SMITHFIELD FOODS INC
Form 4
December 12, 2012

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
MURPHY WENDELL H
(Last) (First) (Middle)
C/O 200 COMMERCE STREET
(Street)
SMITHFIELD, VA 23430
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SMITHFIELD FOODS INC [SFD]

3. Date of Earliest Transaction (Month/Day/Year)
12/10/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

Derivative Security					(D) (Instr. 3, 4, and 5)					
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock	(1)	12/10/2012	A		4,633.7158		(2)	(2)	common stock	4,633.71
Phantom Stock	(1)	12/10/2012	A		1,003.644		(2)	(2)	common stock	1,003.64

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MURPHY WENDELL H C/O 200 COMMERCE STREET SMITHFIELD, VA 23430	X			

Signatures

/s/ Michael H. Cole, as attorney-in-fact	12/12/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) 1 for 1

(2) The phantom stock becomes payable in shares of Company common stock upon termination of service as a director either in a lump sum or in annual installments over a period of at least two years and not more than ten years as per the director's deferral election. Notwithstanding the foregoing, after termination of service, the phantom stock may, at the election of the director, be converted into one or more "deemed investments" approved by the Company's Nominating and Governance Committee.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. -family:inherit;font-size:10pt;font-weight:bold;">$
136,094

$
140,956

Taxable equivalent adjustments, calculated using the 35% federal statutory tax rate:

State and municipal bonds
18,482

19,949

BOLI
1,081

1,086

Dividends received
1,456

579

Pro forma tax-equivalent net investment income
157,113

162,570

Equity in earnings (loss) of unconsolidated subsidiaries, as reported for GAAP
(6,873
)

(9,147
)
Taxable equivalent adjustment, calculated using the 35% federal statutory tax rate:

Tax credit partnerships
15,392

8,698

Pro forma tax-equivalent equity in earnings (loss) of unconsolidated subsidiaries
8,519

(449
)
Pro forma tax-equivalent investment results
$
165,632

$
162,121

78

Explanation of Responses:

Table of Contents

Net Realized Investment Gains (Losses)

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

	Year Ended December 31	
(In thousands)	2012	2011
Other-than-temporary impairment losses, total:		
Residential mortgage-backed securities	$(557)	$(782)
Corporate debt	(878)	(505)
Other investments	(131)	(3,827)
High yield asset-backed securities	—	(75)
Portion recognized in (reclassified from) Other Comprehensive Income:		
Residential mortgage-backed securities	(201)	(823)
Net impairment losses recognized in earnings	(1,767)	(6,012)
Gross realized gains, available-for-sale securities	18,645	14,625
Gross realized (losses), available-for-sale securities	(2,076)	(1,754)
Net realized gains (losses), trading securities	1,485	2,212
Change in unrealized holding gains (losses), trading securities	12,673	(3,188)
Decrease (increase) in the fair value of liabilities carried at fair value	(1,245)	111
Other	1,148	—
Net realized investment gains (losses)	$28,863	$5,994

All impairments of debt securities recognized during 2012 were credit-related.

We recognized impairments of $0.1 million and $3.8 million during the years ended December 31, 2012 and 2011, respectively, related to an interest in an LLC classified as a part of Other investments which we accounted for using the cost method. The LLC announced in 2011 that it planned to convert to a publicly traded investment fund and we impaired the investment to the NAV reported by the fund. The conversion occurred during the second quarter of 2012.

We substantially increased the size of our equity trading portfolio over the previous year. Unrealized trading portfolio gains reflect higher average balances in our portfolio and an overall improvement in stock market yields.

Gains (losses) from changes in the fair value of liabilities were entirely attributable to our 2019 Note Payable and related interest rate swap, both of which we repaid in July 2012. For more information, see Note 3 and Note 10 of the Notes to Consolidated Financial Statements.

Other Income

Other Income is comprised primarily of commission and fee income from our agency operations, other fee revenues, rental income and other miscellaneous revenues. The revenue is not a principal source of income and often varies among periods. The decrease in 2012 as compared to 2011 primarily reflected other income of $4.9 million recognized in 2011 related to a confidential settlement of litigation with a service provider and a gain of approximately $0.8 million recognized on the sale of a building in 2011.

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 over 90% of the Company’s business, the insured event generally becomes a liability when the event is first reported to the insurer. For occurrence policies the insured event becomes a liability when the event takes place. 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.

