAssurance Corporation (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.

On September 7, 2011, the Board adopted a cash dividend policy that anticipates a dividend of $1.00 per common share annually, and declared an initial quarterly dividend of $0.25 per common share, $7.6 million in total, to be paid October 13, 2011 to shareholders of record on September 29, 2011. The liability for unpaid dividends is included in Other Liabilities.

At September 30, 2011 approximately $188.4 million in prior authorizations from the Board for the repurchase of common shares or the retirement of outstanding debt remains available for use. The timing and quantity of purchases depends upon market conditions and changes in ProAssurance s capital requirements and is subject to limitations that may be imposed on such purchases by applicable securities laws and regulations, and the rules of the New York Stock Exchange.

ProAssurance reacquired approximately 341,000 common shares, having a total cost of $21.0 million, during the nine-month period ended September 30, 2011, including approximately 7,000 forfeited employer match shares (cost basis of $0.4 million) reacquired due to the termination of the ProAssurance Corporation Stock Ownership Plan. Approximately 82,000 shares at a total cost of $5.6 million were reacquired during the three-month period ended September 30, 2011. ProAssurance repurchased approximately 1.6 million common shares, having a total cost of $94.4 million, during the nine months ended September 30, 2010 (including approximately 975,000 shares at a total cost of $55.3 million during the three months ended September 30, 2010).

Share-based compensation expense is $1.7 million and $5.4 million for the three and nine months ended September 30, 2011, respectively, and $1.6 million and $4.5 million for the three and nine months ended September 30, 2010, respectively. Related tax benefits are $0.6 million and $1.9 million for the three and nine months ended September 30, 2011, respectively, and $0.6 million and $1.6 million for the three and nine months ended September 30, 2010, respectively.

ProAssurance granted approximately 20,000 restricted share units to employees in February 2011. The awards 100% vest three years from the grant date, based on a continued service requirement. The fair value of each unit was estimated at $64.08, equal to the market value of a ProAssurance common share on the date of grant.

ProAssurance awarded approximately 93,000 (target) performance share units to employees in February 2011. The awards 100% vest at the end of a three-year period if the service requirements are met and minimum performance goals are achieved. If minimum performance goals are achieved, the payment of awards can vary from 75% to 125% of set targets depending upon the degree to which the

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performance goals are achieved. The fair value of each award was estimated at $64.08, equal to the market value of a ProAssurance common share on the date of grant. ProAssurance issued approximately 52,000 common shares to employees in February 2011 related to performance share awards granted in 2008. The awards were issued at the maximum level (125% of target) based on performance levels achieved. Cash was given in lieu of shares sufficient to satisfy required tax withholdings.

ProAssurance issued approximately 20,000 and 40,000 common shares to employees in February 2011 and February 2010, respectively, 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).

In late 2010 ProAssurance terminated the ProAssurance Corporation Stock Ownership Plan and established the ProAssurance Corporation 2011 Stock Ownership Plan (the Plan). Under the Plan, eligible employees and directors of ProAssurance and its subsidiaries are given the opportunity to annually contribute up to $5,000 to be used each October for the purchase of ProAssurance common shares. For each share so purchased, ProAssurance will award a matching restricted stock unit to the participant. The restricted stock units will vest at the end of a three-year period subject to a continuous service requirement and be ratably charged to expense over the vesting period.

11. 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 dilutive stock options have been exercised and that performance share awards and restricted stock units have vested.

Stock options are not dilutive when the option exercise price exceeds the average price of a common share during the period or when the result from assuming an option is exercised is a net decrease to outstanding shares. All outstanding options were dilutive for the three- and nine-month periods ended September 30, 2011, and for the three-month period ended September 30, 2010. Approximately 77,500 of ProAssurance s outstanding options, on average, were not dilutive for the nine-month period ended September 30, 2010.

12. Variable Interest Entities

ProAssurance holds passive interests in a number of LP/LLCs that are considered to be Variable Interest Entities (VIEs) under GAAP guidance. ProAssurance has not consolidated these entities because it has either very limited or no power to control the activities that most significantly affect the economic performance of these entities and is thus not the primary beneficiary of any of the entities. ProAssurance s involvement with each entity is limited to its direct ownership interest in the entity. ProAssurance has no arrangements or agreements with any of the entities to provide other financial support to or on behalf of the entity. ProAssurance s maximum loss exposure relative to these investments is limited to the carrying value of ProAssurance s investment in the entity.

The entities consist of 1) investments in LP/LLCs formed for the purpose of achieving diversified equity and debt returns, 2) investments in limited partnerships formed to provide investment returns through the transfer of tax credits (principally federal or state tax credits related to federal low-income housing) and 3) a limited liability interest in a development stage business operation. In those instances where ProAssurance holds a minor interest in the entity, ProAssurance accounts for its interest on a cost basis. Cost method investments are included in Other Investments and have a carrying value of $28.1 million and $31.2 million at September 30, 2011 and December 31, 2010, respectively. In those instances where ProAssurance holds a greater than minor interest, ProAssurance accounts for its interest using the equity method. Equity method investments are included in Investment in Unconsolidated Subsidiaries and have a carrying value of $114.5 million at September 30, 2011 and $88.8 million at December 31, 2010.

