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Form 10-Q
May 01, 2019

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pra:segment iso4217:USD xbrli:shares iso4217:USD iso4217:GBP pra:Business pra:Issuer pra:investment_interest pra:Security pra:partition pra:derivative_instrument
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019 or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ______ to ______

Commission file number 0-16533

ProAssurance Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter), during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No ý
As of April 25, 2019, there were 53,742,438 shares of the registrant’s common stock outstanding.

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Glossary of Terms and Acronyms

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

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

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

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Caution Regarding Forward-Looking Statements

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

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

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

- changes in general economic conditions, including the impact of inflation or deflation and unemployment;
- our ability to maintain our dividend payments;
- regulatory, legislative and judicial actions or decisions that could affect our business plans or operations, including the impact of Brexit;
- the enactment or repeal of tort reforms;
- formation or dissolution of state-sponsored insurance entities providing coverages now offered by ProAssurance which could remove or add sizable numbers of insureds from or to the private insurance market;
- changes in the interest and tax rate environment;
- resolution of uncertain tax matters and changes in tax laws, including the impact of the TCJA;
- changes in laws or government regulations regarding financial markets or market activity that may affect our business;
- changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business;
- performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;
- changes in requirements or accounting policies and practices that may be adopted by our regulatory agencies, the FASB, the SEC, the PCAOB or the NYSE that may affect our business;
- changes in laws or government regulations affecting the financial services industry, the property and casualty insurance industry or particular insurance lines underwritten by our subsidiaries;
- the effect on our insureds, particularly the insurance needs of our insureds, and our loss costs, of changes in the healthcare delivery system and/or changes in the U.S. political climate that may affect healthcare policy or our business;
- consolidation of our insureds into or under larger entities which may be insured by competitors, or may not have a risk profile that meets our underwriting criteria or which may not use external providers for insuring or otherwise managing substantial portions of their liability risk;
- uncertainties inherent in the estimate of our loss and loss adjustment expense reserve and reinsurance recoverable;
- changes in the availability, cost, quality or collectability of insurance/reinsurance;
- the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;
- effects on our claims costs from mass tort litigation that are different from that anticipated by us;
- allegations of bad faith which may arise from our handling of any particular claim, including failure to settle;
- loss or consolidation of independent agents, agencies, brokers or brokerage firms;

changes in our organization, compensation and benefit plans;

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

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

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

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

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

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

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

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

See accompanying notes.

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

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

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

Continued on the following page.

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Continued from the previous page.

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

See accompanying notes.

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

1. Basis of Presentation

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

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

Reclassifications

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

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

Accounting Policies

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

Leases

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

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

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

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

Other Liabilities

Other liabilities consisted of the following:

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

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

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

Accounting Changes Adopted

Leases (ASU 2016-02)

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

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

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

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

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

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

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

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

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

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

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

Accounting Changes Not Yet Adopted

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

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

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

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

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

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that eliminates, modifies and adds certain disclosure requirements related to fair value measurements. The new guidance eliminates the requirements to disclose the transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of transfers between levels of the fair value hierarchy and the valuation process for Level 3 fair value measurements while it modifies existing disclosure requirements related to measurement uncertainty and the requirement to disclose the timing of liquidation of an investee's assets for investments in certain entities that calculate NAV. The new guidance also adds requirements to disclose changes in unrealized gains and losses included in OCI for recurring Level 3 fair value measurements as well as the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. An entity is permitted to early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until the guidance is effective. During the third quarter of 2018, ProAssurance elected to early adopt the provisions that eliminate and modify certain disclosure requirements within Note 2 on a retrospective basis and adoption of these certain provisions had no material effect on ProAssurance's results of operations, financial position or cash flows as it affected disclosures only. ProAssurance plans to adopt the additional disclosure requirements beginning January 1, 2020 and adoption is not expected to have a material effect on ProAssurance's results of operations, financial position or cash flows.

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

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

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

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

Collaborative Arrangements (ASU 2018-18)

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

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2. Fair Value Measurement

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

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

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

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

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

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

Level 2 Valuations

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

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

U.S. Government-sponsored enterprise obligations were valued using pricing models that consider current and historical market data, normal trading conventions, credit ratings, and the particular structure and characteristics of the security being

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valued, such as yield to maturity, redemption options, and contractual cash flows. Adjustments to model inputs or model results were included in the valuation process when necessary to reflect recent regulatory, government or corporate actions or significant economic, industry or geographic events affecting the security's fair value.

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

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

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

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

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

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

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

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

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Level 3 Valuations
Below is a summary description of the valuation methodologies used as well as quantitative information regarding securities in the Level 3 category, by security type:
Level 3 Valuation Methodologies
Corporate debt, limited observable inputs consisted of corporate bonds valued using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities of comparable credit quality that have like terms and payment features. Assessments of credit quality were based on NRSRO ratings, if available, or were subjectively determined by management if not available. At March 31, 2019, 53% of the securities were rated and the average rating was AA-. At December 31, 2018, 54% of the securities were rated and the average rating was BBB+.
Other commercial mortgage-backed and other asset-backed securities consisted of securitizations of receivables valued using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities of comparable credit quality that have like terms and payment features. Assessments of credit quality were based on NRSRO ratings, if available, or were subjectively determined by management if not available. At March 31, 2019, 29% of the securities were rated and the average rating was A-. At December 31, 2018, 25% of the securities were rated and the average rating was AAA.
Other investments consisted of convertible securities for which limited observable inputs were available at March 31, 2019 and December 31, 2018. The securities were valued internally based on expected cash flows, including the expected final recovery, discounted at a yield that considered the lack of liquidity and the financial status of the issuer.
Quantitative Information Regarding Level 3 Valuations

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

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

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Fair Value Measurements - Level 3 Assets

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

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

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

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Transfers

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

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

Fair Values Not Categorized

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Nonrecurring Fair Value Measurement

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

Financial Instruments - Methodologies Other Than Fair Value

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

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

* Carrying value excludes debt issuance costs.

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

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

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

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

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3. Investments

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

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

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

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

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

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

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

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

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Investments Held in a Loss Position

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

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

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

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

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

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

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

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

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

Equity Investments

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

Short-term Investments

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

BOLI

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

Net Investment Income

Net investment income by investment category was as follows:

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

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Investment in Unconsolidated Subsidiaries

ProAssurance's investment in unconsolidated subsidiaries were as follows:

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

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

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

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

Equity in Earnings (Loss) of Unconsolidated Subsidiaries

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

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

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

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Net Realized Investment Gains (Losses)

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

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

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

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

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

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4. Income Taxes

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

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

Tax Cuts and Jobs Act

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

5. Reserve for Losses and Loss Adjustment Expenses

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

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

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

Development of Prior Accident Years

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

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

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

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

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

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

6. Commitments and Contingencies

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

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

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

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On occasion, ProAssurance has entered into financial instrument transactions that may present off-balance sheet credit risk or market risk. These transactions include a short-term loan commitment and commitments to provide funding to non-public investment entities. Under the short-term loan commitment, ProAssurance has agreed to advance funds on a 30 day basis to a counterparty provided there is no violation of any condition established in the contract. As of March 31, 2019, ProAssurance had total funding commitments of approximately $274.7 million which primarily represented funding commitments related to non-public investment entities as well as the short-term loan commitment which included the amount at risk if the full short-term loan is extended and the counterparties default. However, the credit risk associated with the short-term loan commitment is minimal as the counterparties to the contract are highly rated commercial institutions and to-date have been performing in accordance with their contractual obligations.

In October 2018, ProAssurance entered into an agreement with a company to provide data analytics services for certain product lines within the Company's HCPL book of business. The agreement contains a minimum two year commitment with optional extension features for an annual fee of approximately $4.8 million per year with additional variable quarterly incentive fees based on service utilization metrics prescribed in the contract. ProAssurance incurred operating expense associated with this agreement of $1.0 million in the first quarter of 2019 and as of March 31, 2019, the remaining commitment under this agreement was approximately $7.6 million.

7. Leases

ProAssurance is involved in a number of operating leases primarily for office facilities. Office facility leases have remaining lease terms ranging from one year to thirteen years; some of which include options to extend the leases for up to ten years, and some of which include an option to terminate the lease within one year. ProAssurance subleases certain office facilities to third parties and classifies these leases as operating leases.

The following table provides a summary of the components of lease expense as well as the reporting location in the Condensed Consolidated Statements of Income and Comprehensive Income for the three months ended March 31, 2019 and 2018.

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

[1] Includes short-term lease costs and variable lease costs. For the three months ended March 31, 2019, no short-term lease costs were recognized and variable lease costs were nominal in amount. For the three months ended March 31, 2018, short-term lease costs and variable lease costs were each nominal in amount.

[2] Sublease income excludes rental income from owned properties of $0.6 million during each of the three months ended March 31, 2019 and 2018 which is included in other income. See "Item 2. Properties" in ProAssurance's December 31, 2018 report on Form 10-K for a listing of currently owned properties.

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

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

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

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

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

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

8. Debt

ProAssurance’s outstanding debt consisted of the following:

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

Covenant Compliance

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

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

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

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Additional Information

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

9. Derivatives

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

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

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

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

(1) Volume is represented by the derivative instrument's notional amount.

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

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

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

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

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10. Shareholders' Equity

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

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

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

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

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

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

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

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

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

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

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

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

11. Variable Interest Entities

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

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

12. Earnings Per Share

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

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

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

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13. Segment Information

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

Segment Reorganization

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

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

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

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

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

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

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

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

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

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

Financial results by segment were as follows:

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

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

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

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

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

(1) Premium for all periods is assumed from the Workers' Compensation Insurance segment.
(2) Premium for all periods is assumed from the Specialty P&C segment.
(3) Includes premium assumed from the Specialty P&C segment of $0.1 million and $1.9 million for the three months ended March 31, 2019 and 2018, respectively.

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

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

ProAssurance Overview

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

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

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

All prior period segment information has been recast to conform to the current period presentation and the segment reorganization had no impact on previously reported consolidated financial results. Additional information regarding our segments is included in Note 13 of the Notes to Condensed Consolidated Financial Statements and the Segment Operating Results sections that follow.

Critical Accounting Estimates

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

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

Reserve for Losses and Loss Adjustment Expenses

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

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

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

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

Current Accident Year - Initial Reserve

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

Specialty P&C Segment. Loss costs within this segment are impacted by many factors including but not limited to the nature of the claim, including whether or not the claim is an individual or a mass tort claim, the personal situation of the claimant or the claimant's family, the outcome of jury trials, the legislative and judicial climate where any potential litigation may occur, general economic conditions and, for claims involving bodily injury, the trend of healthcare costs. Within our Specialty P&C segment, for our HCPL business (75% of our consolidated gross reserve for losses and loss adjustment expenses as of December 31, 2018), we set an initial reserve using the average loss ratio used in our pricing, plus an additional provision in consideration of the historical loss volatility we and others in the industry have experienced. The current accident year reserve also includes provisions for any loss portfolio transfers we enter into during the current period. For our HCPL business our target loss ratio during recent accident years has ranged from 79% to 82% and the provision for loss volatility has ranged from 8 to 10 percentage points, producing an overall average initial loss ratio for our HCPL business ranging from 87% to 92%; however, we have recently trended towards the higher end of the range. Changes in observed claim frequency and/or severity can result in variations from these levels. The reasons for the variability in loss provisions from period to period have included additional loss activity within our excess and surplus lines business, provisions for losses in excess of policy limits, adjustments to ULAE, adjustment to the reserve for the DDR provisions in our policies and additional losses recorded for particular exposures, such as mass torts. These specific adjustments are made if we believe the results for a given accident year are likely to vary from those anticipated by our pricing. We believe use of a provision for volatility appropriately considers the inherent risks and limitations of our rate development process and the historic volatility of professional liability losses (the industry has experienced accident year loss ratios as high as 138% and as low as 54% over the past 30 years) and produces a reasonable best estimate of the reserve required to cover actual ultimate unpaid losses. A similar practice is followed for our legal professional liability business (3% of our consolidated gross reserve for losses and loss adjustment expenses as of December 31, 2018).

The risks insured in our medical technology liability business (4% of our consolidated gross reserve for losses and loss adjustment expenses as of December 31, 2018) are more varied, and policies are individually priced based on the risk characteristics of the policy and the account. The insured risks range from startup operations to large multinational entities and the larger entities often have significant deductibles or self-insured retentions. Reserves are established using our most recently developed actuarial estimates of losses expected to be incurred based on factors which include results from prior analysis of similar business, industry indications, observed trends and judgment. Claims in this line of business primarily involve bodily injury to individuals and are affected by factors similar to those of our HCPL line of business. For the medical technology liability business, we also establish an initial reserve using a loss ratio approach, including a provision in consideration of historical loss volatility that this line of business has exhibited.

Workers' Compensation Insurance Segment. Many factors affect the ultimate losses incurred for our workers' compensation coverages (11% of our consolidated gross reserve for losses and loss adjustment expenses as of December 31, 2018) including but not limited to the type and severity of the injury, the age and occupation of the injured worker, the estimated length of disability, medical treatment and related costs, and the jurisdiction and workers' compensation laws of the state of the injury occurrence. We use various actuarial methodologies in developing our workers’ compensation reserve, combined with a review of the exposure base generally based upon payroll of the insured. For the current accident year, given the lack of seasoned information, the different actuarial methodologies produce results with significant variability; therefore, more emphasis is placed on supplementing results from the actuarial methodologies with trends in exposure base, medical expense inflation, general inflation, severity, and claim counts, among other things, to select an expected loss ratio.

Segregated Portfolio Cell Reinsurance Segment. The factors that affect the ultimate losses incurred for the workers' compensation and healthcare professional liability coverages assumed by the SPCs at Eastern Re and Inova Re (3% of our consolidated gross reserve for losses and loss adjustment expenses as of December 31, 2018) are consistent with that of our Workers’ Compensation Insurance and Specialty P&C segments, respectively.

Lloyd's Syndicates Segment. Due to the relatively short history of Syndicate 1729 (January 1, 2014) we are influenced by historical claims experience of the Lloyd's market for similar risks in estimating the appropriate initial reserves for our Lloyd's Syndicates segment (4% of our consolidated gross reserve for losses and loss adjustment expenses as of December 31, 2018). We expect loss ratios to fluctuate from quarter to quarter as Syndicate 1729 writes more business and the book begins to mature. Loss ratios can also fluctuate due to the timing of earned premium adjustments. Such adjustments may be the result of premiums for certain policies and assumed reinsurance contracts being reported subsequent to the coverage period and may be subject to adjustment based on loss experience. Premium and exposure for some of Syndicate 1729's insurance policies and reinsurance contracts are initially estimated and subsequently recorded over an extended period of time as reports are received under delegated underwriting authority programs. When reports are received, the premium, exposure and corresponding loss estimates are revised accordingly. Changes in loss estimates due to premium or exposure fluctuations are incurred in the accident year in which the premium is earned.

For significant property catastrophe exposures, Syndicate 1729 uses third-party catastrophe models to accumulate a listing of potentially affected policies. Each identified policy is given an estimate of loss severity based upon a combination of factors including the probable maximum loss of each policy, market share analytics, underwriting judgment, client/broker estimates and historical loss trends for similar events. These models are inherently uncertain, reliant upon key assumptions and management judgment and are not always a representation of actual events and ensuing potential loss exposure. Determination of actual losses may take an extended period of time until claims are reported and resolved, including coverage litigation.

Syndicate 6131 follows a process similar to Syndicate 1729 for the establishment of initial reserves. Loss assumptions by risk category incorporated into the 2018 business plan submitted to Lloyd's were influenced by historical claims experience of the Lloyd's market for similar risks. We expect the loss ratios of Syndicate 6131 to fluctuate from quarter to quarter as Syndicate 6131 assumes more business from Syndicate 1729 and the book begins to mature.

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Development of Prior Accident Years

In addition to setting the initial reserve for the current accident year, each period we reassess the amount of reserve required for prior accident years.

Our reserve re-estimation process is based upon the most recently completed actuarial analysis supplemented by any new analysis, information or trends that have emerged since the date of that study. We also take into account currently available industry trend information. Changes to previously established reserve estimates are recognized in the current period if management’s best estimate of ultimate losses differs from the estimate previously established. While management considers a variety of variables in determining its best estimate, in general, as claims age, our methodologies give more weight to actual loss costs which, for the majority of our reserves, continue to indicate that ultimate loss costs will be lower than our previous estimates. The discussion in our Critical Accounting Estimates section in Item 7 of our 2018 Form 10-K includes additional information regarding the methodologies used to evaluate our reserve.

Any change in our estimate of net ultimate losses for prior years is reflected in net income in the period in which such changes are made. In recent years such changes have reduced our estimate of net ultimate losses, resulting in a reduction of reported losses for the period and a corresponding increase in pre-tax income.

Due to the size of our consolidated reserve for losses and the large number of claims outstanding at any point in time, even a small percentage adjustment to our total reserve estimate could have a material effect on our results of operations for the period in which the adjustment is made.

Use of Judgment

Even though the actuarial process is highly technical, it is also highly judgmental, both as to the selection of the data used in the various actuarial methodologies (e.g., initial expected loss ratios and loss development factors) and in the interpretation of the output of the various methods used. Each actuarial method generally returns a different value and for the more recent accident years the variations among the various methodologies can be significant. For each partition of our reserves, we evaluate the results of the various methods, along with the supplementary statistical data regarding such factors as closed with and without indemnity ratios, claim severity trends, the expected duration of such trends, changes in the legal and legislative environment and the current economic environment to develop a point estimate based upon management's judgment and past experience. The series of selected point estimates is then combined to produce an overall point estimate for ultimate losses.

Given the potential for unanticipated volatility for long-tailed lines of business, we are cautious in giving full credibility to emerging trends that, when more fully mature, may lead to the recognition of either favorable or adverse development of our losses. There may be trends, both positive and negative, reflected in the numerical data both within our own information and in the broader marketplace that mitigate or reverse as time progresses and additional data becomes available. This is particularly true for our HCPL business which has historically exhibited significant volatility as previously discussed.

HCPL. Over the past several years the most influential factor affecting the analysis of our HCPL reserves and the related development recognized has been an observed increase in claim severity for the broader HCPL industry as well as higher initial loss expectations on incurred claims. The severity trend is an explicit component of our pricing models, whereas in our reserving process the severity trend's impact is implicit. Our estimate of this trend and our expectations about changes in this trend impact a variety of factors, from the selection of expected loss ratios to the ultimate point estimates established by management.

Because of the implicit and wide-ranging nature of severity trend assumptions on the loss reserving process, it is not practical to specifically isolate the impact of changing severity trends. However, because severity is an explicit component of our HCPL pricing process we can better isolate the impact that changing severity can have on our loss costs and loss ratios in regards to our pricing models for this business component. Our current HCPL pricing models assume a severity trend of approximately 3% in most states and products. We have observed potentially higher severity trends in our case reserve estimates but these have not yet been confirmed by actual claim payments. If the severity trend were to be higher by 1 percentage point, the impact would be an increase in our expected loss ratio for this business of 3.2 percentage points, based on current claim disposition patterns. An increase in the severity trend of 3 percentage points would result in a 10.1 percentage point increase in our expected loss ratio. Due to the long-tailed nature of our claims and the previously discussed historical volatility of loss costs, selection of a severity trend assumption is a subjective process that is inherently likely to prove inaccurate over time. Given the long tail and volatility, we are generally cautious in making changes to the severity assumptions within our pricing models. All open claims and accident years are generally impacted by a change in the severity trend, which compounds the effect of such a change.