Table of Contents

The following table summarizes calendar year net losses and net loss ratios for the years ended December 31, 2012 and 2011 by separating losses between the current accident year and all prior accident years.

	Net Losses			Net Loss Ratios*		
	Year Ended December 31			Year Ended December 31		
($ in millions)	2012	2011	Change	2012	2011	Change
Current accident year	$452.0	$488.2	$(36.2)	82.1 %	86.3 %	(4.2)
Prior accident years	(272.0)	(325.9)	53.9	(49.4 %)	(57.6 %)	8.2
Calendar year	$180.0	$162.3	$17.7	32.7 %	28.7 %	4.0

* Net losses as specified divided by net premiums earned.

Our current accident year net loss ratios for the years ended December 31, 2012 and 2011 compare as follows:

	Year Ended December 31		
	2012	2011	Change
Current accident year net loss ratio, as reported	82.1 %	86.3 %	(4.2)
Less estimated ratio increase (decrease) attributable to:			
Change in our estimate of the reserve for death, disability and retirement	(0.3 %)	3.7 %	(4.0)
Reduction in premiums owed under reinsurance agreements	(5.6 %)	(4.9 %)	(0.7)
Commutation	—%	(0.1 %)	0.1
Tail coverages	1.9 %	1.7 %	0.2
Current accident year net loss ratio, excluding other listed factors	86.1 %	85.9 %	0.2

The 2012 decrease in our current accident year net loss ratio reflects the following:

- In 2012 we decreased our loss reserves related to death, disability and retirement (DDR) coverage endorsements provided to our insureds while in 2011 we increased loss reserves for this coverage. The reserve for DDR is actuarially estimated and is affected by changes in the number of insureds expected to benefit from the coverage endorsement.
- Net earned premium in both 2012 and 2011 was increased by reductions to amounts owed under reinsurance agreements (see "Net Premiums Earned"). The reductions had a greater effect on the net loss ratio in 2012.
- A commutation recorded in 2011 increased the 2011 net loss ratio; no commutation was recorded in 2012.
- More of our net earned premium was from tail coverages in 2012. This increases our average net loss ratio because we expect higher losses for tail coverages than for our other professional liability coverages.

We recognized favorable loss development related to prior accident years of $272.0 million for the year ended December 31, 2012 and $325.9 million for the year ended December 31, 2011. A detailed discussion of factors influencing our recognition of loss development recognized is included in the Critical Accounting Estimates section of Item 7, under the caption “Reserve for Losses and Loss Adjustment Expenses.” Information provided includes the amount of development recognized by accident year and the factors considered and judgments made to determine the amount of development recognized.

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 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 2012 and 2011.

Recoveries

We recognized favorable prior accident year loss development of approximately $49.4 million in 2012 and $39.9 million in 2011 related to our reinsured coverage layers (generally, losses exceeding $1 million) and recognized offsetting reductions to loss recoveries of $49.4 million in 2012 and $39.9 million in 2011. Because the reductions exceed other recoveries during each year, recoveries increased rather than decreased net losses for the years ended December 31, 2012 and 2011.

We similarly reduced our estimates of the premium due to reinsurers by $34.3 million and $30.6 million in 2012 and 2011, respectively, because the premium due to reinsurers is based in part on amounts recovered.

80

Table of Contents

Underwriting, Policy Acquisition and Operating Expenses

The table below provides a comparison of 2012 and 2011 underwriting, policy acquisition and operating expenses:

	Year Ended December 31			
($ in thousands)	2012	2011	Change	
Insurance operation expenses	$134,393	$134,342	$51	nm
Agency expenses	1,238	2,079	(841)	(40.5%)
	$135,631	$136,421	$(790)	(0.6%)

Insurance Operation Expenses

Insurance operation expenses in 2012 as compared to 2011 primarily reflected the net effect of the following:

- We incurred expenses related to the mergers of IND and Medmarc of approximately $1.5 million in 2012.
- As discussed in Notes 1 and 7 of the Notes to Consolidated Financial Statements, we adopted, on a prospective basis, new FASB guidance related to the deferral of policy acquisition costs. The new guidance affects the timing, but not the amount of acquisition costs ultimately expensed, as the decrease in the expense deferral reduces amortization of policy acquisition costs by the same amount, recognized over the term of the associated successful policies. Our 2012 expenses reflect a net increase of approximately $1.9 million in 2012 due to adoption of the new guidance, as we expensed approximately $4.2 million of policy acquisition costs that under prior guidance would have been deferred to later periods but also recognized amortization expense that was approximately $2.3 million lower than would have been recognized under previous guidance.
- Exclusive of the effect of the new FASB guidance, amortization of deferred policy acquisition costs was $0.3 million lower in 2012 than in 2011. While amortization was lower in 2012 consistent with the decline in net premiums earned, amortization in 2011 was reduced by approximately $1.5 million related to the acquisition of APS in November 2010. Due to the application of GAAP purchase accounting rules, no asset for deferred policy acquisition costs was recognized as a part of the purchase price allocation of APS; consequently, amortization of deferred policy acquisition costs in 2011 was reduced.
- On a sporadic basis our expenses are reduced by recoveries related to the settlement of litigation. Recoveries in 2012 were approximately $0.5 million lower (and thus expenses on a net basis were higher) than in 2011.
- Costs associated with the operations acquired from APS, primarily compensation costs, were approximately $3.7 million lower in 2012 as compared to 2011.
- Higher stock compensation and bonus costs in 2012 as compared to 2011 as well as additional costs incurred related to the enhancement of our customer service capabilities increased our 2012 expenses by approximately $5.0 million. We relocated a number of positions in order to create centralized customer service centers. Relocation benefits were provided to affected employees as well as termination benefits for employees unable to relocate. Expenses of $1.6 million related to a deferred compensation agreement with a former senior executive increased our expenses in 2011; there were no comparable expenses in 2012.
- Various other operating costs were collectively lower by approximately $3.2 million in 2012.

81

Table of Contents

Underwriting Expense Ratio (the Expense Ratio)

	Underwriting Expense Ratio * Year Ended December 31		
	2012	2011	Change
Underwriting expense ratio, as reported	24.4 %	23.8 %	0.6
Less estimated ratio increase (decrease) attributable to:			
Reduction in premiums owed under reinsurance agreements	(1.5 %)	(1.4 %)	(0.1)
Commutation	— %	(0.2 %)	0.2
Underwriting expense ratio, excluding listed factors	25.9 %	25.4 %	0.5

* Our expense ratio computations exclude agency expenses as discussed below.

The increase in our consolidated underwriting expense ratio for 2012 was primarily attributable to the decline in gross premiums earned. Our ratio in both 2012 and 2011 was reduced due to increases in net earned premium resulting from the re-estimation of ceded premiums for prior accident year coverages; however, the effect in both periods was comparable. A commutation recorded in 2011 decreased our 2011 expense ratio; no commutation was recorded in 2012.

Agency Expenses

We maintain limited agency operations that both generate premium revenues for our insurance subsidiaries and earn external commission and service fee revenues. Agency operations that are associated with the generation of premium revenues by our insurance subsidiaries are included in insurance operation expenses in the above table. Expenses of agency operations that are directly associated with external commission and service fee revenues are included in agency expenses in the above table. Agency expenses for 2011 included non-recurring expenses associated with the dissolution of certain agency operations.

Interest Expense

Interest expense declined during 2012 as compared to 2011, primarily because we repaid debt during 2012, as discussed in Liquidity and Capital Resources and Financial Condition. Interest expense by debt obligation is provided in the following table:

	Year Ended December 31		
(In thousands)	2012	2011	Change
Trust preferred securities due 2034	$635	$970	$(335)
Surplus notes due May 2034	342	509	(167)
2019 note payable	571	1,157	(586)
Credit facility fees and amortization	630	442	188
Other	3	400	(397)
	$2,181	$3,478	$(1,297)

Taxes

Factors affecting our effective tax rate include the following:

	Year Ended December 31	
	2012	2011
Statutory rate	35.0 %	35.0 %
Tax-exempt income	(3.4 %)	(3.2 %)
Tax credits	(2.5 %)	(1.4 %)
Other	1.3 %	0.4 %
Effective tax rate	30.4 %	30.8 %

Our effective tax rate decreased in 2012 as compared to 2011, primarily due to an increase in the expected tax benefit from tax credits transferred to us by our tax credit partnership investments. We recognized tax benefits of approximately $10.0 million during 2012, related to the credits, compared to tax benefits of $5.7 million during 2011.

82

Table of Contents

ITEM 7A. 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.

Interest Rate Risk

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 table summarizes 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 December 31, 2013 and December 31, 2012. There are principally two factors that determine interest rates on a given security: market interest rates and credit spreads. As different asset classes can be affected in different ways by movements in those two factors, we have broken out our portfolio by asset class in the following table.