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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 unaudited Condensed Consolidated Financial Statements and Notes to those statements which accompany this report as well as our 2010 Form 10-K. 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 risks and uncertainties. As discussed under Forward-Looking Statements, our actual financial condition and operating results could differ significantly from these forward-looking statements.

Critical Accounting Estimates

Our Condensed Consolidated Financial Statements are prepared in conformity with U.S. generally accepted accounting principles (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 the effect of those judgments could result in a material effect on our financial statements.

Reserve for Losses and Loss Adjustment Expenses (reserve for losses or reserve)

The largest component of our liabilities is our reserve for losses, and the largest component of expense for our operations is incurred 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 estimates of the reserve established for losses of prior periods.

The estimation of professional liability losses is inherently difficult and is the subject of significant judgment on the part of management. Loss costs, even for claims with similar characteristics, can vary significantly depending upon many factors, including but not limited to: the nature of the claim and the personal situation of the claimant or the claimant s family, the outcome of jury trials, the legislative and judicial climate where the insured event occurred, general economic conditions and, for medical professional liability, the trend of health care costs. Professional liability claims are typically resolved over an extended period of time, often five years or more. The combination of 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 revision. Our reserves are established by management after taking into consideration a variety of factors including premium rates, claims frequency, historical paid and incurred loss development trends, the 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. We engage consulting actuaries to review our data and provide us with their observations regarding our data and the adequacy of our established reserve, believing that the consulting actuaries provide an independent view of our loss data as well as a broader perspective on industry loss trends.

In establishing our initial reserves for a given accident year, due to the lack of data for both open and closed claims available for that accident year, we rely significantly on the many loss assumptions that are used in our pricing models, plus an additional 8 to 10 percentage points we believe necessary to bring our pricing models and resulting loss reserves in line with historical loss experience. We believe that this is initially warranted given inherent risks associated with our rate development process and the historic volatility of professional liability losses (the industry has experienced accident year loss ratios as high as 163% and as low as 57% over the past 30 years). Our current pricing model assumes a severity trend (i.e., annual increase in the average costs of claims settlement) of 4%. If the severity trend were to be higher by one percentage point the impact would be an increase in our expected loss ratio of 3.2 percentage points. An increase in the severity trend of three percentage points would result in a 10.1 percentage point increase in our expected loss ratio. For all these reasons, management believes establishing reserves 8 to 10 percentage points above its pricing targets provides a reasonable best estimate of our reserves to cover actual ultimate unpaid losses. In the current environment this equates to an initial loss ratio of approximately 85% as compared to a 75% loss ratio assumed in our pricing.

Given the long-tailed nature of our business and the historical volatility of loss costs as discussed above, we are cautious in giving full credibility to emerging trends that, when more fully mature, may lead to the recognition of favorable and/or adverse development of our losses. Frequently there may be trends, both positive and negative, reflected in the numerical data both within the Company s own information and in the broader medical professional liability (MPL) marketplace that mitigate or reverse as time progresses and additional data becomes available. Accordingly, management must evaluate emerging trends and make judgments as to how much consideration should be given to these trends when establishing our reserves. The recognition of favorable or adverse loss development is an outcome of management s best estimate of reserves and is dependent on, among other things, the resolution of claims and the increasing maturity of each accident year. Until claims for a given accident year are mostly resolved, the estimated ultimate loss costs are subject to change. Based on a weighted average of payments, resolution of 85% of claims for a given accident year requires more than eight years.

As each accident year matures, we analyze reserves in a variety of ways and use multiple actuarial methodologies in performing these analyses, including the Bornhuetter-Ferguson (Paid and Reported) Method, Paid Development Method, Reported Development Method, Average Paid Value Method, Average Reported Value Method and Backward Recursive Method which are all described in our 2010 Form 10K within the Critical Accounting Estimates section. Generally, methods such as the Bornhuetter-Ferguson Method are used on more recent accident years where we have less data on which to base our analysis. As time progresses and we have an increased amount of data for a given accident year, we begin to give more confidence to the development and average methods, as these methods typically rely more heavily on our own historical data. Each of these methods treats our assumptions differently, and thus provides a different perspective of our reserve review.

Any adjustments resulting from our review process are reflected in the then-current operations. Due to the size of our reserve for losses, even a small percentage adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made, as was the case in 2010 and has been thus far in 2011.

Reinsurance

We use insurance and reinsurance (collectively, reinsurance) to provide capacity to write larger limits of liability, to provide protection against losses in excess of policy limits, and to stabilize underwriting results in years in which higher losses occur. The purchase of reinsurance does not relieve us from the ultimate risk on our policies, but it does provide reimbursement for certain losses we pay.

We evaluate each of our ceded reinsurance contracts at inception to confirm that there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting guidance. At September 30, 2011, all ceded contracts are accounted for as risk transferring contracts.