Although the future degree and impact of the ultimate severity trend remains uncertain due to the long-tailed nature of our business, we have given consideration to observed loss costs in setting our rates. For our HCPL business this practice had generally resulted in rate reductions as claim frequency declined and remained at historically low levels. For example, on average, excluding our podiatry business acquired in 2009, we had gradually reduced the premium rates we charged on our

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standard physician renewal business (our largest HCPL line) by approximately 17% from the beginning of 2006 to December 31, 2016. However, from the beginning of 2017 to March 31, 2019, the average charged premium rates on our standard physician renewal business have increased by approximately 3% per annum and we anticipate further rate increases due to indications of increasing loss severity. Loss ratios for recent accident years have thus remained fairly constant because expected loss changes have been reflected in our rates; however, we have recognized a higher current accident year net loss ratio during 2019 due to those recent severity indications.

Workers' Compensation. The projection of changes in claim severity trend has not historically been an influential factor affecting our analysis of workers' compensation reserves, as claims are typically resolved more quickly than the industry norm. As previously mentioned, the determination and calculation of loss development factors, in particular, the selection of tail factors which are used to extend the projection of losses beyond historical data, requires considerable judgment.

Loss Development

We recognized net favorable reserve development of $10.3 million during the three months ended March 31, 2019, of which favorable development of $7.9 million related to our Specialty P&C segment, $0.9 million related to our Workers' Compensation Insurance segment, $2.3 million related to our Segregated Portfolio Cell Reinsurance segment, slightly offset by unfavorable development of $0.8 million related to our Lloyd's Syndicates segment.

Net favorable development recognized within our Specialty P&C segment principally related to accident years 2012 through 2015 and was primarily attributable to the favorable resolution of HCPL claims during the period and an evaluation of established case reserves. While we are observing an increase in claim severity in the broader HCPL industry, this severity is modestly more favorable than the cautious expectations we have established for our reserves for prior periods.

Net favorable development recognized within our Workers' Compensation Insurance segment reflected overall favorable trends in claim closing patterns primarily in the 2016 accident year.

Net favorable development recognized within our Segregated Portfolio Cell Reinsurance segment primarily reflected better than expected claim trends in the 2015, 2016 and 2017 accident years. The improved claim trends reflected lower frequency and severity than anticipated at the time the reserves were established.

Net unfavorable development recognized within our Lloyd's Syndicates segment for the three months ended March 31, 2019 was driven by higher than expected losses and development on certain large claims which resulted in unfavorable development with respect to a previous year of account. See further discussion in our Segment Operating Results - Lloyd's Syndicates section that follows.

Investment Valuations

We record the majority of our investments at fair value as shown in the table below. At March 31, 2019 the distribution of our investments based on GAAP fair value hierarchies (levels) was as follows:

	Distribution by GAAP Fair Value Hierarchy				
	Level 1	Level 2	Level 3	Not Categorized	**Total Investments**
Investments recorded at:					
Fair value	19%	66%	1%	9%	95%
Other valuations					5%
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 investments are carried at fair value. The fair value of our short-term securities approximates the cost of the securities due to their short-term nature.

Because of the number of securities we own and the complexity of developing accurate fair values, we utilize multiple independent pricing services to assist us in establishing the fair value of individual securities. 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 a fair value for our securities. 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 a valuation methodology that is appropriate for the asset class and available data.

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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 value versus market yields observed in the marketplace. We also compare yields indicated by the provided values to appropriate benchmark yields and review for values that are unchanged or that reflect an unanticipated variation as compared to prior period values. We utilize a primary pricing service for each security type and compare provided information for consistency with alternate pricing services, known market data and information from our own trades, considering both values and valuation trends. We also review weekly trades versus the prices supplied by the services. If a supplied value appears unreasonable, we discuss the valuation in question with the pricing service and make adjustments if deemed necessary. Historically our review has not resulted in any material changes to the values supplied by the pricing services. 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

Fair values for a majority of our equity securities and portions of our corporate debt, short-term and convertible securities are determined using exchange-traded prices. There is little judgment involved when fair value is determined using an exchange-traded price. In accordance with GAAP, we classify securities valued using an exchange-traded price as Level 1 securities.

Level 2 Investments

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, we classify securities 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. In accordance with GAAP, we classify securities valued using limited observable inputs as Level 3 securities.

Fair Values Not Categorized

We hold interests in certain investment funds, primarily LPs/LLCs, which measure fund assets at fair value on a recurring basis and provide us with a NAV for our interest. As a practical expedient, we consider the NAV provided to approximate the fair value of the interest. In accordance with GAAP, we do not categorize these investments within the fair value hierarchy.

Nonrecurring Fair Value Measurements

We measure the fair value of certain assets on a nonrecurring basis when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. These assets include investments carried principally at cost, investments in tax credit partnerships and equity method investments that do not provide a NAV, fixed assets, goodwill and other intangible assets.

Investments - Other Valuation Methodologies

Certain of our investments, in accordance with GAAP for the type of investment, are measured using methodologies other than fair value. At March 31, 2019, these investments represented approximately 5% of total investments, and are detailed in the following table. Additional information about these investments is provided in Notes 2 and 3 of the Notes to Condensed Consolidated Financial Statements.

(In millions)	**Carrying Value**	**GAAP Measurement Method**
Other investments:		
Other, principally FHLB capital stock	$ 2.9	Principally Cost
Investment in unconsolidated subsidiaries:		
Investments in tax credit partnerships	64.8	Equity
Equity method investments, primarily LPs/LLCs	34.5	Equity
	99.3	
BOLI	64.5	Cash surrender value
Total investments - Other valuation methodologies	$ 166.7	

Other-than-temporary Impairments

We evaluate our available-for-sale investment securities on at least a quarterly basis for the purpose of determining whether declines in fair value below recorded cost basis represent OTTI. We consider an OTTI to have occurred:

- if there is intent to sell the security;
- if it is more likely than not that the security will be required to be sold before full recovery of its amortized cost basis; or
- if the entire amortized basis of the security is not expected to be recovered.

The assessment of whether the amortized cost basis of a security, particularly an asset-backed debt security, is expected to be recovered requires management to make assumptions regarding various matters affecting future cash flows. The choice of assumptions is subjective and requires the use of judgment. Actual credit losses experienced in future periods may differ from management's estimates of those credit losses. Methodologies used to estimate the present value of expected cash flows are:

For non-structured fixed maturities (obligations of states, municipalities and political subdivisions and corporate debt) the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received. We consider various factors in projecting recovery values and recovery time frames, including the following:

- third-party research and credit rating reports;
- the current credit standing of the issuer, including credit rating downgrades, whether before or after the balance sheet date;
- the extent to which the decline in fair value is attributable to credit risk specifically associated with the security or its issuer;
- internal assessments and the assessments of external portfolio managers regarding specific circumstances surrounding an investment, which indicate the investment is more or less likely to recover its amortized cost 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; and
- recoveries or additional declines in fair value subsequent to the balance sheet date.

For structured securities (primarily asset-backed securities), management estimates the present value of the security's cash flows using the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment or changes in expected cash flows). We consider the most recently available six month averages of the levels of delinquencies, defaults, severities, and prepayments for the collateral (loans) underlying the securitization or, if historical data is not available, sector based assumptions to estimate expected future cash flows of these securities.

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Exclusive of securities where there is an intent to sell or where it is not more likely than not that the security will be required to be sold before recovery of its amortized cost basis, OTTI for debt securities is separated into a credit component and a non-credit component. The credit component of an OTTI is the difference between the security's amortized cost basis and the present value of its expected future cash flows, while the non-credit component is the remaining difference between the security's fair value and the present value of expected future cash flows. The credit component of the OTTI is recognized in earnings while the non-credit component is recognized in OCI.

Investments in tax credit partnerships are evaluated for OTTI by considering both qualitative and quantitative factors. These factors include, but are not limited to:

- our ability and intent to hold the investment until the recovery of its carrying value; and
- in situations where there was not a previous OTTI for the investment, whether the current expected cash flows from the investment, primarily tax benefits, are less than those expected at the time the investment was acquired due to various factors, such as a change in the statutory tax rate; or
- in situations where there was a previous OTTI for the investment, whether the expected cash flows from the investment at the time of the OTTI, primarily tax benefits, are less than its current carrying value.

Investments which are accounted for under the equity method are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of the investment might not be recoverable. These circumstances include, but are not limited to, evidence of the inability to recover the carrying value of the investment, the inability of the investee to sustain an earnings capacity that would justify the carrying value of the investment or the current fair value of the investment is less than the carrying value.

We recognize OTTI, exclusive of non-credit OTTI, in earnings as a part of net realized investment gains (losses). In subsequent periods, any measurement of gain, loss or impairment is based on the revised amortized basis of the security. Non-credit OTTI on debt securities and declines in fair value of available-for-sale securities not considered to be other-than-temporary are recognized in OCI.

Asset-backed debt securities that have been impaired due to credit reasons or are below investment grade quality are accounted for under the effective yield method. Under the effective yield method, estimates of cash flows expected over the life of asset-backed securities are used to recognize income on the investment balance for subsequent accounting periods.

Deferred Policy Acquisition Costs

Policy acquisition costs (primarily commissions, premium taxes and underwriting salaries) which are directly related to the successful acquisition of new and renewal premiums are capitalized as DPAC and charged to expense, net of ceding commissions earned, as the related premium revenue is recognized. We evaluate the recoverability of our DPAC at the segment level each reporting period, and any amounts estimated to be unrecoverable are charged to expense in the current period. As of March 31, 2019 we have not determined that any amounts are unrecoverable.

Estimation of Taxes / Tax Credits

For interim periods, we determine our provision (benefit) for income taxes based on the current estimate of our annual effective tax rate. Items which are unusual, infrequent, or that cannot be reliably estimated are considered in the effective tax rate in the period in which the item is included in income, and are referred to as discrete items. In calculating our estimated annual effective tax rate, we include the estimated benefit of tax credits for the annual period based on the most recently available information provided by the tax credit partnerships; the actual amounts of credits provided by the tax credit partnerships may prove to be different than our estimates. The effect of such a difference is recognized in the period identified.

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 our loss reserve, unearned premiums, DPAC, unrealized investment gains (losses) and basis differences on fixed assets and investment assets. 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.

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A valuation allowance has been established against the full value of the deferred tax asset related to the NOL carryforwards for the U.K. operations as management concluded that it was more likely than not that the deferred tax asset will not be realized. In 2018, management also established a valuation allowance against the deferred tax assets of certain SPCs at our recently formed wholly owned Cayman Islands reinsurance subsidiary, Inova Re. Due to the limited operations of these recently formed SPCs as of December 31, 2018, management concluded that a valuation allowance was required. As of March 31, 2019, management concluded a valuation allowance was still required against the deferred tax assets related to the NOL carryforwards for the U.K. operations and against the deferred tax assets at Inova Re. See further discussion in Note 6 of the Notes to Consolidated Financial Statements in our December 31, 2018 Form 10-K.

Tax Cuts and Jobs Act

The TCJA introduced a minimum tax on payments made to related foreign entities referred to as the BEAT. The BEAT is imposed by adding back into the U.S. tax base any base erosion payment made by the U.S. taxpayer to a related foreign entity and applying a minimum tax rate to this newly calculated modified taxable income. Base erosion payments represent any amount paid or accrued by the U.S. taxpayer to a related foreign entity for which a deduction is allowed. Premiums we cede to the SPCs at our newly formed wholly owned Cayman Islands reinsurance subsidiary, Inova Re, do not fall within the scope of base erosion payments as the SPCs at Inova Re intend to elect to be taxed as U.S. taxpayers. However, premiums that we cede to any active SPC at our other wholly owned Cayman Islands reinsurance subsidiary, Eastern Re, fall within the scope of base erosion payments and therefore could be significantly impacted by the BEAT. We have evaluated our exposure to the BEAT and have concluded that our expected outbound deductible payments to related foreign entities are below the threshold for application of the BEAT; therefore, we have not recognized any incremental tax expense for the BEAT provision of the TCJA for the three months ended March 31, 2019. See further discussion on our new subsidiary, Inova Re, and our Cayman Islands SPC operations in the Segment Operating Results - Segregated Portfolio Cell Reinsurance section that follows. See further discussion in Note 4 of the Notes to Condensed Consolidated Financial Statements.

The TCJA also requires a U.S. shareholder of a controlled foreign corporation to include its GILTI in U.S. taxable income. The GILTI amount is based on the U.S. shareholder’s aggregate share of the gross income of the controlled foreign corporation reduced by certain exceptions and a net deemed tangible income return. The net deemed tangible income return is based on the controlled foreign corporation’s basis in the tangible depreciable business property. Cell rental fee income earned by Inova Re and Eastern Re fall within the scope of the GILTI provisions of the TCJA. We have evaluated the new GILTI provisions of the TCJA and we have made an accounting policy election to treat the taxes due on inclusions of GILTI in U.S. taxable income as a current period expense when incurred. We recognized a nominal amount of tax expense for the GILTI provision of the TCJA during the three months ended March 31, 2019. See further discussion in Note 4 of the Notes to Condensed Consolidated Financial Statements.

Unrecognized Tax Benefits

We evaluate tax positions taken on tax returns and recognize positions in our financial statements when it is more likely than not that we will sustain the position upon resolution with a taxing authority. If recognized, the benefit is measured as the largest amount of benefit that has a greater than 50% probability of being realized. We review uncertain tax positions each period, considering changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law, and make adjustments as we consider necessary. Adjustments to our unrecognized tax benefits may affect our income tax expense, and settlement of uncertain tax positions may require the use of cash. Other than differences related to timing, no significant adjustments were considered necessary during the three months ended March 31, 2019 or 2018. At March 31, 2019, our liability for unrecognized tax benefits approximated $3.7 million.

Goodwill

Impairment of goodwill is tested at the reporting unit level, which is consistent with our reportable segments identified in Note 13 of the Notes to Condensed Consolidated Financial Statements. Of the five reporting units, three have goodwill - Specialty P&C, Workers' Compensation Insurance and Segregated Portfolio Cell Reinsurance. We evaluate goodwill for impairment annually on October 1, upon the occurrence of certain triggering events or substantive changes in circumstances that indicate the fair value of goodwill may be impaired, and immediately before and after a reorganization that affects the composition of one or more of our reporting units. As of the most recent evaluation date on October 1, 2018, we elected to perform a quantitative goodwill impairment assessment for our Specialty P&C, Workers' Compensation Insurance and Segregated Portfolio Cell Reinsurance reporting units. As of that evaluation date, management concluded that the fair value of each of our three reporting units that have goodwill were greater than their carrying value; therefore, goodwill was not impaired and no further impairment testing was required. There have been no events or changes in circumstances since that evaluation date that would indicate the carrying amount of goodwill is not recoverable. Additional information regarding our goodwill assessment at the reporting unit level is included in Note 1 of the Notes to Consolidated Financial Statements included in ProAssurance's December 31, 2018 Form 10-K.

Intangibles

Intangible assets with definite lives are amortized over the estimated useful life of the asset. Amortizable intangible assets primarily consist of agency and policyholder relationships, renewal rights and trade names. Intangible assets with an indefinite life, primarily state licenses, are not amortized. Intangible assets are evaluated for impairment on an annual basis or upon the occurrence of certain triggering events or substantive changes in circumstances that indicate the fair value of the asset may be impaired. Additional information regarding intangible assets is included in Note 1 of the Notes to Consolidated Financial Statements included in ProAssurance's December 31, 2018 Form 10-K.

Leases

During the first quarter of 2019, we adopted ASU 2016-02, which requires us to make certain estimates and assumptions in applying the requirements of this new guidance. We are involved in a number of leases, primarily for office facilities. We determine if an arrangement is a lease at the inception date of the contract and classify all leases as either financing or operating. As of March 31, 2019, all of our leases were classified as operating. Operating ROU assets and operating lease liabilities are recognized as of the lease commencement date based on the present value of the remaining lease payments, discounted over the term of the lease using a discount rate determined based on information available as of the commencement date. The ROU asset represents the right to use the underlying asset (office space) for the lease term. As the majority of our lessors do not provide an implicit discount rate, we use our collateralized incremental borrowing rate in determining the present value of remaining lease payments. For leases entered into or reassessed after the adoption of ASU 2016-02, we account for lease and non-lease components of a contract as a single lease component.

We evaluate our operating lease ROU assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amount of a ROU asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the underlying leased asset over the remaining lease term. That assessment is based on the carrying amount of the ROU asset at the date it is tested for recoverability and an impairment loss is measured and recognized as the amount by which the carrying amount of the ROU asset exceeds its fair value. Additional information regarding our leases is included in Note 1 and Note 7 of the Notes to Condensed Consolidated Financial Statements.

Audit Premium

Workers' compensation premiums are determined based upon the payroll of the insured, respective premium rates and, where applicable, an experience-based modification factor. An audit of the policyholders' records is conducted after policy expiration to make a final determination of applicable premiums. Audit premium due from or due to a policyholder as a result of an audit is reflected in net premiums written and earned when billed. We track, by policy, the amount of additional premium billed in final audit invoices as a percentage of payroll exposure and use this information to estimate the probable additional amount of EBUB premium as of the balance sheet date. We include changes to the EBUB premium estimate in net premiums written and earned in the period recognized.

Lloyd's Premium Estimates

For certain insurance policies and reinsurance contracts written in our Lloyd's Syndicates segment, premiums are initially recognized based upon estimates of ultimate premium. Estimated ultimate premium consists primarily of premium written under delegated underwriting authority arrangements, which consist primarily of binding authorities, and certain assumed reinsurance agreements. These estimates of ultimate premium are judgmental and are dependent upon certain assumptions, including historical premium trends for similar agreements. As reports are received from programs, ultimate premium estimates are revised, if necessary, with changes reflected in current operations.

Accounting Changes

We did not have any change in accounting estimate or policy that had a material effect on our results of operations or financial position during the three months ended March 31, 2019. We are not aware of any accounting changes not yet adopted as of March 31, 2019 that would have a material effect on our results of operations or financial position. Note 1 of the Notes to Condensed Consolidated Financial Statements provides additional detail regarding accounting changes.

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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. As a holding company our principal source of external revenue is our investment revenues. In addition, dividends from our operating subsidiaries represent a significant source of funds for our obligations, including debt service and shareholder dividends. We also charge our operating subsidiaries within our Specialty P&C and Workers' Compensation Insurance segments a management fee based on the extent to which services are provided to the subsidiary and the amount of gross premium written by the subsidiary. At March 31, 2019, we held cash and liquid investments of approximately $192 million outside our insurance subsidiaries that were available for use without regulatory approval or other restriction. We also have $200 million in permitted borrowings under our Revolving Credit Agreement and an accordion feature available which, if subscribed successfully, would allow another $50 million in available funds. As of April 25, 2019, no borrowings were outstanding under our Revolving Credit Agreement.