	Interest Rate Shift in Basis Points				
	December 31, 2013				
	(200)	(100)	Current	100	200
Fair Value (in millions):					
U.S. Treasury obligations	$176	$174	$171	$168	$165
U.S. Government-sponsored enterprise obligations	34	34	33	32	30
State and municipal bonds	1,220	1,195	1,155	1,107	1,061
Corporate debt	1,453	1,413	1,361	1,308	1,257
Asset-backed securities	410	406	398	385	371
All fixed maturity securities	$3,293	$3,222	$3,118	$3,000	$2,884
Duration:					
U.S. Treasury obligations	3.85	3.81	3.77	3.72	3.68
U.S. Government-sponsored enterprise obligations	2.82	3.07	3.15	3.12	3.07
State and municipal bonds	3.61	3.84	4.07	4.20	4.25
Corporate debt	4.10	4.13	4.09	4.03	3.96
Asset-backed securities	2.08	2.55	3.12	3.57	3.80
All fixed maturity securities	3.60	3.80	3.90	4.00	4.00
	December 31, 2012				
Fair Value (in millions):					
U.S. Treasury obligations	$210	$209	$206	$202	$197
U.S. Government-sponsored enterprise obligations	58	58	57	55	53
State and municipal bonds	1,269	1,258	1,220	1,170	1,122
Corporate debt	1,533	1,521	1,471	1,409	1,350
Asset-backed securities	498	499	494	481	466
All fixed maturity securities	$3,568	$3,545	$3,448	$3,317	$3,188
Duration:					
U.S. Treasury obligations	2.92	2.89	2.84	2.77	2.70
U.S. Government-sponsored enterprise obligations	2.89	2.90	2.98	3.08	3.08
State and municipal bonds	3.78	3.91	4.06	4.17	4.26

Corporate debt	4.26	4.27	4.27	4.22	4.15
Asset-backed securities	1.81	1.82	2.35	3.06	3.66
All fixed maturity securities	3.65	3.70	3.81	3.93	4.01

83

Table of Contents

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.

Our cash, restricted cash and short-term investment portfolio at December 31, 2013 was carried on a cost basis which approximates its fair value. Our portfolio lacks significant interest rate sensitivity due to its short duration.

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 December 31, 2013, 93% of our fixed maturity securities were rated investment grade as determined by Nationally Recognized Statistical Rating Organizations (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 credit worthiness of our securities. The ratings reflect the subjective opinion of the rating agencies as to the credit worthiness of the securities, and therefore, we may be subject to additional credit exposure should the rating 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 $251 million at December 31, 2013 and $196 million at December 31, 2012, with the 2013 increase primarily attributable to acquisitions. We monitor the credit risk associated with our reinsurers using publicly available financial and rating agency data.

Equity Price Risk

At December 31, 2013 the fair value of our investment in common stocks was $254 million. These 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 0.96. 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 9.6% to $278 million. Conversely, a 10% decrease in the S&P 500 Index would imply a decrease of 9.6% in the fair value of these securities to $229 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.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.
Index to Consolidated Financial Statements

The Supplementary Financial Information required by Item 302 of Regulation S-K is included in Note 17 of the Notes to Consolidated Financial Statements of ProAssurance and its subsidiaries.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal year ended December 31, 2013. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective. Disclosure controls and procedures are defined in Exchange Act Rule 13a-15(e) and include the Company’s controls and other procedures that are designed to ensure that information, required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 based on the framework in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2013 and that there was no change in the Company’s internal controls during the fiscal year then ended that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

On January 1, 2013 we completed the acquisition of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc). Our management excluded Medmarc's systems and processes from the scope of ProAssurance's assessment of internal control over financial reporting as of December 31, 2013 in reliance on the guidance set forth in Question 3 of a "Frequently Asked Questions" interpretive release issued by the staff of the Securities and Exchange Commission's Office of the Chief Accountant and the Division of Corporation Finance in September 2004 (and revised on October 6, 2004). We are excluding Medmarc from that scope because we expect substantially all of its significant systems and processes to be converted to those of ProAssurance during 2014. At December 31, 2013 Medmarc represented $413.3 million or 8.0% of total assets, and $46.5 million or 6.3% of total revenues for the year then ended.

Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal controls over financial reporting as of December 31, 2013 as stated in their report which is included elsewhere herein.