Our receivable from reinsurers on unpaid losses and loss adjustment expenses represents our estimate of the amount of our reserve for losses that will be recoverable under our reinsurance programs. We base our estimate of funds recoverable upon our expectation of ultimate losses and the portion of those losses that we estimate to be allocable to reinsurers based upon the terms of our reinsurance agreements. Our assessment of the collectability of the recorded amounts receivable from reinsurers considers the payment history of the reinsurer, publicly available financial and rating agency data, our interpretation of the underlying contracts and policies, and responses by reinsurers. Appropriate reserves are established for any balances we believe may not be collected.

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Given the uncertainty of the ultimate amounts of our losses, our estimates of losses and related amounts recoverable may vary significantly from the eventual outcome. Also, we estimate premiums ceded under reinsurance agreements wherein the premium due to the reinsurer, subject to certain maximums and minimums, is based in part on losses reimbursed or to be reimbursed under the agreement. Any adjustments are reflected in then-current operations. Due to the size of our reinsurance balances, an adjustment to these estimates could have a material effect on our results of operations for the period in which the adjustment is made.

Our risk retention level is dependent upon numerous factors including our risk tolerance and the capital we have to support it, the price and availability of reinsurance, volume of business, level of experience with a particular set of claims and our analysis of the potential underwriting results within each state. We purchase reinsurance from a number of companies to mitigate concentrations of credit risk. We utilize a reinsurance broker to assist us in the analysis of the credit quality of our reinsurers. We base our reinsurance buying decisions on an evaluation of the then-current financial strength, rating and stability of prospective reinsurers. However, the financial strength of our reinsurers, and their corresponding ability to pay us, may change in the future due to forces or events we cannot control or anticipate.

We have not experienced significant collection difficulties due to the financial condition of any reinsurer; however, periodically, reinsurers may dispute our claim for reimbursement from them. We have established appropriate reserves for any balances that we believe may not be ultimately collected. Should future events lead us to believe that any reinsurer will not meet its obligations to us, adjustments to the amounts recoverable would be reflected in the results of current operations. Such an adjustment has the potential to be material to the results of operations in the period in which it is recorded; however, we would not expect such an adjustment to have a material effect on our capital position or our liquidity.

Investment Valuations

We record a substantial portion of our investments at fair value as shown in the table below. The distribution of our investments based on GAAP fair value hierarchies (levels) is as follows:

	Distribution by GAAP Fair Value Hierarchy			September 30, 2011
	Level 1	Level 2	Level 3	Total Investments
Fair Value	4%	91%	1%	96%
Cost or cash surrender value				4%
Total Investments				100%

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. All of our fixed maturity and equity security investments are carried at fair value. Our short-term securities are carried at amortized cost, which approximates fair value.

Because of the number of securities we own and the complexity and cost of developing accurate fair values internally, we utilize independent pricing services to assist us in establishing fair values. The pricing services provide fair values based on exchange traded prices, if available. If an exchange traded price is not available, the pricing services, if possible, provide a fair value that is based on multiple broker/dealer quotes or that has been developed using pricing models. Pricing models vary by asset class and utilize currently available market data for securities comparable to ours to estimate the fair value for our security. The pricing services scrutinize market data for consistency with other relevant market information before including the data in the pricing models. The pricing services disclose the types of pricing models used and the inputs used for each asset class. Determining fair values using these pricing models requires the use of judgment to identify appropriate comparable securities and to choose valuation methodology that is appropriate for the asset class and available data.

The pricing services provide a single value per instrument quoted. We review the values provided for reasonableness each quarter by comparing market yields generated by the supplied price versus market yields observed in the market place. If a supplied value is deemed unreasonable, we discuss the valuation in question with the pricing service and will make adjustments if deemed necessary. To date, we have not adjusted any values supplied by the pricing services.

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The pricing services do not provide a fair value unless an exchange traded price or multiple observable inputs are available. As a result, the pricing services may provide a fair value for a security in some periods but not others, depending upon the level of recent market activity for the security or comparable securities.

Level 1 Investments

As of September 30, 2011, fair values for our equity and a portion of our short-term securities have been determined using an exchange traded price. There is little judgment involved when fair value is determined using an exchange traded price. In accordance with GAAP, for disclosure purposes we classify securities valued using an exchange traded price as Level 1 securities.

Level 2 Investments

With the exception of certain government bonds, most fixed income securities do not trade daily and thus exchange traded prices are generally not available for these securities. However, market information (often referred to as observable inputs or market data; including but not limited to, last reported trade, non-binding broker quotes, bids, benchmark yield curves, issuer spreads, two sided markets, benchmark securities, offers, and recent data regarding assumed prepayment speeds, cash flow and loan performance data) is available for most of our fixed income securities. We determine fair value for a large portion of our fixed income securities using available market information. In accordance with GAAP, for disclosure purposes we classify any securities that have been valued based on multiple market observable inputs as Level 2 securities.

Level 3 Investments

When a pricing service does not provide a value for one of our fixed maturity securities, management estimates fair value using either a single non-binding broker quote or pricing models that utilize market based assumptions which have limited observable inputs. The process involves significant judgment in selecting the appropriate data and modeling techniques to use in the valuation process. For disclosure purposes we classify fixed maturity securities that are valued using limited observable inputs as Level 3 securities.