To date, during 2019, our operating subsidiaries did not pay us any dividends and, in the aggregate, are permitted to pay dividends of approximately $128 million over the remainder of 2019 without the prior approval of state insurance regulators. However, the payment of any dividend requires prior notice to the insurance regulator in the state of domicile, and the regulator may reduce or prevent the dividend if, in its judgment, payment of the dividend would have an adverse effect on the surplus of the insurance subsidiary. We make the decision to pay dividends from an insurance subsidiary based on the capital needs of that subsidiary, and may pay less than the permitted dividend or may also request permission to pay an additional amount (an extraordinary dividend).

Cash Flows

Cash flows between periods compare as follows:

	Three Months Ended March 31		
(In thousands)	**2019**	2018	*Change*
Net cash provided (used) by:			
Operating activities	**$34,392**	$73,354	*$(38,962)*
Investing activities	**3,868**	146,107	*(142,239)*
Financing activities	**(46,901)**	(310,709)	*263,808*
Increase (decrease) in cash and cash equivalents	**$(8,641)**	$(91,248)	*$82,607*

	Three Months Ended March 31		
(In thousands)	2018	2017	*Change*
Net cash provided (used) by:			
Operating activities	$73,354	$69,372	*$3,982*
Investing activities	146,107	185,681	*(39,574)*
Financing activities	(310,709)	(270,482)	*(40,227)*
Increase (decrease) in cash and cash equivalents	$(91,248)	$(15,429)	*$(75,819)*

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.

The decrease in operating cash flows for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018 of $39.0 million was primarily due to the timing of the cash settlement of the 2017 and 2016 calendar year quota share reinsurance arrangements between our Specialty P&C segment and Syndicate 1729. The 2017 and 2016 calendar year quota share reinsurance arrangements were commuted in December of 2018 and 2017, respectively, and the cash settlements typically occur in the first quarter of the following year. The commutation of the 2016 calendar year quota share reinsurance arrangement resulted in a net cash receipt of $14.5 million in the first quarter of 2018. We received the cash settlement for the commutation of the 2017 calendar year quota share reinsurance arrangement in the second quarter of 2019 which is causing a $14.5 million decrease in operating cash flows as compared to the first quarter of 2018. Additionally, the decrease in operating cash flows reflected a decrease in cash received from investment income of $9.4 million, a decrease in net premium receipts of $5.2 million, an increase in cash paid for operating expenses of $5.2 million and an increase in paid losses of $4.9 million. The decrease in cash received from investment income was primarily due to a decline in distributed earnings from our unconsolidated subsidiaries. The increase in cash paid for operating expenses was primarily due to an increase in operating expenses in our Lloyd's Syndicates segment primarily due to the growth in Syndicate 1729 operations and the addition of Syndicate 6131 and, to a lesser extent, an increase in operating expenses in our Specialty P&C segment primarily due to a data analytics services agreement entered into during the fourth quarter of 2018. The decrease in net premium receipts was primarily due to an increase in cash paid to reinsurers in our Specialty P&C segment as a result of unfavorable prior year development on ceded losses over the past year, partially offset by an increase in premium receipts due to the growth of written premium. The increase in paid losses was driven by our Workers' Compensation Insurance and Specialty P&C segments primarily due to the timing of loss payments between periods.

The increase in operating cash flows for the three months ended March 31, 2018 as compared to three months ended March 31, 2017 was primarily due to an increase in net premium receipts of $10.6 million, driven by our Workers' Compensation Insurance segment, and a decrease in cash paid for operating expenses of $2.8 million, driven by a decrease in compensation related costs in our Corporate segment. These increases in operating cash flows were partially offset by an increase in paid losses of $6.5 million, driven by our Lloyd's Syndicates segment primarily due to losses related to 2017 Hurricanes Harvey, Irma and Maria, and a decrease in cash received from investment income of $2.3 million due to a decline in distributed earnings from our unconsolidated subsidiaries.

We manage our investing cash flows 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 as discussed in this section under the heading "Investing Activities and Related Cash Flows."

Our financing cash flows are primarily composed of dividend payments and borrowings and repayments under our Revolving Credit Agreement. See further discussion of our financing activities in this section under "Financing Activities and Related Cash Flows."

Operating Activities and Related Cash Flows

Reinsurance

Within our Specialty P&C segment, we use insurance and reinsurance (collectively, “reinsurance”) to provide capacity to write larger limits of liability, to provide reimbursement for losses incurred under the higher limit coverages we offer and to provide protection against losses in excess of policy limits. Within our Workers' Compensation Insurance segment, we use reinsurance to reduce our net liability on individual risks, to mitigate the effect of significant loss occurrences (including catastrophic events), to stabilize underwriting results, and to increase underwriting capacity by decreasing leverage. In both our Specialty P&C and Workers' Compensation Insurance segments, we use reinsurance in risk sharing arrangements to align our objectives with those of our strategic business partners and to provide custom insurance solutions for large customer groups. The purchase of reinsurance does not relieve us from the ultimate risk on our policies; however, it does provide reimbursement for certain losses we pay. We pay our reinsurers a premium in exchange for reinsurance of the risk. In the majority of our excess of loss arrangements, the premium due to the reinsurer is determined by the loss experience of the business reinsured, subject to certain minimum and maximum amounts. Until all loss amounts are known, we estimate the premium due to the reinsurer. Changes to the estimate of premium owed under reinsurance agreements related to prior periods are recorded in the period in which the change in estimate occurs and can have a significant effect on net premiums earned.

We offer alternative market solutions whereby we cede certain premiums from our Workers' Compensation Insurance and Specialty P&C segments to either the SPCs at Eastern Re or Inova Re, our Cayman Islands reinsurance subsidiaries which are reported in our Segregated Portfolio Cell Reinsurance segment, or, to a limited extent, an unaffiliated captive insurer. During the three months ended March 31, 2019 and 2018, we wrote total alternative market premium of approximately $38.3 million and $35.7 million, respectively. The majority of these policies ($35.9 million and $32.3 million of premium for the three months ended March 31, 2019 and 2018, respectively) are reinsured to the SPCs at Eastern Re or Inova Re, net of a ceding commission. Each SPC at Eastern Re and Inova Re is owned, fully or in part, by an agency, group or association and the operating results of the SPCs are due to the participants of that cell. We participate to a varying degree in the results of selected SPCs and, for the SPCs in which we participate, our participation interest is as low as 25% and as high as 85%. SPC operating results due to external cell participants are reflected as a SPC dividend expense in our Segregated Portfolio Cell Reinsurance segment. See further discussion on our SPC operations in the Segment Operating Results - Segregated Portfolio Cell Reinsurance section that follows. The alternative market workers' compensation policies are ceded from our Workers' Compensation Insurance segment to the SPCs under 100% quota share reinsurance agreements. The alternative market professional liability policies are ceded from our Specialty P&C segment to the SPCs under either excess of loss or quota share reinsurance agreements, depending on the structure of the individual program, and the portion of the risk that is not ceded to an SPC may also be reinsured under our standard healthcare professional liability reinsurance program depending on the policy

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limits provided. The remaining premium written in our alternative market business of $2.3 million and $3.4 million for the three months ended March 31, 2019 and 2018, respectively, is 100% ceded to an unaffiliated captive insurer. For all of our segments, we make a determination of the amount of insurance risk we choose to retain based upon numerous factors, including our risk tolerance and the capital we have to support it, the price and availability of reinsurance, the volume of business, our level of experience with a particular set of claims and our analysis of the potential underwriting results. We purchase excess of loss reinsurance to limit the amount of risk we retain and we do so from a number of companies to mitigate concentrations of credit risk. We utilize reinsurance brokers to assist us in the placement of these reinsurance programs and in the analysis of the credit quality of our reinsurers. The determination of which reinsurers we choose to do business with is based upon an evaluation of their then current financial strength, rating and stability. 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.

Excess of Loss Reinsurance Agreements

We generally reinsure risks under treaties (our excess of loss reinsurance agreements) pursuant to which the reinsurers agree to assume all or a portion of all risks that we insure above our individual risk retention levels, up to the maximum individual limits offered. These agreements are negotiated and renewed annually. Renewal dates for our healthcare professional liability, medical technology liability and workers' compensation treaties are October 1, January 1 and May 1, respectively. There were no significant changes in the cost or structure of our professional liability and medical technology liability treaties which renewed October 1, 2018 and January 1, 2019, respectively. Our workers' compensation treaty renewed May 1, 2018 at a higher rate than the previous agreement. The significant coverages provided by our current excess of loss reinsurance agreements are detailed in the following table.

Excess of Loss Reinsurance Agreements

Healthcare Professional Liability	Medical Technology & Life Sciences Products	Workers' Compensation - Traditional

(1) Historically, retention has ranged from 5% to 32.5%.

(2) Historically, retention has been as high as $2M.

Large professional liability risks that are above the limits of our basic reinsurance treaties are reinsured on a facultative basis, whereby the reinsurer agrees to insure a particular risk up to a designated limit. We also have in place a number of risk sharing arrangements that apply to the first $1 million of losses for certain large healthcare systems and other insurance entities and with certain insurance agencies that produce business for us.

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Other Reinsurance Arrangements

For the workers' compensation business ceded to Eastern Re and Inova Re, each SPC has in place its own reinsurance arrangements; which are illustrated in the following table.

Segregated Portfolio Cell Reinsurance

Per Occurrence Coverage Aggregate Coverage [1]

[1] Prior to May 1, 2018, ProAssurance assumed 100% of aggregate losses in excess of an aggregate attachment point with a maximum loss limit of $100K. Effective May 1, 2018, ProAssurance no longer participates in the aggregate reinsurance coverage.

[2] The attachment point is based on a percentage of written premium (average is 89%) and varies by cell.

Each SPC has participants and the profit or loss of each cell accrues fully to these cell participants. We participate in certain SPCs and as of March 31, 2019, our ownership interest in the SPCs in which we participate is as low as 25% and as high as 85%. Each SPC maintains a loss fund initially equal to the difference between premium assumed by the cell and the ceding commission. The external participants of each cell provide a letter of credit to us that is initially equal to the difference between the loss fund of the SPC (amount of funds available to pay losses after deduction of ceding commission) and the aggregate attachment point of the reinsurance. Over time, a SPC's retained profits are considered in the determination of the collateral amount required to be provided by the cell's external participants.

Within our Lloyd's Syndicates segment, Syndicate 1729 utilizes reinsurance to provide capacity to write larger limits of liability on individual risks, to provide protection against catastrophic loss and to provide protection against losses in excess of policy limits. The level of reinsurance that Syndicate 1729 purchases is dependent on a number of factors, including its underwriting risk appetite for catastrophic exposure, the specific risks inherent in each line or class of business written and the pricing, coverage and terms and conditions available from the reinsurance market.

Reinsurance protection by line of business is as follows:

- Reinsurance is utilized on a per risk basis for the property insurance and casualty coverages in order to mitigate risk volatility.
- Catastrophic protection is utilized on both our property insurance and casualty coverages to protect against losses in excess of policy limits as well as natural catastrophes.
- Both quota share reinsurance and excess of loss reinsurance are utilized to manage the net loss exposure on our property reinsurance coverages.

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- Property umbrella excess of loss reinsurance is utilized for peak catastrophe and frequency of catastrophe exposures.
- External excess of loss reinsurance is utilized by Syndicate 1729 to manage the net loss exposure on the specialty property and contingency coverages ceded to Syndicate 6131 (see further discussion in Segment Operating Results - Lloyd's Syndicates section that follows).

Syndicate 1729 may still be exposed to losses that exceed the level of reinsurance purchased as well as to reinstatement premiums triggered by losses exceeding specified levels. Cash demands on Syndicate 1729 can vary significantly depending on the nature and intensity of a loss event. For significant reinsured catastrophe losses, the inability or unwillingness of the reinsurer to make timely payments under the terms of the reinsurance agreement could have an adverse effect on Syndicate 1729's liquidity.

Litigation

We are involved in various legal actions related to insurance policies and claims handling including, but not limited to, claims asserted against us by policyholders. These types of legal actions arise in the ordinary course of business and, in accordance with GAAP for insurance entities, are generally considered as a part of our loss reserving process, which is described in detail in our Critical Accounting Estimates section under the heading "Reserve for Losses and Loss Adjustment Expenses." We also have other direct actions against the Company unrelated to our claims activity which we evaluate and account for as a part of our other liabilities. For these corporate legal actions, we evaluate each case separately and establish what we believe is an appropriate reserve based on GAAP guidance related to contingent liabilities. As of March 31, 2019 there were no material reserves established for corporate legal actions.

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Investing Activities and Related Cash Flows

Our investments at March 31, 2019 and December 31, 2018 are comprised as follows:

($ in thousands)	**March 31, 2019** Carrying Value	% of Total Investment	December 31, 2018 Carrying Value	% of Total Investment
Fixed maturities, available for sale				
U.S. Treasury obligations	**$119,590**	**4 %**	$120,201	4 %
U.S. Government-sponsored enterprise obligations	**28,802**	**1 %**	35,354	1 %
State and municipal bonds	**297,812**	**9 %**	293,772	9 %
Corporate debt	**1,260,815**	**37 %**	1,223,475	37 %
Residential mortgage-backed securities	**189,513**	**6 %**	181,238	5 %
Commercial mortgage-backed securities	**62,343**	**2 %**	44,101	1 %
Other asset-backed securities	**226,923**	**6 %**	195,657	6 %
Total fixed maturities, available for sale	**2,185,798**	**65 %**	2,093,798	63 %
Fixed maturities, trading	**42,973**	**1 %**	38,188	1 %
Total fixed maturities	**2,228,771**	**66 %**	2,131,986	64 %
Equity investments	**476,324**	**14 %**	442,937	13 %
Short-term investments	**217,788**	**6 %**	308,319	9 %
BOLI	**64,549**	**2 %**	64,096	1 %
Investment in unconsolidated subsidiaries	**390,854**	**11 %**	367,757	11 %
Other investments	**36,328**	**1 %**	34,287	2 %
Total investments	**$3,414,614**	**100 %**	$3,349,382	100 %

The distribution of our investments in available-for-sale fixed maturity securities by rating were as follows:

($ in thousands)	**March 31, 2019** Carrying Value	% of Total Investment	December 31, 2018 Carrying Value	% of Total Investment
Rating*				
AAA	**$677,646**	**31 %**	$645,300	31 %
AA+	**100,756**	**5 %**	101,328	5 %
AA	**121,195**	**6 %**	120,801	6 %
AA-	**161,543**	**7 %**	155,352	7 %
A+	**196,165**	**9 %**	190,595	9 %
A	**316,004**	**14 %**	311,036	15 %
A-	**157,007**	**7 %**	146,721	7 %
BBB+	**157,785**	**7 %**	133,199	6 %
BBB	**123,191**	**6 %**	118,864	6 %
BBB-	**54,035**	**2 %**	50,466	2 %
Below investment grade	**105,721**	**5 %**	100,447	5 %
Not rated	**14,750**	**1 %**	19,689	1 %
Total	**$2,185,798**	**100 %**	$2,093,798	100 %

*Average of three NRSRO sources, presented as an S&P equivalent. Source: S&P, Copyright ©2019, S&P Global Market Intelligence

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A detailed listing of our investment holdings as of March 31, 2019 is located under the Financial Information heading on the Investor Relations page of our website which can be reached directly at www.proassurance.com/investmentholdings or through links from the Investor Relations section of our website, investor.proassurance.com.

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 $40 million and $70 million of our investments will mature (or be paid down) each quarter over the next twelve months 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 our Revolving Credit Agreement and the FHLB system. As of April 25, 2019, $250 million could be made available for use through our Revolving Credit Agreement, as discussed in this section under the heading "Debt." Given the duration of our investments, we do not foresee a shortfall that would require us to meet operating cash needs through additional borrowings. Additional information regarding our Revolving Credit Agreement is detailed in Note 8 of the Notes to Condensed Consolidated Financial Statements.

As discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements, our fixed maturity and short-term investments include securities deposited with Lloyd's in order to meet our FAL requirement. At March 31, 2019, securities on deposit with Lloyd's included fixed maturities having a fair value of $137.1 million and short-term investments with a fair value of $7.4 million.

Our investment portfolio continues to be primarily composed of high quality fixed income securities with approximately 94% 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 March 31, 2019 was 2.88 years; the weighted average effective duration of our fixed maturity securities combined with our short-term securities was 2.62 years.

The carrying value and unfunded commitments for certain of our investments were as follows:

	Carrying Value		**March 31, 2019**	
($ in thousands, except expected funding period)	**March 31, 2019**	December 31, 2018	**Unfunded Commitment**	**Expected funding period in years**
Qualified affordable housing project tax credit partnerships [1]	**$61,247**	$65,677	**$960**	**6**
Historic tax credit partnerships [2]	**3,568**	3,757	**276**	**1**
All other investments, primarily investment fund LPs/LLCs	**326,039**	298,323	**198,420**	**5**
Total	**$390,854**	$367,757	**$199,656**	

[1] The carrying value reflects our total commitments (both funded and unfunded) to the partnerships, less any amortization, since our initial investment. We fund these investments based on funding schedules maintained by the partnerships.

[2] The carrying value reflects our funded commitments less any amortization.

Investment fund LPs/LLCs are by nature less liquid and may involve more risk than other investments. We manage our risk through diversification of asset class and geographic location. At March 31, 2019, we had investments in 39 separate investment funds with a total carrying value, as shown in the table above, which represented approximately 10% of our total investments. We review and monitor the performance of these investments on a quarterly basis.

Financing Activities and Related Cash Flows

Treasury Shares

During the three months ended March 31, 2019 and 2018, we did not repurchase any common shares and, as of April 25, 2019, our remaining Board authorization was approximately $110 million.

ProAssurance Shareholder Dividends

Our Board declared quarterly cash dividends of $0.31 per share during the first quarters of both 2019 and 2018, each of which was paid in the following quarter. Dividends paid in the first quarters of 2019 and 2018 included special dividends of $0.50 and $4.69 per share, respectively, declared in the fourth quarters of 2018 and 2017, respectively. Any decision to pay future cash dividends is subject to the Board's final determination after a comprehensive review of financial performance, future expectations and other factors deemed relevant by the Board.

Debt

At March 31, 2019 our debt included $250 million of outstanding unsecured senior notes. The notes bear interest at 5.3% annually and are due in 2023 although they may be redeemed in whole or part prior to maturity. There are no financial covenants associated with these notes.

We have a Revolving Credit Agreement, which expires in June 2020, that may 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. Our Revolving Credit Agreement permits borrowings of up to $200 million, and has available a $50 million accordion feature, which, if successfully subscribed, would expand permitted borrowings up to $250 million. At March 31, 2019, there were no outstanding borrowings on our Revolving Credit Agreement and we are in compliance with the financial covenants of the Revolving Credit Agreement.

We have Mortgage Loans with one lender in connection with the recapitalization of two office buildings, which mature in December 2027. The Mortgage Loans accrue interest at three-month LIBOR plus 1.325% with principal and interest payable on a quarterly basis. At March 31, 2019, the outstanding balance of the Mortgage Loans was approximately $39 million and we are in compliance with the financial covenant of the Mortgage Loans.

Additional information regarding our debt is provided in Note 8 of the Notes to Condensed Consolidated Financial Statements.