We also classify as Level 3 securities our LP/LLC interests that are carried at fair value, based on the quarterly NAV provided to us by the LP/LLC managers. At September 30, 2011 such investments total $41.0 million or 1% of total investments. All interests valued in this manner are interests in private investment funds that hold debt and equity securities. Of the total, $24.8 million relates to interests, included in Investments in Unconsolidated Subsidiaries, which are accounted for using the equity method because we are deemed to have an other than minor interest in the LP/LLC. An interest in an LLC, which has a fair value at September 30, 2011 of $16.2 million and is included in Other Investments, is accounted for using the cost method because our interest in the LLC is a minor interest. This LLC has announced its intention to convert to a public fund in the near term, and we recognized an OTTI at September 30, 2010 to reduce the carrying value of our interest to the NAV reported by the LLC manager.

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Investments Not Valued at Fair Value

Business Owned Life Insurance:

- Policies having a carrying value of $52.2 million at September 30, 2011; valued at cash surrender value.

Investment in Unconsolidated Subsidiaries:

- Interests in tax credit partnerships having a carrying value of approximately $88.4 million at September 30, 2011; valued under the equity method.
- An interest in a business LLC that has a carrying value of $1.3 million at September 30, 2011; valued under the equity method based on the latest financial statements of the entity.

Other Investments:

- Interests in LPs having a carrying value of $11.9 million at September 30, 2011; valued at cost as ownership interest is nominal.
- FHLB capital stock having a carrying value of $4.6 million at September 30, 2011; valued at cost.
- Other investments having a carrying value at $1.8 million at September 30, 2011; valued at cost.

Investment Impairments

We evaluate our investments on at least a quarterly basis for declines in fair value that represent OTTIs. In all instances we consider an impairment to be an OTTI if we intend to sell the security or if we believe we will be required to sell the security before we fully recover the amortized cost basis of the security. Otherwise, we consider various factors in our evaluation, depending upon the type of security, as discussed below.

For debt securities, we consider whether we expect to fully recover the amortized cost basis of the security, based upon consideration of some or all of the following:

- third party research and credit rating reports;
- the current credit standing of the issuer, including credit rating downgrades;
- extent to which the decline in fair value is attributable to credit risk specifically associated with an investment or its issuer;
- our internal assessments and those of our external portfolio managers regarding specific circumstances surrounding an investment, which can cause us to believe the investment is more or less likely to recover its value than other investments with a similar structure;

for asset-backed securities, the origination date of the underlying loans, the remaining average life, the probability that credit performance of the underlying loans will deteriorate in the future, and our assessment of the quality of the collateral underlying the loan;

failure of the issuer of the security to make scheduled interest or principal payments;

any changes to the rating of the security by a rating agency;

recoveries or additional declines in fair value subsequent to the balance sheet date; and

our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

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In assessing whether we expect to recover the cost basis of debt securities, particularly asset-backed securities, we must make a number of assumptions regarding matters that will affect the cash flows that we expect to receive from the security in future periods. These judgments are subjective in nature and may subsequently be proved to be inaccurate.

We evaluate our cost method interests in LP/LLCs for OTTI by considering whether there has been a decline in fair value below the recorded value. We receive a report from each of the LP/LLCs at least quarterly which provide us a net asset value (NAV) for our interest in the LP/LLC. The NAV is based on the fair values of securities held by the LP/LLC as determined by the LP/LLC manager. Determining whether there has been a decline in fair value involves assumptions and estimates. We consider the most recent NAV provided, the performance of the LP/LLC relative to the market, the stated objectives of the LP/LLC, the cash flows expected from the LP/LLC and audit results in considering whether an OTTI exists.

Our investments in tax credit partnerships are evaluated for OTTI by comparing cash flow projections of future operating results of the underlying projects generating the tax credits to our recorded basis, and considering our ability to utilize the tax credits from the investments.

We also evaluate our holdings of FHLB securities for impairment. We consider the current capital status of the FHLB, whether the FHLB is in compliance with regulatory minimum capital requirements, and the reported operating results of the current period.

Deferred Policy Acquisition Costs

Policy acquisition costs (primarily commissions, premium taxes and underwriting salaries) which are directly related to the acquisition of new and renewal premiums are capitalized as deferred policy acquisition costs and charged to expense as the related premium revenue is recognized. We evaluate the recoverability of our deferred policy acquisition costs each reporting period, and any amounts estimated to be unrecoverable are charged to expense in the current period.

Deferred Taxes

Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. Our temporary differences principally relate to loss reserves, unearned premiums, deferred policy acquisition costs, unrealized investment gains (losses) and investment impairments. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such benefits are realized. We review our deferred tax assets quarterly for impairment. If we determine that it is more likely than not that some or all of a deferred tax asset will not be realized, a valuation allowance is recorded to reduce the carrying value of the asset. In assessing the need for a valuation allowance, management is required to make certain judgments and assumptions about our future operations based on historical experience and information as of the measurement period regarding reversal of existing temporary differences, carryback capacity, future taxable income (including its capital and operating characteristics) and tax planning strategies.

Goodwill

We make at least an annual assessment as to whether the value of our goodwill asset is impaired. Management evaluates the carrying value of goodwill annually during the fourth quarter and before the annual evaluation if events occur or circumstances change that would more likely than not reduce the fair value below the carrying value. We evaluate goodwill as one reporting unit because we operate in a single operating segment and our segment components are economically similar. We estimate the fair value of our reporting unit on the evaluation date based on market capitalization and an expected premium that would be paid to acquire control of our Company (a control premium). We then perform a sensitivity analysis using a range of historical stock prices and control premiums. We concluded as of our last evaluation date, October 1, 2010, that the fair value of our reporting unit exceeded the carrying value and no adjustment to impair goodwill was necessary.

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Accounting Changes

We are not aware of any accounting changes that we have not yet adopted as of September 30, 2011 that would have a material impact on ProAssurance s results of operations or financial position.

Liquidity and Capital Resources and Financial Condition

Overview

ProAssurance Corporation is a holding company and is a legal entity separate and distinct from its subsidiaries. Because it has no other business operations, dividends from its operating subsidiaries represent a significant source of funds for its obligations, including debt service. At September 30, 2011, we held cash and liquid investments of approximately $196.3 million outside of our insurance subsidiaries that are available for use without regulatory approval. Our insurance subsidiaries, in aggregate, are permitted to pay dividends of approximately $248 million over the course of 2011 without prior approval. However, the payment of any dividend requires prior notice to the insurance regulator in the state of domicile and the regulator may prevent the dividend if, in its judgment, payment of the dividend would have an adverse effect on the surplus of the insurance subsidiary. Through the nine months ended September 30, 2011, $109.0 million of the permitted dividends have been paid.

Shareholder Dividends

On September 7, 2011 our Board adopted a cash dividend policy that anticipates a dividend of $1.00 per common share annually, and declared an initial quarterly dividend of $0.25 per common share, $7.6 million in total, which was paid on October 13, 2011 to shareholders of record on September 29, 2011.

Acquisitions

On November 30, 2010, we acquired 100% of the outstanding shares of American Physicians Service Group, Inc. (APS), principally a provider of medical professional liability insurance for physicians largely in the state of Texas, in a transaction valued at $237 million including cash paid of $233 million and liabilities assumed of $4 million. APS reported gross written premium of $61 million for the year ended December 31, 2010, $5 million of which was included in ProAssurance consolidated premium for 2010.

See Note 2 of the Notes to the Consolidated Financial Statements in our 2010 Form 10-K for detailed information regarding our acquisition of APS, including a summarized listing of the assets acquired and liabilities assumed.

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Cash Flows

The principal components of our operating cash flows are the excess of premiums collected and net investment income over losses paid and operating costs, including income taxes. Timing delays exist between the collection of premiums and the payment of losses associated with the premiums. Premiums are generally collected within the twelve-month period after the policy is written while our claim payments are generally paid over a more extended period of time. Likewise, timing delays exist between the payment of claims and the collection of any associated reinsurance recoveries.

Our operating activities provided positive cash flows of approximately $106.4 million and $108.6 million for the nine months ended September 30, 2011 and 2010, respectively. Operating cash flows for 2011 and 2010 compare as follows:

(In millions)	Cash Flow Increase (Decrease)
Cash provided by operating activities nine months ended September 30, 2010	**$ 109**
Increase (decrease) in operating cash flows for the nine months ended September 30, 2011:	
Decrease in premium receipts (1)	**(21)**
Increase in payments to reinsurers (2)	**(2)**
Decrease in losses paid (3)	**41**
Decrease in reinsurance recoveries (4)	**(13)**
Increase in Federal and state income tax payments (5)	**(20)**
Cash flows attributable to operations acquired from APS (excluding tax payments)	**17**
Other amounts not individually significant, net	**(5)**
Cash provided by operating activities nine months ended September 30, 2011	**$ 106**

(1) The decline in premium receipts primarily reflects a $11.3 million reduction in gross written premiums exclusive of the business acquired from APS. Written premiums associated with two-year term policies increased by approximately $11.9 million for the nine-month period ended 2011 as compared to 2010, while approximately half of the written amount is not scheduled to be collected until 2012. Additionally, in 2011 more of our insureds have elected to take advantage of payment plans offered to them.

(2) Reinsurance contracts are generally for premiums written in a specific annual period, but can remain in effect until all claims under the contract have been resolved. Some contracts require annual settlements while others require settlement only after a number of years have elapsed, thus the amounts paid can vary widely from period to period.

(3) The timing of our loss payments varies from period to period because the process for resolving claims is complex and occurs at an uneven pace depending upon the circumstances of the individual claim.

(4) The timing of reinsurance recoveries varies from period to period and can depend upon the terms of the applicable reinsurance agreement, the nature of the underlying claim and the timing and amount of underlying loss payments.