We utilize an interest rate cap agreement with a notional amount of $35 million to manage our exposure to increases in LIBOR on our Mortgage Loans. Per the interest rate cap agreement, we are entitled to receive cash payments if and when the three-month LIBOR exceeds 2.35%. Additional information on our interest rate cap agreement is provided in Note 9 of the Notes to Condensed Consolidated Financial Statements.

Two of our insurance subsidiaries are members of an FHLB. Through membership, those subsidiaries have access to secured cash advances which can be used for liquidity purposes or other operational needs. In order for us to use FHLB proceeds, regulatory approvals may be required depending on the nature of the transaction. To date, those subsidiaries have not materially utilized their membership for borrowing purposes.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. See more information on our off-balance sheet arrangements in Note 6 of the Notes to Condensed Consolidated Financial Statements.

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Results of Operations – Three Months Ended March 31, 2019 Compared to Three Months Ended March 31, 2018

Selected consolidated financial data for each period is summarized in the table below.

	Three Months Ended March 31		
($ in thousands, except per share data)	**2019**	2018	*Change*
Revenues:			
Net premiums written	**$245,742**	$215,132	*$30,610*
Net premiums earned	**$208,149**	$187,159	*$20,990*
Net investment result	**22,008**	23,667	*(1,659)*
Net realized investment gains (losses)	**36,623**	(12,517)	*49,140*
Other income	**2,095**	2,723	*(628)*
Total revenues	**268,875**	201,032	*67,843*
Expenses:			
Net losses and loss adjustment expenses	**159,755**	129,786	*29,969*
Underwriting, policy acquisition and operating expenses	**61,392**	57,360	*4,032*
Segregated portfolio cells dividend expense (income)	**4,787**	1,747	*3,040*
Interest expense	**4,330**	3,705	*625*
Total expenses	**230,264**	192,598	*37,666*
Income before income taxes	**38,611**	8,434	*30,177*
Income tax expense (benefit)	**6,961**	(3,422)	*10,383*
Net income	**$31,650**	$11,856	*$19,794*
Non-GAAP operating income	**$4,163**	$21,487	*$(17,324)*
Earnings per share:			
Basic	**$0.59**	$0.22	*$0.37*
Diluted	**$0.59**	$0.22	*$0.37*
Non-GAAP operating earnings per share:			
Basic	**$0.08**	$0.40	*$(0.32)*
Diluted	**$0.08**	$0.40	*$(0.32)*
Net loss ratio	**76.8 %**	69.3 %	*7.5 pts*
Underwriting expense ratio	**29.5 %**	30.6 %	*(1.1) pts*
Combined ratio	**106.3 %**	99.9 %	*6.4 pts*
Operating ratio	**95.3 %**	88.1 %	*7.2 pts*
Effective tax rate	**18.0 %**	(40.6 %)	*58.6 pts*
Return on equity*	**8.2 %**	3.0 %	*5.2 pts*

* Annualized

In all tables that follow, the abbreviation "nm" indicates that the information or the percentage change is not meaningful.

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Executive Summary of Operations

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting in the third quarter of 2018 to include a new segment: Segregated Portfolio Cell Reinsurance. The Segregated Portfolio Cell Reinsurance segment reflects the operating results (underwriting profit or loss, plus investment results) of SPCs which assume workers' compensation, healthcare professional liability or a combination of the two from our Workers' Compensation Insurance and Specialty P&C segments. The underwriting results of the SPCs that assume workers' compensation business and healthcare professional liability business were previously reported in our Workers' Compensation and Specialty P&C segments, respectively, and the results of investment assets solely allocated to SPC operations were previously reported in our Corporate segment, are now reported in the Segregated Portfolio Cell Reinsurance segment. The Workers' Compensation segment has also been renamed "Workers' Compensation Insurance." All prior period segment information has been recast to conform to the current period presentation and the segment reorganization had no impact on previously reported consolidated financial results. See further information regarding the segment reorganization in Note 13 of the Notes to Condensed Consolidated Financial Statements.

The following sections provide an overview of our consolidated and segment results of operations for the three months ended March 31, 2019 as compared to the three months ended March 31, 2018. See the Segment Operating Results sections that follow for additional information regarding each segment's operating results.

Revenues

The following table shows our consolidated and segment net premiums earned:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net premiums earned				
Specialty P&C	**$124,067**	$114,947	*$9,120*	*7.9 %*
Workers' Compensation Insurance	**45,939**	42,700	*3,239*	*7.6 %*
Segregated Portfolio Cell Reinsurance	**19,502**	17,036	*2,466*	*14.5%*
Lloyd's Syndicates	**18,641**	12,476	*6,165*	*49.4%*
Consolidated total	**$208,149**	$187,159	*$20,990*	*11.2%*

All of our operating segments contributed to the increase in consolidated net premiums earned during the three months ended March 31, 2019 as compared to the same respective period of 2018. The increase in gross premiums earned in our Specialty P&C segment reflected the pro rata effect of higher premiums written during the preceding twelve months, predominantly in our healthcare facilities and physicians lines of business. For our Lloyd's Syndicates segment, the increase in net premiums earned was primarily due to shifts in the mix of premiums written over the preceding twelve months, the increase in our participation in Syndicate 1729 from 58% to 62% for the 2018 underwriting year and the establishment of Syndicate 6131 at the beginning of 2018. The increase in net premiums earned in both our Workers' Compensation Insurance and Segregated Portfolio Cell Reinsurance segments primarily reflected the pro rata effect of higher net premiums written during the preceding twelve months.

The following table shows our consolidated net investment result:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net investment income	**$22,818**	$22,027	*$791*	*3.6 %*
Equity in earnings (loss) of unconsolidated subsidiaries	**(810)**	1,640	*(2,450)*	*(149.4%)*
Net investment result	**$22,008**	$23,667	*$(1,659)*	*(7.0 %)*

The decrease in our consolidated net investment result for the three months ended March 31, 2019 was primarily attributable to a decrease in earnings from our unconsolidated subsidiaries, partially offset by an increase in net investment income due to higher earnings from our short-term investment holdings due to higher interest rates and, to a lesser extent, an increase in income from our fixed maturity securities due to higher yields from all asset classes within that portfolio.

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The following table shows our total consolidated net realized investment gains (losses):

($ in thousands)	Three Months Ended March 31 2019	2018	Change	
Net impairment losses recognized in earnings	**$(49)**	$—	*$(49)*	*nm*
Other net realized investment gains (losses)	**36,672**	(12,517)	*49,189*	*393.0%*
Net realized investment gains (losses)	**$36,623**	$(12,517)	*$49,140*	*392.6%*

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

Other net realized investment gains and losses during the three months ended March 31, 2019 and 2018 primarily reflected changes in the value of our equity trading portfolio. See further discussion in our Segment Operating Results - Corporate section that follows.

Expenses

The following table shows our consolidated and segment net loss ratios and net loss development:

($ in millions)	Three Months Ended March 31 2019	2018	Change
Current accident year net loss ratio			
Consolidated ratio	**81.7 %**	81.5 %	*0.2 pts*
Specialty P&C	**93.1 %**	90.6 %	*2.5 pts*
Workers' Compensation Insurance	**68.2 %**	66.1 %	*2.1 pts*
Segregated Portfolio Cell Reinsurance	**66.7 %**	67.2 %	*(0.5)pts*
Lloyd's Syndicates	**54.5 %**	70.7 %	*(16.2)pts*
Calendar year net loss ratio			
Consolidated ratio	**76.8 %**	69.3 %	*7.5 pts*
Specialty P&C	**86.8 %**	72.7 %	*14.1 pts*
Workers' Compensation Insurance	**66.3 %**	65.2 %	*1.1 pts*
Segregated Portfolio Cell Reinsurance	**55.1 %**	58.4 %	*(3.3)pts*
Lloyd's Syndicates	**58.5 %**	68.0 %	*(9.5)pts*
Favorable (unfavorable) net loss development, prior accident years			
Consolidated	**$10.3**	$22.8	*$(12.5)*
Specialty P&C	**$7.9**	$20.6	*$(12.7)*
Workers' Compensation Insurance	**$0.9**	$0.4	*$0.5*
Segregated Portfolio Cell Reinsurance	**$2.3**	$1.5	*$0.8*
Lloyd's Syndicates	**$(0.8)**	$0.3	*$(1.1)*

The slight increase in our consolidated current accident year net loss ratio during the 2019 three-month period as compared to the same respective period of 2018 was primarily due to a higher current accident year net loss ratio in our Specialty P&C segment, largely offset by a lower current accident year net loss ratio in our Lloyd's Syndicates segment. The current accident year net loss ratio in our Specialty P&C segment is higher due to our continued concern around potential loss trends in the broader HCPL industry including large, more complex risks. Additionally, as compared to the 2018 three-month period, the current accident year net loss ratio in our Specialty P&C segment was higher due to the effect of a reduction during the first quarter of 2018 to ceded premiums owed under reinsurance agreements for prior accident years which increased net premiums earned during the 2018 three-month period; however, no such adjustments were made during the 2019 three-month period (see further discussion in our Segment Operating Results - Specialty P&C section that follows under the heading "Ceded Premiums Written"). Furthermore, the increase in the current accident year net loss ratio in our Specialty P&C segment was due to changes in the mix of business including a higher volume of earned premium in our excess and surplus lines of business. The

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lower current accident year net loss ratio in our Lloyd's Syndicates segment was driven by the effect of higher net premiums earned during the 2019 three-month period.

In both the 2019 and 2018 three-month periods, our consolidated calendar year net loss ratio was lower than our consolidated current accident year net loss ratio due to the recognition of net favorable prior year reserve development, as shown in the previous table. Net favorable prior year reserve development recognized in the 2019 three-month period was lower as compared to same respective period of 2018 due to the observed increase in claim severity in the broader HCPL industry.

Our consolidated and segment underwriting expense ratios were as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting Expense Ratio			
Consolidated	**29.5 %**	30.6 %	*(1.1) pts*
Specialty P&C	**23.9 %**	24.3 %	*(0.4) pts*
Workers' Compensation Insurance	**30.9 %**	30.5 %	*0.4 pts*
Segregated Portfolio Cell Reinsurance	**26.8 %**	30.0 %	*(3.2) pts*
Lloyd's Syndicates	**45.4 %**	58.1 %	*(12.7) pts*
Corporate*	**2.2 %**	2.5 %	*(0.3) pts*

*There are no net premiums earned associated with the Corporate segment. Ratios shown are the contribution of the Corporate segment to the consolidated ratio (Corporate operating expenses divided by consolidated net premium earned).

Our consolidated underwriting expense ratio decreased for the 2019 three-month period as compared to the same respective period of 2018 driven by an increase in net premiums earned across all of our operating segments which outpaced the increase in consolidated DPAC amortization.

Taxes

Our effective tax rates for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31	
	2019	2018
Projected annual effective tax rate	**(13.1 %)**	(2.4 %)
Tax effect of discrete items	**31.1 %**	(38.2 %)
Total effective tax rate	**18.0 %**	(40.6 %)

Our projected annual effective tax rates were benefits of 13.1% and 2.4% as of March 31, 2019 and 2018, respectively, before discrete items were considered. For the 2019 and 2018 three-month periods, the most significant discrete item that affected our effective tax rate was the treatment of net realized investment gains and losses. This treatment of net realized investment gains of $34.3 million in our Corporate segment for the three months ended March 31, 2019 accounted for 30.3% of the 31.1% increase in the projected annual effective tax rate due to discrete items. For the three months ended March 31, 2018, this treatment of net realized investment losses of $12.0 million in our Corporate segment accounted for 34.7% of the 38.2% reduction in the projected annual effective tax rate due to discrete items.

Our projected annual effective tax rates as of March 31, 2019 and 2018 were different from the statutory federal income tax rate of 21% primarily due to a portion of our investment income being tax-exempt and the utilization of tax credits transferred to us from our tax credit partnership investments. See further discussion in the Segment Operating Results - Corporate section that follows under the heading "Taxes."

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Operating Ratio

Our operating ratio is our combined ratio, less our investment income ratio. This ratio provides the combined effect of underwriting profitability and investment income. Our operating ratio for the three months ended March 31, 2019 and 2018 was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Operating ratio	**95.3 %**	88.1 %	*7.2 pts*

The increase in our operating ratio for the 2019 three-month period was driven by a higher net loss ratio in our Specialty P&C segment due to an increase in current accident year net losses primarily due to changes in the in mix of premiums earned and a lower amount of prior year favorable development. The increase in our operating ratio was partially offset by a lower net loss ratio in our Lloyd's Syndicates segment driven by an increase in net premiums earned.

ROE

ROE is calculated as annualized net income for the period divided by the average of beginning and ending shareholders' equity. This ratio measures our overall after-tax profitability and shows how efficiently capital is being used. ROE for the three months ended March 31, 2019 and 2018 was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
ROE	**8.2 %**	3.0 %	*5.2 pts*

The increase in our ROE in the 2019 three-month period was primarily due to an increase in net income driven by the change in the fair value of our equity trading portfolio, partially offset by higher current accident year net losses and a lower amount of prior year favorable development in our Specialty P&C segment.

Book Value per Share

Book value per share is calculated as total shareholders' equity at the balance sheet date divided by the total number of common shares outstanding. This ratio measures the net worth of the Company to shareholders on a per-share basis. Our book value per share at March 31, 2019 as compared to December 31, 2018 is shown in the following table.

	Book Value Per Share
Book Value Per Share at December 31, 2018	**$ 28.39**
Increase (decrease) to book value per share during the three months ended March 31, 2019 attributable to:	
Dividends declared	**(0.31)**
Net income	**0.59**
OCI	**0.48**
Other *	**(0.09)**
Book Value Per Share at March 31, 2019	**$ 29.06**

* Includes the impact of cumulative effect adjustments related to ASUs adopted during 2019.

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Non-GAAP Financial Measures

Non-GAAP operating income is a financial measure that is widely used to evaluate performance within the insurance sector. In calculating Non-GAAP operating income, we have excluded the after-tax effects of the items listed in the following table that do not reflect normal operating results. We believe Non-GAAP operating income presents a useful view of the performance of our insurance operations, however it should be considered in conjunction with net income computed in accordance with GAAP.

The following table is a reconciliation of net income to Non-GAAP operating income:

	Three Months Ended March 31	
(In thousands, except per share data)	**2019**	2018
Net income	**$31,650**	$11,856
Items excluded in the calculation of Non-GAAP operating income:		
Net realized investment (gains) losses	**(36,623)**	12,517
Net realized gains (losses) attributable to SPCs which no profit/loss is retained [(1)]	**1,741**	(410)
Guaranty fund assessments (recoupments)	**88**	84
Pre-tax effect of exclusions	**(34,794)**	12,191
Tax effect, at 21% [(2)]	**7,307**	(2,560)
After-tax effect of exclusions	**(27,487)**	9,631
Non-GAAP operating income	**$4,163**	$21,487
Per diluted common share:		
Net income	**$0.59**	$0.22
Effect of exclusions	**(0.51)**	0.18
Non-GAAP operating income per diluted common share	**$0.08**	$0.40

[(1)] Net realized investment gains (losses) on investments related to SPCs are recognized in our Segregated Portfolio Cell Reinsurance segment and the portion of operating earnings, including the gain or loss, net of our participation, is due to the external cell participants through the SPC dividend expense (income). To be consistent with our exclusion of net realized investment gains (losses) recognized in earnings, we are excluding the portion of net realized investment gains (losses) that is included in the SPC dividend expense (income) which is due to the external cell participants.

[(2)] The 21% rate is the annual expected statutory tax rate associated with the taxable or tax deductible items listed above. Excluding net realized investment (gains) losses, which are discrete items and are tax effected at the annual expected statutory tax rate in the period they are included in net income, our effective tax rate for the respective periods was applied to these items in calculating net income. See previous discussion in this section under the heading "Taxes."

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Segment Operating Results - Specialty Property & Casualty

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting in the third quarter of 2018 which resulted in the creation of a new segment: Segregated Portfolio Cell Reinsurance. The underwriting results of the SPCs that assume healthcare professional liability business were previously reported in our Specialty P&C segment and are now reported in our Segregated Portfolio Cell Reinsurance segment. All prior period segment information has been recast to conform to the current period presentation. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements.

Our Specialty P&C segment focuses on professional liability insurance and medical technology liability insurance. Segment operating results reflected pre-tax underwriting profit or loss from these insurance lines, exclusive of investment results, which are included in our Corporate segment. Segment operating results included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net premiums written	**$140,657**	$118,848	*$21,809*	*18.4 %*
Net premiums earned	**$124,067**	$114,947	*$9,120*	*7.9 %*
Other income	**1,209**	1,256	*(47)*	*(3.7 %)*
Net losses and loss adjustment expenses	**(107,658)**	(83,522)	*(24,136)*	*28.9 %*
Underwriting, policy acquisition and operating expenses	**(29,615)**	(27,980)	*(1,635)*	*5.8 %*
Segment operating results	**$(11,997)**	$4,701	*$(16,698)*	*(355.2 %)*
Net loss ratio	**86.8 %**	72.7 %	*14.1 pts*	
Underwriting expense ratio	**23.9 %**	24.3 %	*(0.4)pts*	

Premiums Written

Changes in our premium volume within our Specialty P&C segment are driven by four primary factors: (1) the amount of new business, (2) our retention of existing business, (3) the premium charged for business that is renewed, which is affected by rates charged and by the amount and type of coverage an insured chooses to purchase and (4) the timing of premium written through multi-period policies. In addition, premium volume may periodically be affected by shifts in the timing of renewals between periods. The healthcare professional liability market, which accounts for a majority of the revenues in this segment, remains challenging as physicians continue joining hospitals or larger group practices and are thus no longer purchasing individual or group policies in the standard market. In addition, some competitors have chosen to compete primarily on price; both factors may impact our ability to write new business and retain existing business.

Gross, ceded and net premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$166,431**	$140,520	*$25,911*	*18.4%*
Less: Ceded premiums written	**25,774**	21,672	*4,102*	*18.9%*
Net premiums written	**$140,657**	$118,848	*$21,809*	*18.4%*

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Gross Premiums Written

Gross premiums written by component were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Professional liability				
Physicians [1]				
Twelve month term	**$107,788**	$87,845	*$19,943*	*22.7 %*
Twenty-four month term	**6,605**	8,249	*(1,644)*	*(19.9%)*
Total Physicians	**114,393**	96,094	*18,299*	*19.0 %*
Healthcare facilities [2][7]	**22,220**	15,083	*7,137*	*47.3 %*
Other healthcare providers [3]	**9,951**	8,991	*960*	*10.7 %*
Legal professionals [4]	**8,070**	7,799	*271*	*3.5 %*
Tail coverages [5]	**4,429**	4,349	*80*	*1.8 %*
Total professional liability	**159,063**	132,316	*26,747*	*20.2 %*
Medical technology liability [6]	**7,203**	8,098	*(895)*	*(11.1%)*
Other	**165**	106	*59*	*55.7 %*
Total	**$166,431**	$140,520	*$25,911*	*18.4 %*

(1) Physician policies were our greatest source of premium revenues in both 2019 and 2018. The increase in twelve month term policies during the 2019 three-month period reflected timing differences of $6.8 million primarily related to the renewal of a few large policies that shifted their 2018 renewal dates to the first quarter of 2019. Excluding the effect of these timing differences, twelve month term policies increased $13.1 million as compared to the first quarter of 2018. This increase was primarily due to new business written, including the addition of two large policies, an increase in premium assumed in which we participate on a quota share basis and an increase in renewal pricing, partially offset by retention losses. The increase in renewal pricing is reflective of our concern about potential increases in loss severity as well as more moderate marketplace price competition. We also offer twenty-four month term policies to our physician insureds in one selected jurisdiction. The decrease in twenty-four month term policies during the 2019 three-month period, as compared to the same respective period in 2018, primarily reflected the normal cycle of renewals (policies subject to renewal in 2019 were previously written in 2017 rather than in 2018).