(5) The increase in tax payments primarily reflects:

- A $17.8 million increase in estimated tax payments during 2011 as compared to 2010.
- Payments of $5.9 million made in 2011 for the 2008 and 2007 tax years as a result of Federal tax return audits conducted by the Internal Revenue Service. Payments were related to a delay in the deductibility of certain bonus compensation which increased taxes due for 2008 and 2007, but decreased taxes due for the 2009 tax year by an offsetting amount. For additional information regarding the Internal Revenue Service audits, see Note 5 of the Notes to the Condensed Consolidated Financial Statements.

These increases in tax payments were offset by a $3.6 million increase in federal tax refunds from capital loss carry-backs received in 2011 as compared to 2010.

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Investment Exposures

The following table provides summarized information regarding our investments as of September 30, 2011:

(In thousands)	Carrying Value	Unrealized Gains (Losses) Included in Carrying Value Gains	Losses	Average Rating	% Total Investments
Fixed Maturities					
Government					
U.S. Treasury	$ 310,547	$ 17,255	$ (9)	AA+ (*)	8%
U.S. Agency	87,079	5,758	(16)	AA+ (*)	2%
Total government	397,626	23,013	(25)	AA+ (*)	10%
State and Municipal Bonds	1,173,048	72,500	(170)	AA	29%
Corporate Debt					
Financial institutions	364,839	9,166	(4,967)	A+	9%
FDIC insured	49,875	418		AA+ (*)	1%
Communications	54,496	1,999	(348)	BBB+	1%
Utilities	111,204	6,204	(626)	A-	3%
Energy	51,479	4,507	(44)	A-	1%
Industrial	686,244	40,683	(2,753)	A-	17%
Transportation	36,008	2,547		A-	1%
Other	17,101	881		AA	<1%
Total corporate debt	1,371,246	66,405	(8,738)	A	34%
Asset-backed Securities					
Agency mortgage-backed securities	532,768	31,800	(113)	AA+ (*)	13%
Non-agency mortgage-backed securities	16,937	263	(76)	BB+	<1%
Subprime	8,379	330	(1,563)	BBB	<1%
Alt A	5,484	25	(293)	BB	<1%
Commercial mortgage-backed securities	81,729	3,849	(78)	AAA	2%
Credit card	22,129	437		AAA	1%
Automobile	47,060	323	(13)	AAA	1%
Other	18,166	353	(12)	AA+	<1%
Total asset-backed securities	732,652	37,380	(2,148)	AA+	18%
Total fixed maturities	3,674,572	199,298	(11,081)	AA-	91%
Equities					
Equity					
Financial	14,525	16			<1%
Energy	10,811				<1%
Consumer cyclical	7,114				<1%
Consumer non-cyclical	15,494				<1%
Technology	4,926				<1%
Industrial	7,511				<1%
Communications	4,802				<1%
Index funds	3,549				<1%

All Other	5,229				<1%
Total equities	73,961	16			2%
Short-Term	96,824				2%
Business-owned life insurance (BOLI)	52,174			AA-	1%
Investment in Unconsolidated Subsidiaries					
Investment in tax credit partnerships	88,449				2%
Business LLC interest	1,241				<1%
Investment in LPs primarily invested in:					
Long/short equities	17,836				<1%
Non-public equities	6,994				<1%
Total investment in unconsolidated subsidiaries	114,520				3%
Other Investments					
FHLB capital stock	4,557				<1%
Investments in LP/LLCs primarily invested in:					
Private equity and debt	16,191				<1%
Long/short equities	11,010				<1%
Other equities	940				<1%
Other	1,762				<1%
Total other investments	34,460				<1%
Total Investments	**$ 4,046,511**	**$ 199,314**	**$ (11,081)**		**100%**

* Average Moody s rating is Aaa.

A detailed listing of our investment holdings as of September 30, 2011 is presented in an Investor Supplement we make available in the Investor Relations section of our website, www.proassurance.com or directly at www.proassurance.com/investorrelations/supplemental.aspx.

We manage our investments to ensure that we will have sufficient liquidity to meet our obligations, taking into consideration the timing of cash flows from our investments, including interest payments, dividends and principal payments, as well as the expected cash flows to be generated by our operations. In addition to the interest and dividends we will receive, we anticipate that between $50 million and $90 million of our investments will mature (or be paid down) each quarter of the next year and become available, if needed, to meet our cash flow requirements. The primary outflow of cash at our insurance subsidiaries is related to paid losses and operating costs, including income taxes. The payment of individual claims cannot be predicted with certainty; therefore, we rely upon the history of paid claims in estimating the timing of future claims payments. To the extent that we may have an unanticipated shortfall in cash we may either liquidate securities or borrow funds under existing borrowing arrangements through the Federal Home Loan Banking system and a $150 million credit facility. Additional information regarding the credit facility is discussed in Note 9 of the Notes to the Condensed Consolidated Financial Statements. However, given the relatively short duration of our investments, we do not foresee any such shortfall.

Our investment portfolio continues to be primarily composed of high quality fixed income securities with approximately 97% of our fixed maturities being investment grade securities as determined by national rating agencies. The weighted average effective duration of our fixed maturity securities at September 30, 2011 is 3.9 years; the weighted average effective duration of our fixed maturity securities combined with our short-term securities is 3.8 years.

We have increased our investment in tax credit limited partnerships by an additional $32 million during the first nine months of 2011. These investments are comprised of multiple separate limited partner interests designed to generate investment returns by providing tax benefits to fund investors in the form of project operating losses and tax credits. The related properties are principally low income housing properties. The $88.4 million carrying value of the partnerships reflects the commitments to the partnerships (less amortization) of which approximately $57.2 million is not yet funded as of September 30, 2011.

Reinsurance

We use reinsurance to provide capacity to write larger limits of liability, to provide protection against losses in excess of policy limits, and to stabilize underwriting results in years in which higher losses occur. The purchase of reinsurance does not relieve us from the ultimate risk on our policies, but it does provide reimbursement from the reinsurer for certain losses paid by us.

Our risk retention level is dependent upon numerous factors including our risk tolerance and the capital we have to support it, the price and availability of reinsurance, volume of business, level of experience with a particular set of claims and our analysis of the potential underwriting results within each state. We purchase reinsurance from a number of companies to mitigate concentrations of credit risk. We utilize a reinsurance broker to assist us in the analysis of the credit quality of our reinsurers. We base our reinsurance buying decisions on an evaluation of the then-current financial strength, rating and stability of prospective reinsurers. However, the financial strength of our reinsurers, and their corresponding ability to pay us, may change in the future due to forces or events we cannot control or anticipate.

We have not experienced significant collection difficulties due to the financial condition of any reinsurer; however, periodically, reinsurers may dispute our claim for reimbursement from them. We have established appropriate reserves for any balances that we believe may not be ultimately collected. Should future events lead us to believe that any reinsurer will not meet its obligations to us, adjustments to the amounts recoverable would be reflected in the results of current operations. Such an adjustment has the potential to be significant to the results of operations in the period in which it is recorded; however, we would not expect such an adjustment to have a material effect on our capital position or our liquidity.

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Debt

Our long-term debt as of September 30, 2011 is comprised of the following:

($ in thousands)	Contractual Rate	Outstanding Principal		Carrying Value September 30, 2011	
Trust Preferred Securities due 2034	4.1% (1)	$	22,992	$	22,992
Surplus Notes due May 2034	4.2% (1)		12,000		12,000
Note Payable due February 2019 (2)	6.6% (3)		17,193		14,411
Note Payable due February 2012	3.3% (4)		517		511
				$	49,914

(1) Adjusted quarterly based on LIBOR.
(2) The 2019 Note Payable is valued at fair value. See Note 9.
(3) A related interest rate swap fixes rate at 6.6%. Swap is settled monthly. See Note 9.
(4) Adjusted quarterly based on the U.S. prime rate.

All of our long-term debt is currently repayable or redeemable, with proper notice, at a date no later than the next quarterly or semi-annual interest payment date. Insurance department approval is required for redemption of surplus notes.

During the second quarter of 2011, we entered into a revolving credit agreement that expires April 15, 2014. The agreement allows us to borrow up to $150 million that would be used for general corporate purposes, including, but not limited to, short-term working capital, share repurchases as authorized by the Board, and support for other activities we enter into in the normal course of business. To date, we have not borrowed any funds under the agreement.

ProAssurance is currently in compliance with all covenants. Additional information regarding our debt is provided in Note 9 of the Notes to the Condensed Consolidated Financial Statements.

Treasury Shares

We reacquired approximately 341,000 common shares having a total cost of $21.0 million during the nine-month period ended September 30, 2011 (including approximately 82,000 shares at a total cost of $5.6 million during the three-month period ended September 30, 2011). During 2011 we also reacquired approximately 7,000 forfeited employer match shares (cost basis of $0.4 million) due to the termination of the ProAssurance Corporation Stock Ownership Plan. Additional information regarding the termination of the ProAssurance Corporation Stock Ownership Plan is provided in Note 10 of the Notes to the Condensed Consolidated Financial Statements.

At September 30, 2011 we have approximately $188.4 million in prior authorizations from our Board of Directors available for use for the repurchase of common shares or the retirement of outstanding debt.

Litigation

In accordance with GAAP for insurance entities, claim-related actions are considered as a part of our loss reserving process. We evaluate the likely outcomes from these actions giving consideration to the facts and laws applicable to each case, appellate issues, coverage issues, potential recoveries from our insurance and reinsurance programs, and settlement discussions as well as our historical claims resolution practices. This data is then considered in the overall evaluation of our reserve for losses which is discussed herein in detail under Critical Accounting Estimates Reserve for Losses and Loss Adjustment Expenses (reserve for losses or reserve).

There are risks, as outlined in our Risk Factors in Part 1 of our 2010 Form 10-K, that any of these actions could cost us more than our estimates. In particular, we or our insureds may receive adverse verdicts; post-trial motions may result in unfavorable rulings; any appeals that may be undertaken may be unsuccessful; and we may be unsuccessful in our legal efforts to limit the scope of coverage available to insureds.

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For non-claim related actions, we evaluate each case separately and establish what we believe is an appropriate reserve based on GAAP guidance related to contingent liabilities.