(2) Our healthcare facilities premium (which includes hospitals, surgery centers and other similar facilities) increased during the 2019 three-month period driven by new business written, primarily due to the addition of two large policies, timing differences of $1.6 million related to the renewal of certain policies and, to a lesser extent, an increase in exposure related to a few alternative market policies (see further discussion in footnote 7 that follows). The increase in the 2019 three-month period also reflected an increase in renewal pricing primarily due to changes in the loss experience of a few large policies. Additionally, given the loss environment and initial loss indications we are seeing in the healthcare facilities space, we are seeking rate increases where we believe appropriate. The increase in healthcare facilities premium in the 2019 three-month period was partially offset by retention losses, driven by the loss of one large policy due to price competition.

(3) Our other healthcare providers are primarily dentists, chiropractors and allied health professionals.

(4) Our legal professionals policies are primarily individual and small group policies in select areas of practice. The increase during the 2019 three-month period was primarily due to new business written and, to a lesser extent, an increase in the rate charged for certain renewed policies in select states due to rate filings, largely offset by retention losses.

(5) We offer extended reporting endorsement or "tail" coverage to insureds who discontinue their claims-made coverage with us, and we also periodically offer tail coverage through custom policies. The amount of tail coverage premium written can vary significantly from period to period.

(6) Our medical technology liability business is marketed throughout the U.S.; coverage is typically offered on a primary basis, within specified limits, to manufacturers and distributors of medical technology and life sciences products including entities conducting human clinical trials. In addition to the previously listed factors that affect

our premium volume, our medical technology liability premium volume is impacted by the sales volume of insureds. The decrease during the 2019 three-month period was primarily due to retention losses, partially offset by new business written and, to a lesser extent, an increase in the renewal pricing for certain policies as a result of an increase in the sales volume of the

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insureds. Retention losses in the 2019 three-month period are largely attributable to an increase in competition on terms and pricing.

(7) Certain components of our gross premiums written include alternative market premiums. We cede either all or a portion of the alternative market premium, net of reinsurance, to certain SPCs of our wholly owned Cayman Islands reinsurance subsidiaries, Eastern Re and Inova Re, which are reported in our Segregated Portfolio Cell Reinsurance segment (see further discussion in the Ceded Premiums Written section that follows). The portion not ceded to the SPCs is retained within our Specialty P&C segment. For the 2019 and 2018 three-month periods, we wrote alternative market gross premiums written only in our healthcare facilities line of business as follows:

	Three Months Ended March 31			
($ in millions)	**2019**	2018	*Change*	
Healthcare facilities	**$3.7**	$3.2	*$0.5*	*15.6%*

The increase in our alternative market healthcare facilities premium during the 2019 three-month period as compared to the same respective period of 2018 was primarily due to new business written and an increase in renewal pricing driven by increases in exposure related to a few policies, partially offset by retention losses.

New business written by component on a direct basis was as follows:

	Three Months Ended March 31	
(In millions)	**2019**	2018
Physicians	**$14.4**	$5.0
Healthcare facilities	**4.3**	2.1
Other healthcare providers	**0.4**	1.4
Legal professionals	**0.9**	0.8
Medical technology liability	**0.9**	0.9
Total	**$20.9**	$10.2

For our Specialty P&C segment, we calculate our retention rate as annualized renewed premium divided by all annualized premium subject to renewal. Retention rates are affected by a number of factors. We may lose insureds to competitors or to alternative insurance mechanisms such as risk retention groups or self-insurance entities (often when physicians join hospitals or large group practices) or due to pricing or other issues. We may choose not to renew an insured as a result of our underwriting evaluation. Insureds may also terminate coverage because they have left the practice of medicine for various reasons, principally for retirement, death or disability, but also for personal reasons.

Retention by component was as follows:

	Three Months Ended March 31	
	2019	2018
Physicians(1)	**91%**	91%
Healthcare facilities(1)(2)	**71%**	86%
Other healthcare providers(1)	**89%**	87%
Legal professionals	**89%**	82%
Medical technology liability(2)	**80%**	87%

(1) Excludes certain policies written on an excess and surplus lines basis.

(2) See Gross Premiums Written section for further explanation of retention decline in 2019.

We are committed to a rate structure that will allow us to fulfill our obligations to our insureds, while generating competitive returns for our shareholders. Our pricing continues to be based on expected losses, as indicated by our historical loss data and available industry loss data. In recent years, this practice has resulted in gradual rate increases and we anticipate further rate increases due to indications of increasing loss severity. Additionally, the pricing of our business includes the effects of filed rates, surcharges and discounts. Renewal pricing also reflects changes in our exposure base, deductibles, self-insurance retention limits and other policy items.

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Changes in renewal pricing by component was as follows:

	Three Months Ended March 31 2019
Physicians [1][2]	**4 %**
Healthcare facilities [1][2]	**13 %**
Other healthcare providers [1]	**4 %**
Legal professionals [2]	**3 %**
Medical technology liability	**2 %**

[1] Excludes certain policies written on an excess and surplus lines basis.
[2] See Gross Premiums Written section for further explanation of renewal pricing increase.

Ceded Premiums Written

Ceded premiums represent the amounts owed to our reinsurers for their assumption of a portion of our losses. Through our current excess of loss reinsurance arrangements we generally retain the first $1 million in risk insured by us and cede coverages in excess of this amount. For our healthcare professional liability coverages, we also retain from 3% - 12.5% of the next $25 million of risk for coverages in excess of $1 million. For our medical technology liability coverages, we also retain 10% of the next $9 million of risk for coverages in excess of $1 million. We pay our reinsurers a ceding premium in exchange for their accepting the risk, the ultimate amount of which is determined by the loss experience of the business ceded, subject to certain minimum and maximum amounts.

Ceded premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Excess of loss reinsurance arrangements [1]	**$9,321**	$8,923	*$398*	*4.5 %*
Premium ceded to Syndicate 1729 [2]	**—**	2,105	*(2,105)*	*nm*
Other shared risk arrangements [3]	**11,718**	8,513	*3,205*	*37.6%*
Premium ceded to SPCs [4]	**3,738**	3,118	*620*	*19.9%*
Other ceded premiums written	**997**	938	*59*	*6.3 %*
Adjustment to premiums owed under reinsurance agreements, prior accident years, net [5]	**—**	(1,925)	*1,925*	*nm*
Total ceded premiums written	**$25,774**	$21,672	*$4,102*	*18.9%*

(1) We generally reinsure risks under our excess of loss reinsurance arrangements pursuant to which the reinsurers agree to assume all or a portion of all risks that we insure above our individual risk retention levels, up to the maximum individual limits offered. In the majority of our excess of loss reinsurance arrangements, the premium due to the reinsurer is determined by the loss experience of that business reinsured, subject to certain minimum and maximum amounts. The increase in ceded premiums written under our excess of loss reinsurance arrangements for the 2019 three-month period primarily reflected an increase in the premiums we expect to owe our reinsurers based upon increases to our estimates of losses recoverable from our reinsurance partners.

(2) Prior to January 1, 2018, our Specialty P&C segment ceded premiums to Syndicate 1729 under a quota share reinsurance agreement. We record our participation in Syndicate 1729 in our Lloyd's Syndicates segment on a quarter delay, except when information is material to the current period. We also recorded the cession to Syndicate 1729 from our Specialty P&C segment on the same quarter delay as the amounts were not material and that permitted the cession to be reported by both our Lloyd's Syndicates segment and our Specialty P&C segment in the same reporting period. The decrease in premiums ceded to Syndicate 1729 is due to the non-renewal of the quota share reinsurance agreement with Syndicate 1729 on January 1, 2018; the impact of which was not reflected in ceded premiums written until the second quarter of 2018 due to the previously mentioned quarter delay. See the

Segment Operating Results - Lloyd's Syndicates section for further discussion on the quota share agreement.

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(3) We have entered into various shared risk arrangements, including quota share, fronting, and captive arrangements, with certain large healthcare systems and other insurance entities. These arrangements include our Ascension Health and CAPAssurance programs. While we cede a large portion of the premium written under these arrangements, they provide us an opportunity to grow net premium through strategic partnerships. The increase in the 2019 three-month period was primarily driven by growth in our CAPAssurance program.

(4) As previously discussed, as a part of our alternative market solutions, all or a portion of certain healthcare premium written is ceded to the SPCs in our Segregated Portfolio Cell Reinsurance segment under either excess of loss or quota share reinsurance agreements, depending on the structure of the individual program. See the Segment Operating Results - Segregated Portfolio Cell Reinsurance section for further discussion on the cession to the SPCs from our Specialty P&C segment. The increase in premiums ceded to the SPCs during the 2019 three-month period was primarily driven by new business written and an increase in renewal pricing (see discussion in footnote 7 under the heading "Gross Premiums Written").

(5) Given the length of time that it takes to resolve our claims, many years may elapse before all losses recoverable under a reinsurance arrangement are known. As a part of the process of estimating our loss reserve we also make estimates regarding the amounts recoverable under our reinsurance arrangements. As previously discussed, the premiums ultimately ceded under certain of our excess of loss reinsurance arrangements are subject to the losses ceded under the arrangements. As part of the review of our reserves during the first quarter of 2019, we concluded that our current estimate of expected losses and associated recoveries for prior year ceded losses was reasonable; therefore, we did not adjust our estimate of ceded premiums owed to reinsurers during the 2019 three-month period. For the 2018 three-month period, we reduced our estimate of expected losses and associated recoveries for prior year ceded losses, as well as our estimate of ceded premiums owed to reinsurers. Changes to estimates of premiums ceded related to prior accident years are fully earned in the period the changes in estimates occur.

Ceded Premiums Ratio

As shown in the table below, our ceded premiums ratio was affected in both 2019 and 2018 by revisions to our estimate of premiums owed to reinsurers related to coverages provided in prior accident years.

	Three Months Ended March 31		
	2019	2018	*Change*
Ceded premiums ratio, as reported	**15.5 %**	15.4 %	*0.1 pts*
Less the effect of adjustments in premiums owed under reinsurance agreements, prior accident years (as previously discussed)	**— %**	(1.4 %)	*1.4 pts*
Ratio, current accident year	**15.5 %**	16.8 %	*(1.3) pts*

The decrease in the current accident year ceded premiums ratio for the 2019 three-month period was driven by the effect of the non-renewal of the quota share reinsurance agreement with Syndicate 1729, partially offset by an increase in premiums ceded under our other shared risk arrangements. See discussion above under the heading "Ceded Premiums Written."

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Net Premiums Earned

Net premiums earned consist of gross premiums earned less the portion of earned premiums that we cede to our reinsurers for their assumption of a portion of our losses. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Generally, our policies carry a term of one year; however, as discussed above, we write certain policies with a twenty-four month term, and a few of our medical technology liability policies have a multi-year term. Tail coverage premiums are generally 100% earned in the period written because the policies insure only incidents that occurred in prior periods and are not cancellable. Retroactive coverage premiums are 100% earned at the inception of the contract, as all of the underlying loss events occurred in the past. Additionally, ceded premium changes due to changes to estimates of premiums owed under reinsurance agreements for prior accident years are fully earned in the period of change.

Net premiums earned were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums earned	**$143,019**	$133,698	*$9,321*	*7.0%*
Less: Ceded premiums earned	**18,952**	18,751	*201*	*1.1%*
Net premiums earned	**$124,067**	$114,947	*$9,120*	*7.9%*

The increase in gross premiums earned during the 2019 three-month period included the pro rata effect of higher premiums written during the preceding twelve months, predominantly in our healthcare facilities and physicians lines of business.

The slight increase in ceded premiums earned during the 2019 three-month period was driven by the effect of an adjustment made during the first quarter of 2018 to ceded premiums owed under reinsurance agreements related to prior accident year losses; no adjustment was made during the first quarter of 2019 (see previous discussion in footnote 5 under the heading "Ceded Premiums Written"). After removing the effect of the prior accident year ceded premium adjustment from the 2018 three-month period, ceded premiums earned decreased primarily due to the non-renewal of the quota share reinsurance agreement with Syndicate 1729, partially offset by the pro rata effect of an increase in premiums ceded under our shared risk arrangements during the preceding twelve months, predominately in our CAPAssurance program.

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Losses and Loss Adjustment Expenses

The determination of calendar year losses involves the actuarial evaluation of incurred losses for the current accident year and the actuarial re-evaluation of incurred losses for prior accident years, including an evaluation of the reserve amounts required for losses in excess of policy limits.

Accident year refers to the accounting period in which the insured event becomes a liability of the insurer. For claims-made policies, which represent the majority of the premiums written in our Specialty P&C segment, the insured event generally becomes a liability when the event is first reported to us. For occurrence policies, the insured event becomes a liability when the event takes place. For retroactive coverages, the insured event becomes a liability at inception of the underlying contract. We believe that measuring losses on an accident year basis is the best measure of the underlying profitability of the premiums earned in that period, since it associates policy premiums earned with the estimate of the losses incurred related to those policy premiums.

The following table summarizes calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Additionally, the table shows our current accident year net loss ratio was affected by revisions to our estimate of premiums owed to reinsurers related to coverages provided in prior accident years. Net loss ratios were as follows:

	Net Loss Ratios (1)		
	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**86.8 %**	72.7 %	*14.1 pts*
Less impact of prior accident years on the net loss ratio	**(6.3 %)**	(17.9 %)	*11.6 pts*
Current accident year net loss ratio	**93.1 %**	90.6 %	*2.5 pts*
Less estimated ratio increase (decrease) attributable to:			
Ceded premium adjustments, prior accident years (2)	**— %**	(1.5 %)	*1.5 pts*
Current accident year net loss ratio, excluding the effect of prior year ceded premium (3)	**93.1 %**	92.1 %	*1.0 pts*

(1) Net losses, as specified, divided by net premiums earned.

(2) Reductions to premiums owed under reinsurance agreements for prior accident years increased net premiums earned (the denominator of the current accident year ratio) for the 2018 three-month period. No such adjustments were made during the 2019 three-month period. See the discussion in the Premiums section for our Specialty P&C segment under the heading "Ceded Premiums Written" for additional information.

(3) The current accident year net loss ratio, excluding the effect of prior year ceded premium adjustments, is higher due to our continued concern around potential loss trends in the broader HCPL industry including large, more complex risks. Furthermore, the increase in the current accident year net loss ratio was due to changes in the mix of business including a higher volume of earned premium in our excess and surplus lines of business.

We recognized net favorable loss development related to our previously established reserves of $7.9 million during the three months ended March 31, 2019 and $20.6 million during the same respective period of 2018. We re-evaluate our previously established reserve each quarter based upon the most recently completed actuarial analysis supplemented by any new analysis, information or trends that have emerged since the date of that study. We also take into account currently available industry trend information. Development recognized during the three months ended March 31, 2019 principally related to accident years 2012 through 2015. Development recognized during the three months ended March 31, 2018 principally related to accident years 2011 through 2015. While our reserves continue to develop favorably, net favorable prior year reserve development recognized in the 2019 three-month period was lower as compared to same respective period of 2018 due to the observed increase in claim severity in the broader HCPL industry.

A detailed discussion of factors influencing our recognition of loss development is included in our Critical Accounting Estimates section under the heading "Reserve for Losses and Loss Adjustment Expenses" and in our 2018 Form 10-K under the same heading. Assumptions used in establishing our reserve are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in the then current operations. Due to the size of our reserve, even a small percentage adjustment to the assumptions can have a material effect on our results of operations for the period in which the change is made, as was the case in both 2019 and 2018.

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Underwriting, Policy Acquisition and Operating Expenses

Our Specialty P&C segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
DPAC amortization	**$14,091**	$12,738	*$1,353*	*10.6%*
Management fees	**1,966**	1,697	*269*	*15.9%*
Other underwriting and operating expenses	**13,558**	13,545	*13*	*0.1 %*
Total	**$29,615**	$27,980	*$1,635*	*5.8 %*

DPAC amortization increased for the three months ended March 31, 2019 as compared to the same respective period of 2018 driven by the increase net premiums earned and, to a lesser extent, an increase in commission and brokerage expenses and a decrease in ceding commission income, which is an offset to expense, due to a reduction in premiums ceded to Syndicate 1729.

Management fees are charged pursuant to a management agreement by the Corporate segment to the operating subsidiaries within our Specialty P&C segment for services provided, based on the extent to which services are provided to the subsidiary and the amount of premium written by the subsidiary. While the terms of the management agreement were consistent between 2018 and 2019, fluctuations in the amount of premium written by each subsidiary can result in corresponding variations in the management fee charged to each subsidiary during a particular period.

Other underwriting and operating expenses was relatively flat during the 2019 three-month period as compared to the same respective period of 2018 due to offsetting factors. Other underwriting and operating expenses for the 2019 three-month period included $1.0 million associated with a data analytics services agreement entered into during the fourth quarter of 2018 (see Note 6 of the Notes to Condensed Consolidated Financial Statements for further information), offset by a decrease in compensation related costs as a result of lower bonuses as compared to the same period of 2018.

Underwriting Expense Ratio (the Expense Ratio)

Our expense ratio for the Specialty P&C segment for the three months ended March 31, 2019 and 2018, respectively, was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting expense ratio	**23.9 %**	24.3%	*(0.4)pts*

The slight decrease in the underwriting expense ratio for the 2019 three-month period was due to the effect of an increase in net premiums earned, almost entirely offset by the increase in DPAC amortization, as previously discussed, as compared to the same period of 2018.

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Segment Operating Results - Workers' Compensation Insurance

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting in the third quarter of 2018 which resulted in the creation of a new segment: Segregated Portfolio Cell Reinsurance. The underwriting results of the SPCs at Eastern Re and Inova Re that assume workers' compensation business were previously reported in our Workers' Compensation segment and are now reported in our Segregated Portfolio Cell Reinsurance segment. The traditional workers' compensation business remains in the Workers' Compensation segment which has been renamed to "Workers' Compensation Insurance." All prior period segment information has been recast to conform to the current period presentation. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements.

Our Workers' Compensation Insurance segment provides workers' compensation products to employers generally with 1,000 or fewer employees. Workers' compensation products offered include guaranteed cost policies, policyholder dividend policies, retrospectively-rated policies, deductible policies and alternative market solutions. Alternative market products include program design, fronting, claims administration, risk management, SPC rental, asset management and SPC management services. Alternative market premiums are 100% ceded to either the SPCs within our Segregated Portfolio Cell Reinsurance segment or, to a limited extent, an unaffiliated captive insurer. Our Workers' Compensation Insurance segment operating results reflected pre-tax underwriting profit or loss from these workers' compensation products, exclusive of investment results, which are included in our Corporate segment.

Segment operating results included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net premiums written	**$51,407**	$55,481	*$(4,074)*	*(7.3 %)*
Net premiums earned	**$45,939**	$42,700	*$3,239*	*7.6 %*
Other income	**729**	851	*(122)*	*(14.3%)*
Net losses and loss adjustment expenses	**(30,443)**	(27,825)	*(2,618)*	*9.4 %*
Underwriting, policy acquisition and operating expenses	**(14,192)**	(13,030)	*(1,162)*	*8.9 %*
Segment operating results	**$2,033**	$2,696	*$(663)*	*(24.6%)*
Net loss ratio	**66.3 %**	65.2 %	*1.1*	*pts*
Underwriting expense ratio	**30.9 %**	30.5 %	*0.4*	*pts*

Premiums Written

Our workers' compensation premium volume is driven by five primary factors: (1) the amount of new business written, (2) audit premium, (3) retention of our existing book of business, (4) premium rates charged on our renewal book of business and (5) changes in payroll exposure.

Gross, ceded and net premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$89,354**	$91,667	*$(2,313)*	*(2.5%)*
Less: Ceded premiums written	**37,947**	36,186	*1,761*	*4.9 %*
Net premiums written	**$51,407**	$55,481	*$(4,074)*	*(7.3%)*

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Gross Premiums Written

Gross premiums written by product were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Traditional business:				
Guaranteed cost	**$42,737**	$43,484	*$(747)*	*(1.7 %)*
Policyholder dividend	**7,186**	8,330	*(1,144)*	*(13.7%)*
Deductible	**2,246**	3,086	*(840)*	*(27.2%)*
Retrospective	**763**	2,007	*(1,244)*	*(62.0%)*
Other	**1,827**	2,155	*(328)*	*(15.2%)*
Alternative market business	**34,595**	32,605	*1,990*	*6.1 %*
Total	**$89,354**	$91,667	*$(2,313)*	*(2.5 %)*

Gross premiums written in our traditional business decreased during the three months ended March 31, 2019 as compared to the same respective period of 2018, which primarily reflected a decrease in new business, a decrease in audit premium and renewal pricing declines of 2%, partially offset by a one-point increase in the renewal retention rate to 87%. The renewal pricing declines and decrease in new business reflect the very competitive workers' compensation marketplace. New business written for the three months ended March 31, 2018 also included approximately $3.7 million of premiums written related to the acquisition of the Great Falls renewal book of business. Retrospective policy premiums written include an estimate for retrospective premium adjustments, which decreased premiums written by $0.3 million in the 2019 three-month period, compared to adjustments that increased premiums written by $0.5 million in the 2018 three-month period.

The growth in our alternative market business for the three months ended March 31, 2019 primarily reflected an increase in the renewal retention rate and an increase in payroll exposure, partially offset by renewal pricing declines of 2% and a decrease in new business written. We retained all 9 of the available workers' compensation alternative market programs up for renewal during the three months ended March 31, 2019.

New business, audit premium, retention and renewal price changes for both the traditional business and the alternative market business are shown in the table below:

	Three Months Ended March 31					
	2019			2018		
($ in millions)	**Traditional Business**	**Alternative Market Business**	**Segment Results**	Traditional Business	Alternative Market Business	Segment Results
New business	**$6.4**	**$1.1**	**$7.5**	$13.7	$2.9	$16.6
Audit premium (including EBUB)	**$0.2**	**$0.5**	**$0.7**	$1.2	$0.1	$1.3
Retention rate [1]	**82 %**	**97 %**	**87 %**	83 %	91 %	86 %
Change in renewal pricing [2]	**(3 %)**	**(2 %)**	**(2 %)**	(4 %)	(1 %)	(3 %)

[1] We calculate our workers' compensation retention rate as annualized expiring renewed premium divided by all annualized expiring premium subject to renewal. Our retention rate can be impacted by various factors, including price or other competitive issues, insureds being acquired, or a decision not to renew based on our underwriting evaluation.

[2] The pricing of our business includes an assessment of the underlying policy exposure and the effects of current market conditions. We continue to base our pricing on expected losses, as indicated by our historical loss data.

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Ceded Premiums Written

Ceded premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Premiums ceded to SPCs	**$32,146**	$29,222	*$2,924*	*10.0 %*
Premiums ceded to external reinsurers	**3,442**	2,907	*535*	*18.4 %*
Premiums ceded to unaffiliated captive insurers	**2,449**	3,383	*(934)*	*(27.6 %)*
Change in return premium estimate under external reinsurance	**(90)**	674	*(764)*	*(113.4%)*
Total ceded premiums written	**$37,947**	$36,186	*$1,761*	*4.9 %*

Our Workers' Compensation Insurance segment cedes alternative market business under a 100% quota share reinsurance agreement, net of a ceding commission, to SPCs in our Segregated Portfolio Cell Reinsurance segment. The ceding commission consists of an amount for fronting fees, cell rental fees, commissions, premium taxes, claims administration fees and risk management fees. The fronting fees, commissions, premium taxes and risk management fees are recorded as an offset to underwriting, policy acquisition and operating expenses (see discussion that follows under the heading "Underwriting, Policy Acquisition and Operating Expenses"). Cell rental fees are recorded as a component of other income and claims administration fees are recorded as ceded ULAE. The increase in premiums ceded to SPCs during the three months ended March 31, 2019 reflected growth in our alternative market premium, as previously discussed.

Under our external reinsurance agreement, we retain the first $0.5 million in risk insured by us and cede losses in excess of this amount on each loss occurrence under our primary external reinsurance contract. Per our reinsurance agreements, we cede premiums related to our traditional business on an earned premium basis. The increase in premiums ceded to external reinsurers during the three months ended March 31, 2019 was driven by an increase in earned premium and an increase in reinsurance rates effective May 1, 2018.

Changes in the return premium estimate reflected the loss experience under the reinsurance contract for the three months ended March 31, 2019 and 2018. The change in estimated return premium for the three months ended March 31, 2019 reflected favorable loss development on prior year reinsured claims as compared to unfavorable loss development on prior year reinsured claims for the same respective period of 2018.

Ceded Premiums Ratio

Ceded premiums ratio was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Ceded premiums ratio, as reported	**34.6 %**	34.9%	*(0.3) pts*
Less the effect of:			
Premiums ceded to SPCs (100%)	**26.9 %**	24.3%	*2.6 pts*
Retrospective premium adjustments	**— %**	0.1 %	*(0.1) pts*
Premiums ceded to unaffiliated captive insurers (100%)	**0.9 %**	3.0 %	*(2.1) pts*
Return premium estimated under external reinsurance	**(0.2 %)**	1.5 %	*(1.7) pts*
Assumed premiums earned (not ceded to external reinsurers)	**(0.3 %)**	(0.3 %)	*— pts*
Ceded premiums ratio, less the effects of above	**7.3 %**	6.3 %	*1.0 pts*

The above table reflects ceded premiums earned as a percent of gross premiums earned. As discussed above, we cede premiums related to our traditional business to external reinsurers on an earned premium basis. The increase in the ceded premiums ratio for the three months ended March 31, 2019 when compared to the same respective period of 2018 primarily reflected an increase in reinsurance rates.

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Net Premiums Earned

Net premiums earned were as follows:

($ in thousands)	Three Months Ended March 31 2019	2018	Change	
Gross premiums earned	**$70,276**	$65,614	*$4,662*	*7.1%*
Less: Ceded premiums earned	**24,337**	22,914	*1,423*	*6.2%*
Net premiums earned	**$45,939**	$42,700	*$3,239*	*7.6%*

Net premiums earned consist of gross premiums earned less the portion of earned premiums that we cede to SPCs in our Segregated Portfolio Cell Reinsurance segment, external reinsurers or to any unaffiliated captive insurers. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Our workers' compensation policies are twelve month term policies and premiums are earned on a pro rata basis over the policy period. Net premiums earned also include premium adjustments related to the audit of our insureds' payrolls. Payroll audits are conducted subsequent to the end of the policy period and any related adjustments are recorded as fully earned in the current period. In addition, we record an estimate for EBUB and evaluate the estimate on a quarterly basis. We did not adjust the EBUB estimate during the three months ended March 31, 2019 or 2018. The increase in net premiums earned primarily reflected the pro rata effect of higher net premiums written during the preceding twelve months.

Losses and Loss Adjustment Expenses

We estimate our current accident year loss and loss adjustment expenses based on an expected loss ratio. Incurred losses and loss adjustment expenses are determined by applying the expected loss ratio to net premiums earned, which includes audit premium, for the respective period. The following table summarizes calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Calendar year and current accident year net loss ratios by component were as follows:

	Three Months Ended March 31 2019	2018	Change
Calendar year net loss ratio	**66.3%**	65.2%	*1.1 pts*
Less impact of prior accident years on the net loss ratio	**(1.9 %)**	(0.9 %)	*(1.0)pts*
Current accident year net loss ratio	**68.2%**	66.1%	*2.1 pts*

The current accident year net loss ratio for the 2019 three-month period was 68.2% as compared to 66.1% for the same respective period of 2018. The increase in the current accident year net loss ratio primarily reflected the effect of the continuation of intense price competition and the resulting renewal rate decreases.

Calendar year incurred losses (excluding IBNR) ceded to our external reinsurers totaled $1.0 million for the three months ended March 31, 2019, compared to ceded incurred losses of $3.7 million for the same respective period of 2018. Ceded incurred losses reflected unfavorable development on prior year reinsured claims. There were no current accident year ceded incurred losses reported in the 2019 or 2018 three-month periods.

We recognized net favorable prior year development related to our previously established reserve of $0.9 million for the three months ended March 31, 2019 as compared to $0.4 million for the same respective period of 2018. The net favorable prior year development for the three months ended March 31, 2019 reflected overall favorable trends in claim closing patterns, primarily in the 2016 accident year. For both the three months ended March 31, 2019 and 2018, the net favorable prior year development included $0.4 million related to the amortization of the purchase accounting fair value adjustment.

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Underwriting, Policy Acquisition and Operating Expenses

Underwriting, policy acquisition and operating expenses includes the amortization of commissions, premium taxes and underwriting salaries, which are capitalized and deferred over the related workers' compensation policy period, net of ceding commissions earned. The capitalization of underwriting salaries can vary as they are subject to the success rate of our contract acquisition efforts. These expenses also include a management fee charged by our Corporate segment, which represents intercompany charges pursuant to a management agreement, and the amortization of intangible assets, primarily related to the acquisition of Eastern by ProAssurance. The management fee is based on the extent to which services are provided to the subsidiary and the amount of premium written by the subsidiary.

Our Workers' Compensation Insurance segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
DPAC amortization	**$8,450**	$7,503	*$947*	*12.6%*
Management fees	**670**	685	*(15)*	*(2.2 %)*
Other underwriting and operating expenses	**9,385**	9,037	*348*	*3.9 %*
SPC ceding commission offset	**(4,313)**	(4,195)	*(118)*	*2.8 %*
Total	**$14,192**	$13,030	*$1,162*	*8.9 %*

The increase in DPAC amortization for the three months ended March 31, 2019 as compared to the same respective period of 2018 primarily reflected the increase in net premiums earned and the effect of an increase in capitalized underwriting salaries during 2018. Other underwriting and operating expenses for the three months ended March 31, 2019 were relatively flat as compared to the same respective period of 2018.

As previously discussed, alternative market premiums written through our Workers' Compensation Insurance segment's alternative market business unit are 100% ceded, less a ceding commission, to either the SPCs in our Segregated Portfolio Cell Reinsurance segment or, to a limited extent, an unaffiliated captive insurer. SPC ceding commission income includes fronting fees, commissions, premium taxes and risk management fees, and is reported as an offset to underwriting, policy acquisition and operating expenses. The increase in SPC ceding commissions earned for three months ended March 31, 2019 as compared to the same respective period of 2018 was due to growth in the alternative market business over the preceding twelve months.

Underwriting Expense Ratio (the Expense Ratio)

The underwriting expense ratio included the impact of the following:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting expense ratio, as reported	**30.9%**	30.5%	*0.4 pts*
Less estimated ratio increase (decrease) attributable to:			
Impact of ceding commissions received from SPCs	**3.2 %**	2.8 %	*0.4 pts*
Amortization of intangible assets	**1.3 %**	1.4 %	*(0.1)pts*
Management fees	**1.0 %**	1.1 %	*(0.1)pts*
Impact of audit premium	**(0.1 %)**	(0.5 %)	*0.4 pts*
Underwriting expense ratio, less listed effects	**25.5%**	25.7%	*(0.2)pts*

The decrease in the expense ratio for the three months ended March 31, 2019, exclusive of the items noted in the table, primarily reflected the increase in net premiums earned, partially offset by the increase in DPAC amortization, as previously discussed. There were no other individually significant variances by expense category that contributed to the remaining decrease in the expense ratio.

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Segment Operating Results - Segregated Portfolio Cell Reinsurance

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting during the third quarter of 2018 which resulted in the creation of the Segregated Portfolio Cell Reinsurance segment. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements. The Segregated Portfolio Cell Reinsurance segment reflects the operating results (underwriting profit or loss, plus investment results) of SPCs at Eastern Re and Inova Re, our Cayman Islands SPC operations. As of March 31, 2019, there were 26 (22 active) SPCs. The majority of SPCs only assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two from our Workers' Compensation Insurance and Specialty P&C segments. During the first quarter of 2019, one SPC at Eastern Re assumed an errors and omissions liability policy from a captive insurer unaffiliated with ProAssurance. SPCs are segregated pools of assets and liabilities that provide an insurance facility for a defined set of risks. Assets of each SPC are solely for the benefit of that individual cell and each SPC is solely responsible for the liabilities of that individual cell. Assets of one SPC are statutorily protected from the creditors of the others. Each SPC is owned, fully or in part, by an agency, group or association and the operating results of the SPCs are due to the participants of that cell. We participate to a varying degree in the results of selected SPCs and, for the SPCs in which we participate, our participation interest is as low as 25% and as high as 85%. SPC operating results due to external cell participants are reflected as a SPC dividend expense in our Segregated Portfolio Cell Reinsurance segment. In addition, our Segregated Portfolio Cell Reinsurance segment includes the SPC investment results as the investments are solely for the benefit of the cell participants and investment results due to external cell participants are reflected in the SPC dividend expense. Segment operating results reflects our share of the underwriting and investment results of the SPCs in which we participate, and included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net premiums written	**$32,682**	$28,962	*$3,720*	*12.8 %*
Net premiums earned	**$19,502**	$17,036	*$2,466*	*14.5 %*
Net investment income	**448**	356	*92*	*25.8 %*
Net realized gains (losses)	**2,141**	(473)	*2,614*	*552.6%*
Other income	**87**	30	*57*	*190.0%*
Net losses and loss adjustment expenses	**(10,745)**	(9,953)	*(792)*	*8.0 %*
Underwriting, policy acquisition and operating expenses	**(5,235)**	(5,114)	*(121)*	*2.4 %*
SPC net operating results	**6,198**	1,882	*4,316*	*229.3%*
SPC dividend (expense) income [1]	**(4,787)**	(1,747)	*(3,040)*	*174.0%*
Segment operating results [2]	**$1,411**	$135	*$1,276*	*945.2%*
Net loss ratio	**55.1 %**	58.4 %	*(3.3) pts*	
Underwriting expense ratio	**26.8 %**	30.0 %	*(3.2) pts*	

[1] Represents the operating (profit) loss due to external cell participants.

[2] Represents our share of the operating profit (loss) of the SPCs in which we participate.

Premiums Written

The majority of premiums in our Segregated Portfolio Cell Reinsurance segment are assumed from either our Workers' Compensation Insurance or Specialty P&C segments. Premium volume is driven by five primary factors: (1) the amount of new business written, (2) retention of the existing book of business, (3) premium rates charged on the renewal book of business and, for workers' compensation business, (4) audit premium and (5) changes in payroll exposure.

Gross, ceded and net premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$36,365**	$32,340	*$4,025*	*12.4%*
Less: Ceded premiums written	**3,683**	3,378	*305*	*9.0 %*

Net premiums written	**$32,682**	$28,962	*$3,720*	*12.8%*

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Gross Premiums Written

Gross premiums written reflected reinsurance premiums assumed by component as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Workers' compensation	**$32,146**	$29,222	*$2,924*	*10.0%*
Healthcare professional liability	**3,738**	3,118	*620*	*19.9%*
Other	**481**	—	*481*	*nm*
Gross Premiums Written	**$36,365**	$32,340	*$4,025*	*12.4%*

Gross premiums written for the 2019 and 2018 three-month periods was primarily comprised of workers' compensation coverages assumed from our Workers' Compensation Insurance segment. Gross premiums written increased during the three months ended March 31, 2019 as compared to the same respective period of 2018, which primarily reflected an increase in the renewal retention rate and an increase in payroll exposure, partially offset by a decline in renewal pricing and a decrease in new business written. We retained all 10 of the available alternative market programs, including 9 workers' compensation programs and 1 healthcare professional liability program up for renewal during the three months ended March 31, 2019.

During the first quarter of 2019, one SPC at Eastern Re assumed an errors and omissions liability policy that provides coverage for losses up to a lifetime maximum of $10 million from a captive insurer unaffiliated with ProAssurance. The assumed premium related to this policy was $0.5 million. We do not participate in the SPC that assumed this policy; therefore, the underwriting results of this policy will be reflected in the SPC dividend expense in our Segregated Portfolio Cell Reinsurance segment.

New business, audit premium, retention and renewal price changes for the assumed workers' compensation premium is shown in the table below:

	Three Months Ended March 31	
($ in millions)	**2019**	2018
New business	**$1.1**	$2.9
Audit premium (including EBUB)	**$0.5**	$0.1
Retention rate [1]	**97 %**	91 %
Change in renewal pricing [2]	**(2 %)**	(1 %)

[1] We calculate our workers' compensation retention rate as annualized expiring renewed premium divided by all annualized expiring premium subject to renewal. Our retention rate can be impacted by various factors, including price or other competitive issues, insureds being acquired, or a decision not to renew based on our underwriting evaluation.

[2] The pricing of our business includes an assessment of the underlying policy exposure and the effects of current market conditions. We continue to base our pricing on expected losses, as indicated by our historical loss data.

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Ceded Premiums Written

Ceded premiums written were as follows:

($ in thousands)	Three Months Ended March 31			
	2019	2018	*Change*	
Ceded premiums written	**$3,683**	$3,378	*$305*	*9.0%*

For the workers' compensation business, each SPC has in place its own external reinsurance arrangements. The healthcare professional liability business is assumed net of reinsurance from our Specialty P&C segment; therefore, there are no ceded premiums related to the healthcare professional liability business reflected in the table above. The risk retention for each loss occurrence ranges from $0.3 million to $0.35 million based on the program, with limits up to $119.7 million. In addition, each program has aggregate reinsurance coverage between $1.1 million and $2.1 million on a program year basis. Per the SPC external reinsurance agreements, premiums are ceded on a written premium basis and the slight increase in premiums ceded to external reinsurers during the three months ended March 31, 2019 primarily reflected an increase in written premium. External reinsurance rates vary based on the alternative market program.