To the extent that the cost of resolving legal actions exceeds our estimates, the excess could materially affect our results of operations in the period of resolution.

Overview of Results Three and Nine Months Ended September 30, 2011 and 2010

Net income is $43.7 million and $146.5 million for the three and nine months ended September 30, 2011, respectively, as compared to $51.1 million and $129.5 million for the same respective periods in 2010. Net income per diluted share is $1.42 and $4.75 for the three and nine months ended September 30, 2011, respectively, as compared to $1.59 and $3.99 for the same respective periods in 2010.

Operating income, a non-GAAP financial measure, is $48.4 million and $147.0 million for the three and nine months ended September 30, 2011, respectively, as compared to $41.5 million and $123.4 million, for the same respective periods in 2010. Operating income per diluted share is $1.57 and $4.77 for the three and nine months ended September 30, 2011, respectively, as compared to $1.30 and $3.80, for the same respective periods in 2010.

Results from the three and nine months ended September 30, 2011 and 2010 compare as follows:

Revenues

Net premiums earned increased by $4.3 million or 3.3% and $24.6 million or 6.5% for the 2011 three- and nine-month periods, respectively, including $14.7 million and $43.6 million, respectively, attributable to the business acquired from APS. Our results reflect the effects of a competitive market place and rate reductions that reflect improved loss trends.

Our 2011 net investment result (which includes both net investment income and earnings from unconsolidated subsidiaries) decreased by $2.5 million or 7.3% for the three-month period and decreased by $12.4 million or 11.0% for the nine-month period.

Net realized investment losses in 2011 are $12.0 million and $5.6 million for the three- and nine-month periods, respectively, as compared to net realized gains of $14.7 million and $8.8 million for the same respective periods in 2010. Results primarily reflect unrealized trading portfolio losses in 2011 of $11.7 million and $13.0 million for the three- and nine-month periods, respectively, as compared to unrealized trading portfolio gains of $3.4 million and unrealized trading portfolio losses of $3.1 million for the three- and nine-month periods in 2010, respectively. Also, gains realized on sales of securities during the 2010 third quarter were $12.4 million higher than during the 2011 third quarter.

Other income increased by $5.7 million and $6.0 million for the three- and nine-month periods, respectively. The increase is primarily due to a $4.9 million confidential settlement received during the third quarter of 2011 related to litigation with a service provider.

Expenses

Current accident year net losses increased by $2.1 million or 2% for the 2011 three-month period and increased by $17.4 million or 5% for the 2011 nine-month period. Approximately $11.7 million and $32.2 million of the increase for the three- and nine-month periods, respectively, are attributable to the business acquired from APS. We reduced net losses by $52.1 million and $142.3 million for the 2011 three- and nine-month periods, respectively, and by $33.4 million and $95.9 million for the same respective periods in 2010 as a result of our review of net losses incurred for prior accident years.

Underwriting, policy acquisition and operating expenses increased in 2011 as compared to 2010 by $2.9 million or 8.9% and by $8.6 million or 9.1% for the three- and nine-month periods, respectively, reflecting the acquisition of APS, which added expenses of approximately $3.8 million and $10.2 million for the three- and nine-month periods, respectively.

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Ratios

Our net loss ratio decreased in 2011 by 14.4 percentage points and 10.9 percentage points for the three- and nine-month periods, respectively, primarily because favorable development was higher in 2011 as compared to 2010. Approximately 0.2 percentage points and 1.2 percentage points of the decrease for the three- and nine-month periods, respectively, relates to a lower loss ratio for the business acquired in the APS transaction.

Our 2011 underwriting expense ratio reflects increases of 1.8 percentage points and 0.8 percentage points for the three- and nine-month periods, respectively, primarily due to lower net premiums earned, exclusive of the business acquired from APS.

Our operating ratio declined in 2011 by 10.5 percentage points and 7.4 percentage points for the three- and nine-month periods, respectively, reflecting the improved net loss ratio, offset by a higher expense ratio and lower investment income.

Return on equity is 8.8% and 10.1% for the three- and nine-month periods of 2011, respectively, on an annualized basis.

Book Value Per Share

Our book value per share at September 30, 2011 is $66.23 compared to $60.35 at December 31, 2010. The change primarily reflects our 2011 income, and an increase in accumulated other comprehensive income. Dividends declared during the period reduced book value per share by $0.25. Due to the size of our Shareholders Equity (approximately $2.0 billion at September 30, 2011), the growth rate of our book value per share may slow. The past growth rates of our book value per share do not necessarily predict similar future results.

Non-GAAP Financial Measure Operating Income

Operating income is a non-GAAP financial measure that is widely used to evaluate the performance of insurance entities. Operating income excludes the after-tax effects of realized gains or losses, guaranty fund assessments and, in 2011, a confidential settlement of litigation with a service provider. We believe operating income presents a useful view of the performance of our insurance operations, but should be considered in conjunction with net income computed in accordance with GAAP.

The following table is a reconciliation of Net income to Operating income:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(In thousands, except per share data)	**2011**	2010	**2011**	2010