Ceded Premiums Ratio

Ceded premiums ratio was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Ceded premiums ratio	**11.5%**	11.6%	*(0.1)pts*

The above table reflects ceded premiums as a percent of gross premiums written for the workers' compensation business only; healthcare professional liability business is assumed net of reinsurance, as discussed above. The ceded premiums ratio remained relatively unchanged for the 2019 three-month period as compared to the same respective period of 2018.

Net Premiums Earned

Gross, ceded and net premiums earned were as follows:

($ in thousands)	Three Months Ended March 31			
	2019	2018	*Change*	
Gross premiums earned	**$21,939**	$19,168	*$2,771*	*14.5%*
Less: Ceded premiums earned	**2,437**	2,132	*305*	*14.3%*
Net premiums earned	**$19,502**	$17,036	*$2,466*	*14.5%*

Net premiums earned consist of gross premiums earned less the portion of earned premiums that the SPCs cede to external reinsurers. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Policies ceded to the SPCs are twelve month term policies and premiums are earned on a pro rata basis over the policy period. Net premiums earned also include premium adjustments related to the audit of workers' compensation insureds' payrolls. Payroll audits are conducted subsequent to the end of the policy period and any related adjustments are recorded as fully earned in the current period. The increase in net premiums earned primarily reflected the pro rata effect of higher net premiums written during the preceding twelve months.

Net Investment Income and Net Realized Investment Gains (Losses)

Net investment income for the 2019 and 2018 three-month periods was primarily attributable to interest earned on available-for-sale fixed maturity investments, which primarily includes investment-grade corporate debt securities. Net realized investment losses during the 2019 and 2018 three-month periods primarily reflected changes in the value of the SPCs' equity portfolio.

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Losses and Loss Adjustment Expenses

The following table summarizes the calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Calendar year and current accident year net loss ratios were as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**55.1 %**	58.4%	*(3.3)pts*
Less impact of prior accident years on the net loss ratio	**(11.6%)**	(8.8 %)	*(2.8)pts*
Current accident year net loss ratio	**66.7 %**	67.2%	*(0.5)pts*

The current accident year net loss ratio reflected the aggregate loss ratio for all programs. Loss reserves are estimated for each program on a quarterly basis. Due to the size of some of the programs, quarterly claims activity can cause the current accident year net loss ratio to fluctuate significantly from period to period. The decrease in the current accident year net loss ratio primarily reflected a decline in severity-related claim activity, partially offset by the effect of the continuation of intense price competition and the resulting renewal rate decreases.

Calendar year incurred losses ceded to our external reinsurers totaled $2.6 million and $2.3 million for the 2019 and 2018 three-month periods, respectively, which primarily reflected unfavorable development on prior year reinsured claims. There were no current accident year ceded incurred losses reported in the 2019 three-month period. Current accident year ceded incurred losses reported in the 2018 three-month period were $1.3 million.

We recognized net favorable prior year development of $2.3 million and $1.5 million for the three months ended March 31, 2019 and 2018, respectively, which primarily reflected better than expected claim trends in the 2015, 2016 and 2017 accident years. The improved claim trends reflected lower frequency and severity than anticipated at the time the reserves were established.

Underwriting, Policy Acquisition and Operating Expenses

Our Segregated Portfolio Cell Reinsurance segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
DPAC amortization	**$5,150**	$4,970	*$180*	*3.6 %*
Other underwriting and operating expenses	**85**	144	*(59)*	*(41.0%)*
Total	**$5,235**	$5,114	*$121*	*2.4 %*

DPAC amortization primarily represented ceding commissions, which vary by program and are paid to our Workers' Compensation Insurance and Specialty P&C segments for premiums assumed. Ceding commissions include an amount for fronting fees, commissions, premium taxes and risk management fees, which are reported as an offset to underwriting, policy acquisition and operating expenses within our Workers' Compensation Insurance and Specialty P&C segments. In addition, ceding commissions paid to our Workers' Compensation Insurance segment include cell rental fees which are recorded as other income within our Workers' Compensation Insurance segment.

Underwriting Expense Ratio (the Expense Ratio)

The underwriting expense ratio included the impact of the following:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting expense ratio, as reported	**26.8%**	30.0%	*(3.2)pts*
Less impact of audit premium on expense ratio	**(0.6 %)**	(0.1 %)	*(0.5)pts*
Underwriting expense ratio, excluding the effect of audit premium	**27.4%**	30.1%	*(2.7)pts*

The underwriting expense ratio primarily reflects the weighted average ceding commission percentage of all SPC programs. The decrease in the underwriting expense ratio also reflected a reduction in other underwriting and operating expenses, primarily related to changes in incurred policyholder dividends for the three months ended March 31, 2019 as compared to the same respective period in 2018.

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Segment Operating Results - Lloyd's Syndicates

Our Lloyd's Syndicates segment includes operating results from our participation in certain Syndicates at Lloyd's of London. We have a total capital commitment to support our Lloyd's Syndicate operations through 2019 of up to $200 million, referred to as FAL. The Board, through a non-binding resolution, extended this commitment through 2022. For the 2019 underwriting year, our FAL was comprised of investment securities deposited with Lloyd's which at March 31, 2019 had a fair value of approximately $144.5 million, as discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements.

We normally report results from our involvement in Lloyd's Syndicates on a quarter delay, except when information is available that is material to the current period (see discussion that follows under the heading "Property and Natural Catastrophe Losses"). Furthermore, the investment results associated with our FAL investments and certain U.S. paid administrative expenses are reported concurrently as that information is available on an earlier time frame.

Lloyd's Syndicate 1729. We are the majority capital provider to Syndicate 1729, which covers a range of property and casualty insurance and reinsurance lines. For the 2019 underwriting year, we slightly decreased our participation in the operating results of Syndicate 1729 from 62% to 61% which, due to the quarter delay, will not be reflected in our Lloyd's Syndicates segment results until the second quarter of 2019. The remaining capital for Syndicate 1729 is provided by unrelated third parties, including private names and other corporate members. Syndicate 1729 has a maximum underwriting capacity of £128 million for the 2019 underwriting year, of which £78 million (approximately $101.7 million based on March 31, 2019 exchange rates) is our allocated underwriting capacity.

Lloyd's Syndicate 6131. We are the sole (100%) capital provider to an SPA, Syndicate 6131, which focuses on contingency and specialty property business. As an SPA, Syndicate 6131 is only allowed to underwrite one quota share reinsurance contract with Syndicate 1729. Due to the quarter delay, our participation in Syndicate 6131 was not reflected in our Lloyd's Syndicates segment results until the second quarter of 2018 as Syndicate 6131 began writing business effective January 1, 2018. For the 2019 underwriting year, Syndicate 6131 has a maximum underwriting capacity of £12 million (approximately $15.6 million based on March 31, 2019 exchange rates).

In addition to the results of our participation in Lloyd's Syndicates, as discussed above, our Lloyd's Syndicates segment also includes 100% of the operating results of our wholly owned subsidiaries that support our operations at Lloyd's. For the three months ended March 31, 2019 and 2018, the results of our Lloyd's Syndicates segment were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$23,588**	$12,361	*$11,227*	*90.8 %*
Ceded premiums written	**(2,592)**	(520)	*(2,072)*	*398.5 %*
Net premiums written	**$20,996**	$11,841	*$9,155*	*77.3 %*
Net premiums earned	**$18,641**	$12,476	*$6,165*	*49.4 %*
Net investment income	**1,006**	751	*255*	*34.0 %*
Net realized gains (losses)	**178**	(54)	*232*	*429.6 %*
Other income (loss)	**(146)**	331	*(477)*	*(144.1 %)*
Net losses and loss adjustment expenses	**(10,909)**	(8,486)	*(2,423)*	*28.6 %*
Underwriting, policy acquisition and operating expenses	**(8,469)**	(7,246)	*(1,223)*	*16.9 %*
Income tax benefit (expense)	**(304)**	(6)	*(298)*	*4,966.7%*
Segment operating results	**$(3)**	$(2,234)	*$2,231*	*(99.9 %)*
Net loss ratio	**58.5 %**	68.0 %	*(9.5)pts*	
Underwriting expense ratio	**45.4 %**	58.1 %	*(12.7)pts*	

Property and Natural Catastrophe Losses

As previously mentioned, we normally report results from our involvement in Lloyd's Syndicates on a quarter delay; however, during the fourth quarter of 2018, we accelerated our reporting of approximately $6.8 million, net of reinsurance and reinstatement premiums, of storm-related losses in connection with Hurricane Michael, which affected the northwest portion of Florida during October 2018. These losses would have normally been reported in the first quarter of 2019 due to the aforementioned quarter delay. However, due to the availability and significance of these estimates, we accelerated our reporting of these storm-related losses into the fourth quarter of 2018, which is consistent with our policy of disclosing significant losses in the period in which they become known to us. No such adjustments were made during the three months ended March 31, 2019 or 2018.

Gross Premiums Written

Changes in our premium volume within our Lloyd's Syndicates segment are driven by four primary factors: (1) the amount of new business and the channels in which the business is written, (2) our retention of existing business, (3) the premium charged for business that is renewed, which is affected by rates charged and by the amount and type of coverage an insured chooses to purchase and (4) the timing of premium written through multi-period policies.

Gross premiums written during the three months ended March 31, 2019 consisted of property insurance coverages (50% of total gross premiums written), casualty coverages (37%), specialty property coverages (8%), property reinsurance coverages (3%) and catastrophe reinsurance coverages (2%). Gross premiums written during the three months ended March 31, 2019 reflects our increased participation in the operating results of Syndicate 1729 from 58% to 62% and our participation in the operating results of Syndicate 6131. The increase in gross premiums written during the 2019 three-month period as compared to the same respective period of 2018 was primarily driven by new business written, primarily property insurance coverages, and, to a lesser extent, volume increases on renewal business.

As discussed in our Specialty P&C segment operating results, prior to January 1, 2018 Syndicate 1729 served as a reinsurer on a quota share basis for a wholly owned insurance subsidiary in our Specialty P&C segment. Premiums assumed from our Specialty P&C segment were approximately $1.2 million during the three months ended March 31, 2018. The 2017 and 2016 calendar year quota share arrangements with our Specialty P&C segment were commuted in December 2018 and 2017, respectively. Due to the quarter delay, the effects of the 2017 and 2016 commutations were reported in both segments' results during the first quarters of 2019 and 2018, respectively, and is reflected in the Lloyd's Syndicates segment results for the three months ended March 31, 2019 and 2018, respectively. The commutations did not differ significantly from previously recorded amounts.

Ceded Premiums Written

Syndicate 1729 utilizes reinsurance to provide the capacity to write larger limits of liability on individual risks, to provide protection against catastrophic loss and to provide protection against losses in excess of policy limits. Ceded premiums written increased for the three months ended March 31, 2019 primarily due to the increased utilization of reinsurance on new business written directly by Syndicate 1729 to replace the business previously assumed through the quota share agreement with our Specialty P&C segment.

Net Premiums Earned

Net premiums earned consist of gross premiums earned less the portion of earned premiums that we cede to our reinsurers for their assumption of a portion of our losses. Premiums written through open-market channels are generally earned pro rata over the entire policy period, which is predominately twelve months, whereas premiums written through delegated underwriting authority arrangements are earned over twenty-four months. Therefore, net premiums earned is affected by shifts in the mix of policies written between the open-market and delegated underwriting authority arrangements. Additionally, fluctuations in premiums earned tend to lag those of premiums written. Premiums for certain policies and assumed reinsurance contracts are reported subsequent to the coverage period and/or may be subject to adjustment based on loss experience. These premium adjustments are earned when reported, which can result in further fluctuation in earned premium.

The increase in net premiums earned during the 2019 three-month period primarily reflected the pro rata effect of shifts in the mix of premiums written during the preceding twelve months; a larger proportion of premiums were written through the open-market, as compared to previous years, which are predominately earned over twelve months. The increase in the 2019 three-month period also reflected the increase in our participation in Syndicate 1729 and Syndicate 6131 at the beginning of 2018. Net premiums earned for the three months ended March 31, 2019 and 2018 included premium assumed from our Specialty P&C segment of approximately $0.1 million and $1.9 million, respectively.

Net Losses and Loss Adjustment Expenses

Losses for the period were primarily recorded using the loss assumptions by risk category incorporated into the business plan submitted to Lloyd's for Syndicate 1729 with consideration given to loss experience incurred to date. The assumptions used in the business plan were consistent with loss results reflected in Lloyd's historical data for similar risks. Syndicate 6131follows a process similar to Syndicate 1729 for the establishment of initial reserves. We expect loss ratios to fluctuate from quarter to quarter as Syndicate 1729 writes more business and the book begins to mature. We also expect loss ratios of Syndicate 6131 to fluctuate from quarter to quarter as Syndicate 6131 assumes more business from Syndicate 1729. The loss ratios will also fluctuate due to the timing of earned premium adjustments (see discussion in this section under the heading "Net Premiums Earned"). Premium and exposure for some of Syndicate 1729's insurance policies and reinsurance contracts are initially estimated and subsequently adjusted over an extended period of time as underlying premium reports are received from cedants and insureds. When reports are received, the premium, exposure and corresponding loss estimates are revised

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accordingly. Changes in loss estimates due to premium or exposure fluctuations are incurred in the accident year in which the premium is earned.

The following table summarizes calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Net loss ratios for the period were as follows:

	Net Loss Ratios		
	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**58.5 %**	68.0%	*(9.5) pts*
Less impact of prior accident years on the net loss ratio	**4.0 %**	(2.7 %)	*6.7 pts*
Current accident year net loss ratio	**54.5 %**	70.7%	*(16.2) pts*

The current accident year net loss ratio decreased by 16.2 percentage points during the three months ended March 31, 2019 as compared to the same period of 2018 driven by the effect of higher net premiums earned.

We recognized $0.8 million of unfavorable prior year development for the three months ended March 31, 2019, as compared to $0.3 million of favorable prior year development for the same respective period of 2018. The unfavorable prior year development for the three months ended March 31, 2019 was driven by higher than expected losses and development on certain large claims which resulted in unfavorable development with respect to a previous year of account.

Underwriting, Policy Acquisition and Operating Expenses

Underwriting, policy acquisition and operating expenses increased by $1.2 million for the three months ended March 31, 2019 as compared to the same respective period in 2018. The increase was primarily due to the anticipated growth in Syndicate 1729 operations, an increase in DPAC amortization primarily due to an increase in net premiums earned and broker commissions, and, to a lesser extent, increases in various operational expenses associated with establishing Syndicate 6131.

The decrease in the underwriting expense ratio for the three months ended March 31, 2019 was primarily due to the increase in net premiums earned, partially offset by an increase in broker commissions and operating expenses, as previously discussed.

Investments

Net investment income for the 2019 and 2018 three-month periods was primarily attributable to interest earned on our FAL investments, which primarily includes investment-grade corporate debt securities. Syndicate 1729's fixed maturities portfolio includes certain debt securities classified as trading securities. Investment results associated with these fixed maturity trading securities are reported on the same quarter delay.

Taxes

Operating results of this segment are subject to U.K. income tax law.

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Segment Operating Results - Corporate

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting in the third quarter of 2018 which resulted in the creation of a new segment: Segregated Portfolio Cell Reinsurance. The Segregated Portfolio Cell Reinsurance segment includes the results of investment assets solely allocated to SPC operations at our Cayman Islands reinsurance subsidiaries, Eastern Re and Inova Re, which were previously reported in our Corporate segment. All prior period segment information has been recast to conform to the current period presentation. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements.

Our Corporate segment includes investment operations, other than those reported in our Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments, interest expense and U.S. income taxes. Our Corporate segment also includes non-premium revenues generated outside of our insurance entities and corporate expenses. Segment operating results for our Corporate segment were net earnings of $40.2 million and $6.6 million for the three months ended March 31, 2019 and 2018, respectively, and included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net investment income	**$21,364**	$20,920	*$444*	*2.1 %*
Equity in earnings (loss) of unconsolidated subsidiaries	**$(810)**	$1,640	*$(2,450)*	*(149.4%)*
Net realized gains (losses)	**$34,304**	$(11,990)	*$46,294*	*386.1 %*
Operating expense	**$4,570**	$4,678	*$(108)*	*(2.3 %)*
Interest expense	**$4,330**	$3,705	*$625*	*16.9 %*
Income tax expense (benefit)	**$6,657**	$(3,428)	*$10,085*	*294.2 %*

Net Investment Income, Equity in Earnings (Loss) of Unconsolidated Subsidiaries, Net Realized Investment Gains (Losses)

Net Investment Income

Net investment income is primarily derived from the income earned by our fixed maturity securities and also includes dividend income from equity securities, income from our short-term and cash equivalent investments, earnings from other investments and increases in the cash surrender value of BOLI contracts. Investment fees and expenses are deducted from net investment income.

Net investment income by investment category was as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Fixed maturities	**$16,151**	$15,981	*$170*	*1.1 %*
Equities	**4,823**	4,867	*(44)*	*(0.9 %)*
Short-term investments, including Other	**1,667**	1,209	*458*	*37.9%*
BOLI	**453**	449	*4*	*0.9 %*
Investment fees and expenses	**(1,730)**	(1,586)	*(144)*	*9.1 %*
Net investment income	**$21,364**	$20,920	*$444*	*2.1 %*

Fixed Maturities

While on an overall basis, our average investment in fixed maturity securities was approximately 2% lower for the 2019 three-month period as compared to the same respective period of 2018, investment income from fixed maturity securities increased for the 2019 three-month period as compared to the 2018 three-month period primarily due to higher yields from all asset classes in our fixed maturity portfolio.

Average yields for our fixed maturity portfolio were as follows:

	Three Months Ended March 31	
	2019	2018
Average income yield	**3.3%**	3.2%
Average tax equivalent income yield	**3.4%**	3.4%

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Equities

Income from our equity portfolio decreased slightly during the 2019 three-month period as compared to the same respective period of 2018 which reflected a decrease in our allocation to this asset category as well as a different mix of equities owned.

Other Investments and Short-term Investments

Short-term investments, which have a maturity at purchase of one year or less are carried at fair value, which approximates their cost basis, and are primarily composed of investments in U.S. treasury obligations, commercial paper and money market funds. Income from our other investments and short-term investments increased during the 2019 three-month period as compared to the same respective period of 2018 primarily attributable to higher earnings from our short-term investment holdings due to higher interest rates.

Equity in Earnings (Loss) of Unconsolidated Subsidiaries

Equity in earnings (loss) of unconsolidated subsidiaries was as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
All other investments, primarily investment fund LPs/LLCs	**$3,809**	$7,616	*$(3,807)*	*(50.0 %)*
Tax credit partnerships	**(4,619)**	(5,976)	*1,357*	*(22.7 %)*
Equity in earnings (loss) of unconsolidated subsidiaries	**$(810)**	$1,640	*$(2,450)*	*(149.4%)*

We hold interests in certain LPs/LLCs that generate earnings from trading portfolios, secured debt, debt securities, multi-strategy funds and private equity investments. The performance of the LPs/LLCs is affected by the volatility of equity and credit markets. For our investments in LPs/LLCs, we record our allocable portion of the partnership operating income or loss as the results of the LPs/LLCs become available. Our investment results from our portfolio of investments in LPs/LLCs decreased for the 2019 three-month period as compared to the 2018 three-month period due to a net decrease in the reported earnings from our LP/LLC investment portfolio.

Our tax credit partnership investments are designed to generate returns in the form of tax credits and tax-deductible project operating losses and are comprised of qualified affordable housing project tax credit partnerships and historic tax credit partnerships. We account for our tax credit partnership investments under the equity method and record our allocable portion of the operating losses of the underlying properties based on estimates provided by the partnerships. For our qualified affordable housing project tax credit partnerships, we adjust our estimates of our allocable portion of operating losses periodically as actual operating results of the underlying properties become available. Our historic tax credit partnerships are short-term in nature and remaining operating losses are expected to be recognized primarily in 2019. The results from our tax credit partnership investments for the three months ended March 31, 2019 reflected lower partnership operating losses as compared to the same respective period of 2018.

The tax benefits received from our tax credit partnerships, which are not reflected in our investment results above, reduced our tax expense in 2019 and 2018 as follows:

	Three Months Ended March 31	
(In millions)	**2019**	2018
Tax credits recognized during the period	**$4.6**	$5.3
Tax benefit of tax credit partnership operating losses	**$1.0**	$1.3

Tax credits provided by the underlying projects of the historic tax credit partnerships are typically available in the tax year in which the project is put into active service, whereas the tax credits provided by qualified affordable housing project tax credit partnerships are provided over approximately a ten year period. The decrease in tax credits recognized for the three months ended March 31, 2019 was primarily attributable to our historic tax credit partnership investments.

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Non-GAAP Financial Measure – Tax Equivalent Investment Result

We believe that to fully understand our investment returns it is important to consider the current tax benefits associated with certain investments as the tax benefit received represents a portion of the return provided by our tax-exempt bonds, BOLI, common and preferred stocks, and tax credit partnership investments (collectively, our tax-preferred investments). We impute a pro forma tax-equivalent result by estimating the amount of fully-taxable income needed to achieve the same after-tax result as is currently provided by our tax-preferred investments. We believe this better reflects the economics behind our decision to invest in certain asset classes that are either taxed at lower rates and/or result in reductions to our current federal income tax expense. Our pro forma tax-equivalent investment result is shown in the table that follows as well as a reconciliation of our GAAP net investment result to our tax equivalent result.

	Three Months Ended March 31	
(In thousands)	**2019**	2018
GAAP net investment result:		
Net investment income	**$ 21,364**	$ 20,920
Equity in earnings (loss) of unconsolidated subsidiaries	**(810)**	1,640
GAAP net investment result	**$ 20,554**	$ 22,560
Pro forma tax-equivalent investment result	**$ 26,928**	$ 30,393
Reconciliation of pro forma and GAAP tax-equivalent investment result:		
GAAP net investment result	**$ 20,554**	$ 22,560
Taxable equivalent adjustments, calculated using the 21% federal statutory tax rate		
State and municipal bonds	**247**	698
BOLI	**120**	119
Dividends received	**141**	339
Tax credit partnerships	**5,866**	6,677
Pro forma tax-equivalent investment result	**$ 26,928**	$ 30,393

Net Realized Investment Gains (Losses)

The following table provides detailed information regarding our net realized investment gains (losses).

	Three Months Ended March 31	
(In thousands)	**2019**	2018

OTTI losses, total:		
Corporate debt	**$(136)**	$—
Portion of OTTI losses recognized in other comprehensive income before taxes:		
Corporate debt	**87**	—
Net impairment losses recognized in earnings	**(49)**	—
Gross realized gains, available-for-sale fixed maturities	**259**	4,464
Gross realized (losses), available-for-sale fixed maturities	**(308)**	(2,035)
Net realized gains (losses), equity investments	**1,790**	9,101
Net realized gains (losses), other investments	**379**	688
Change in unrealized holding gains (losses), equity investments	**30,337**	(23,261)
Change in unrealized holding gains (losses), convertible securities, carried at fair value as a part of other investments	**1,895**	(954)
Other	**1**	7
Net realized investment gains (losses)	**$34,304**	$(11,990)

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

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We recognized $34.3 million of net realized investment gains during 2019 three-month period, primarily driven by unrealized holding gains on our equity trading portfolio of $30.3 million. The primary driver of these unrealized holding gains was the improvement in the market during the first quarter of 2019, which caused our equity securities to increase in value. The most significant sectors that benefited were the financial and energy sectors, although all sectors improved.

Operating Expenses

Corporate segment operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Operating expenses	**$9,172**	$8,637	*$535*	*6.2 %*
Management fee offset	**(4,602)**	(3,959)	*(643)*	*16.2%*
Segment Total	**$4,570**	$4,678	*$(108)*	*(2.3 %)*

The increase in operating expenses for the three months ended March 31, 2019 was primarily driven by an increase in share-based compensation expenses and other compensation related costs and, to a lesser extent, an increase in professional fees as compared to the same respective period of 2018. The increase in share-based compensation expense in the 2019 three-month period was attributable to the effect of an adjustment made during the first quarter of 2018 to a particular year's award as the value of the projected award decreased based upon the decline of one of the associated performance metrics.

Operating subsidiaries within our Specialty P&C and Workers' Compensation Insurance segments are charged a management fee by the Corporate segment for services provided to these subsidiaries. The management fee is based on the extent to which services are provided to the subsidiary and the amount of gross premium written by the subsidiary. Under the arrangement, the expenses associated with such services are reported as expenses of the Corporate segment, and the management fees charged are reported as an offset to Corporate operating expenses. While the terms of the arrangement were consistent between 2018 and 2019, fluctuations in the amount of gross premium written by each subsidiary can result in corresponding variations in the management fee charged to each subsidiary during a particular period.

Interest Expense

Consolidated interest expense for three months ended March 31, 2019 and 2018 was comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Senior Notes due 2023	**$3,357**	$3,357	*$—*	*— %*
Revolving Credit Agreement (including fees and amortization)	**141**	607	*(466)*	*(76.8 %)*
Mortgage Loans (including amortization)	**395**	306	*89*	*29.1 %*
(Gain)/loss on interest rate cap	**437**	(575)	*1,012*	*(176.0%)*
Other	**—**	10	*(10)*	*(100.0%)*
Interest expense	**$4,330**	$3,705	*$625*	*16.9 %*

Consolidated interest expense increased during the three months ended March 31, 2019 as compared to the same three-month period of 2018 driven by the change in fair value of our interest rate cap. The interest rate cap is designated as an economic hedge of interest rate risk associated with our variable rate Mortgage Loans. Excluding the impact of the change in fair value of our interest rate cap, consolidated interest expense decreased during the three months ended March 31, 2019. The decrease was due to lower interest expense on our Revolving Credit Agreement as we did not have any outstanding borrowings during the first quarter of 2019 compared to weighted average outstanding borrowings of $103 million during the first quarter of 2018. Interest expense on our Revolving Credit Agreement for the first quarter of 2019 primarily reflected unused commitment fees. See further discussion of our outstanding debt in Note 8 and further discussion of our interest rate cap agreement in Note 9 of the Notes to Condensed Consolidated Financial Statements.

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Taxes

Tax expense allocated to our Corporate segment includes U.S. tax only, which would include U.S. tax expense incurred from our corporate membership in Lloyd's of London and tax expense incurred from SPCs at Inova Re, one of our Cayman Islands reinsurance subsidiaries, which intend to elect to be taxed as U.S. taxpayers. The U.K. tax expense incurred by the U.K. based subsidiaries of our Lloyd's Syndicates segment is allocated to that segment. Consolidated tax expense reflects tax expense of both segments, as shown in the table below:

	Three Months Ended March 31	
(In thousands)	**2019**	2018
Corporate segment income tax expense (benefit)	**$6,657**	$(3,428)
Lloyd's Syndicates segment income tax expense (benefit)	**304**	6
Consolidated income tax expense (benefit)	**$6,961**	$(3,422)

Factors affecting our consolidated effective tax rate include the following:

	Three Months Ended March 31	
	2019	2018
Statutory rate	**21.0 %**	21.0 %
Tax-exempt income [1]	**(1.1 %)**	(11.8%)
Tax credits	**(12.0%)**	(62.5%)
Non-U.S. operating results	**0.4 %**	5.5 %
Tax deficiency (excess tax benefit) on share-based compensation	**0.4 %**	(0.5 %)
Other	**9.3 %**	7.7 %
Total effective tax rate	**18.0 %**	(40.6%)

[1] Includes tax-exempt interest, dividends received deduction and change in cash surrender value of BOLI.

The provision (benefit) for income taxes and the effective tax rate for the 2019 and 2018 three-month periods are determined based upon our current estimate of our annual effective tax rate at the end of each quarterly reporting period (the projected annual effective tax rate) plus the impact of certain discrete items that are not included in the projected annual effective tax rate. Our projected annual effective tax rates for 2019 and 2018 were benefits of 13.1% and 2.4% at March 31, 2019 and 2018, respectively, before consideration of discrete items. Our projected annual effective tax rates for both the 2019 and 2018 three-month periods were different from the statutory federal income tax rate primarily due to a portion of our investment income being tax-exempt and the utilization of tax credits transferred to us from our tax credit partnership investments. Tax credits utilized were $4.6 million and $5.3 million for the three months ended March 31, 2019 and 2018, respectively. While projected tax credits for 2019 are less than 2018, they continue to have a significant impact on the effective tax rate for the 2019 three-month period.

Our effective tax rates for the 2019 and 2018 three-month periods were an expense of 18.0% and a benefit of 40.6%, respectively, and differs from the projected annual effective tax rates due to certain discrete items. These discrete items increased our projected annual effective tax rate by 31.1% and reduced our projected annual effective tax rate by 38.2% for the 2019 and 2018 three-month periods, respectively.

For the 2019 and 2018 three-month periods, the most significant discrete item that affected our effective tax rate was the treatment of net realized investment gains and losses. Net realized investment gains and losses are treated as discrete items and reflected in the effective tax rate in the period in which they are included in income. This treatment of net realized investment gains of $34.3 million in our Corporate segment for the three months ended March 31, 2019 accounted for an increase of 30.3% in the projected annual effective tax rate. For the three months ended March 31, 2018, this treatment of net realized investment losses of $12.0 million in our Corporate segment accounted for a decrease of 34.7% in the projected annual effective tax rate.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We believe that we are principally exposed to three types of market risk related to our investment operations. These risks are interest rate risk, credit risk and equity price risk. We are also exposed to interest rate risk related to our variable rate Mortgage Loans and Revolving Credit Agreement. We have limited exposure to foreign currency risk as we issue few insurance contracts denominated in currencies other than the U.S. dollar and we have few monetary assets or obligations denominated in foreign currencies.

Interest Rate Risk

Investments

Our fixed maturities portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, market values of fixed income portfolios fall and vice versa. Certain of the securities are held in an unrealized loss position; we do not intend to sell and believe we will not be required to sell any of the debt securities held in an unrealized loss position before its anticipated recovery.

The following tables summarize estimated changes in the fair value of our available-for-sale fixed maturity securities for specific hypothetical changes in interest rates by asset class at March 31, 2019 and December 31, 2018. There are principally two factors that determine interest rates on a given security: changes in the level of yield curves and credit spreads. As different asset classes can be affected in different ways by movements in those two factors, we have separated our portfolio by asset class in the following tables.

	Interest Rate Shift in Basis Points				
	March 31, 2019				
($ in millions)	(200)	(100)	Current	100	200
Fair Value:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	**$127**	**$123**	**$119**	**$116**	**$113**
U.S. Government-sponsored enterprise obligations	**29**	**29**	**29**	**28**	**27**
State and municipal bonds	**319**	**308**	**298**	**287**	**278**
Corporate debt	**1,339**	**1,299**	**1,261**	**1,224**	**1,188**
Asset-backed securities	**511**	**490**	**479**	**466**	**441**
Total fixed maturities, available for sale	**$2,325**	**$2,249**	**$2,186**	**$2,121**	**$2,047**
Duration:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	***3.06***	***2.98***	***2.90***	***2.82***	***2.74***
U.S. Government-sponsored enterprise obligations	***0.68***	***0.69***	***2.03***	***3.32***	***3.77***
State and municipal bonds	***3.50***	***3.46***	***3.45***	***3.48***	***3.54***
Corporate debt	***2.92***	***2.89***	***2.89***	***2.87***	***2.83***
Asset-backed securities	***1.95***	***2.17***	***2.54***	***2.82***	***2.93***
Total fixed maturities, available for sale	***2.77***	***2.79***	***2.88***	***2.94***	***2.96***

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	Interest Rate Shift in Basis Points				
	December 31, 2018				
($ in millions)	(200)	(100)	Current	100	200
Fair Value:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	$127	$124	$120	$117	$114
U.S. Government-sponsored enterprise obligations	36	36	35	34	33
State and municipal bonds	316	305	294	283	273
Corporate debt	1,300	1,261	1,224	1,187	1,153
Asset-backed securities	443	432	421	409	396
Total fixed maturities, available for sale	$2,222	$2,158	$2,094	$2,030	$1,969
Duration:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	*2.77*	*2.70*	*2.63*	*2.57*	*2.50*
U.S. Government-sponsored enterprise obligations	*0.66*	*0.98*	*2.65*	*3.77*	*4.18*
State and municipal bonds	*3.61*	*3.58*	*3.59*	*3.64*	*3.73*
Corporate debt	*2.98*	*2.97*	*2.93*	*2.89*	*2.83*
Asset-backed securities	*2.18*	*2.46*	*2.86*	*3.11*	*3.23*
Total fixed maturities, available for sale	*2.86*	*2.91*	*2.99*	*3.04*	*3.04*

Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the existing level and composition of fixed income security assets, and should not be relied on as indicative of future results.

Certain shortcomings are inherent in the method of analysis presented in the computation of the fair value of fixed rate instruments. Actual values may differ from the projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities, including non-parallel shifts in the term structure of interest rates and changing individual issuer credit spreads.

At March 31, 2019, our fixed maturities portfolio includes fixed maturities classified as trading securities which do not have a significant amount of exposure to market interest rates or credit spreads.

Our cash and short-term investment portfolio at March 31, 2019 was carried at fair value which approximates their cost basis due to their short-term nature. Our cash and short-term investments portfolio lacks significant interest rate sensitivity due to its short duration.

Debt

Our variable interest rate Mortgage Loans are exposed to interest rate risk. However, a 1% change in LIBOR will not materially impact our annualized interest expense. Additionally, we have economically hedged the risk of a change in interest rates in excess of 1% on the Mortgage Loans through the purchase of an interest rate cap derivative instrument, which effectively caps our annual interest rate on the Mortgage Loans at a maximum of 3.675% (see Note 9 of the Notes to Condensed Consolidated Financial Statements for additional information). The fair value of the interest rate cap is not materially impacted by a 1% change in LIBOR; however, the carrying value of the interest rate cap is impacted by future expectations for LIBOR as well as estimations of volatility in the future yield curve.

Our Revolving Credit Agreement is exposed to interest rate risk as it is LIBOR based and a 1% change in LIBOR will impact annual interest expense only to the extent that there is an outstanding balance. For every $100 million drawn on our Revolving Credit Agreement, a 1% change in interest rates will change our annual interest expense by $1 million. Any outstanding balances on the Revolving Credit Agreement can be repaid on each maturity date, which has typically ranged from one to three months. As of March 31, 2019, no borrowings were outstanding under our Revolving Credit Agreement.

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Credit Risk

We have exposure to credit risk primarily as a holder of fixed income securities. We control this exposure by emphasizing investment grade credit quality in the fixed income securities we purchase.

As of March 31, 2019, 94% of our fixed maturity securities were rated investment grade as determined by NRSROs, such as Fitch, Moody's and Standard & Poor's. We believe that this concentration in investment grade securities reduces our exposure to credit risk on our fixed income investments to an acceptable level. However, investment grade securities, in spite of their rating, can rapidly deteriorate and result in significant losses. Ratings published by the NRSROs are one of the tools used to evaluate the creditworthiness of our securities. The ratings reflect the subjective opinion of the rating agencies as to the creditworthiness of the securities; therefore, we may be subject to additional credit exposure should the ratings prove to be unreliable.

We also have exposure to credit risk related to our receivables from reinsurers. Our receivables from reinsurers (with regard to both paid and unpaid losses) approximated $377 million at March 31, 2019 and $355 million at December 31, 2018. We monitor the credit risk associated with our reinsurers using publicly available financial and rating agency data.

Equity Price Risk

At March 31, 2019, the fair value of our equity investments, excluding our equity investments in bond investment funds as discussed in the following paragraph, was $277 million. These equity securities are subject to equity price risk, which is defined as the potential for loss in fair value due to a decline in equity prices. The weighted average beta of this group of securities was 0.9. Beta measures the price sensitivity of an equity security or group of equity securities to a change in the broader equity market, in this case the S&P 500 Index. If the value of the S&P 500 Index increased by 10%, the fair value of these securities would be expected to increase by 9.0% to $302 million. Conversely, a 10% decrease in the S&P 500 Index would imply a decrease of 9.0% in the fair value of these securities to $252 million. The selected hypothetical changes of plus or minus 10% do not reflect what could be considered the best or worst case scenarios and are used for illustrative purposes only.

Our equity investments include equity investments in certain bond investment funds which are not subject to significant equity price risk, and thus we have excluded these investments from the above analysis.

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ITEM 4. CONTROLS AND PROCEDURES.

The principal executive officer and principal financial officer of the Company participated in management's evaluation of our disclosure controls and procedures (as defined in SEC Rule 13a-15(e)) as of March 31, 2019. ProAssurance's disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on that evaluation, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those controls during the quarter.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 6 of the Notes to Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.

There are no changes to the "Risk Factors" in Part 1, Item 1A of the December 31, 2018 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) Not applicable.
(b) Not applicable.
(c) Information required by Item 703 of Regulation S-K.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs* (In thousands)
January 1 - 31, 2019	—	N/A	—	$109,643
February 1 - 28, 2019	—	N/A	—	$109,643
March 1 - 31, 2019	—	N/A	—	$109,643
Total	—	$—	—	

* Under its current plan begun in November 2010, the Board has authorized $600 million for the repurchase of common shares or the retirement of outstanding debt. This is ProAssurance's only plan for the repurchase of common shares, and the plan has no expiration date.

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ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Amendment to Facility Agreement dated November 15, 2013 and the Amendments to the Facility Agreement dated April 6, 2016 and Mary 22, 2018, effective March 13, 2019 between ProAssurance and the Premiums Trust Fund of Syndicate 1729.
31.1	Certification of Principal Executive Officer of ProAssurance as required under SEC rule 13a-14(a).
31.2	Certification of Principal Financial and Accounting Officer of ProAssurance as required under SEC rule 13a-14(a).
32.1	Certification of Principal Executive Officer of ProAssurance as required under SEC Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as amended (18 U.S.C. 1350).
32.2	Certification of Principal Financial and Accounting Officer of ProAssurance as required under SEC Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as amended (18 U.S.C. 1350).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROASSURANCE CORPORATION

May 1, 2019

/s/ Dana S. Hendricks

Dana S. Hendricks

Chief Financial Officer

(Duly authorized officer and principal financial officer)