ITEM 9B. OTHER INFORMATION

None.

85

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of ProAssurance Corporation

We have audited ProAssurance Corporation and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). ProAssurance Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc), which is included in the 2013 consolidated financial statements of ProAssurance Corporation and subsidiaries and constituted 8.0% total assets as of December 31, 2013 and 6.3% of total revenues for the year then ended. Our audit of internal control over financial reporting of ProAssurance Corporation and subsidiaries also did not include an evaluation of the internal control over financial reporting of Medmarc.

In our opinion, ProAssurance Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of changes in capital, income and comprehensive income and cash flows for each of the three years in the period ended December 31, 2013, of ProAssurance Corporation and subsidiaries and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Birmingham, Alabama

February 20, 2014

86

Table of Contents

PART III
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT.
The information required by this Item regarding executive officers is included in Part I of the Form 10K in accordance with Instruction 3 of the Instructions to Paragraph (b) of Item 401 of Regulation S-K.
The information required by this Item regarding directors is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance’s definitive proxy statement for the 2014 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 16, 2014.
ITEM 11. EXECUTIVE COMPENSATION.
The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance’s definitive proxy statement for the 2014 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 16, 2014.
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.
The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance’s definitive proxy statement for the 2014 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 16, 2014.
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.
The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance’s definitive proxy statement for the 2014 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 16, 2014.
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.
The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10K from ProAssurance’s definitive proxy statement for the 2014 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 16, 2014.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements. The following consolidated financial statements of ProAssurance Corporation and subsidiaries are included herein in accordance with Item 8 of Part II of this report.

Report of Registered Public Accounting Firm
Consolidated Balance Sheets – December 31, 2013 and 2012
Consolidated Statements of Changes in Capital – years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Income and Comprehensive Income – years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Cash Flows – years ended December 31, 2013, 2012 and 2011
Notes to Consolidated Financial Statements

Financial Statement Schedules. The following consolidated financial statement schedules of ProAssurance Corporation and subsidiaries are included herein in accordance with Item 14(d):

Schedule I – Summary of Investments – Other than Investments in Related Parties
Schedule II – Condensed Financial Information of ProAssurance Corporation (Registrant Only)
Schedule III – Supplementary Insurance Information
Schedule IV – Reinsurance

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(b) The exhibits required to be filed by Item 15(b) are listed herein in the Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) 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, on this the 20th day of February 2014.

PROASSURANCE CORPORATION

By: /S/ W. STANCIL STARNES
W. Stancil Starnes

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/S/ W. STANCIL STARNES, J.D.	Chairman of the Board, Chief Executive Officer	February 20, 2014
W. Stancil Starnes, J.D.	(Principal Executive Officer) and President	
/S/ EDWARD L. RAND, JR. Edward L. Rand, Jr.	Chief Financial Officer	February 20, 2014
/S/ KELLY B. BREWER Kelly B. Brewer	Chief Accounting Officer	February 20, 2014
/S/ LUCIAN F. BLOODWORTH Lucian F. Bloodworth	Director	February 20, 2014
/S/ SAMUEL A. DI PIAZZA, JR. Samuel A. Di Piazza, Jr.	Director	February 20, 2014
/S/ ROBERT E. FLOWERS, M.D. Robert E. Flowers, M.D.	Director	February 20, 2014
/S/ M. JAMES GORRIE M. James Gorrie	Director	February 20, 2014
/S/ WILLIAM J. LISTWAN, M.D. William J. Listwan, M.D.	Director	February 20, 2014
/S/ JOHN J. MCMAHON John J. McMahon	Director	February 20, 2014
/S/ DRAYTON NABERS, JR., J.D. Drayton Nabers, Jr., J.D.	Director	February 20, 2014
/S/ ANN F. PUTALLAZ, PH.D. Ann F. Putallaz, Ph.D.	Director	February 20, 2014
/S/ FRANK A. SPINOSA, D.P.M. Frank A. Spinosa, D.P.M.	Director	February 20, 2014

/S/ ANTHONY R. TERSIGNI, ED.D., FACHE Anthony R. Tersigni, Ed.D., FACHE	Director	February 20, 2014
/S/ THOMAS A. S. WILSON, JR., M.D. Thomas A. S. Wilson, Jr., M.D.	Director	February 20, 2014

89

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ProAssurance Corporation

We have audited the accompanying consolidated balance sheets of ProAssurance Corporation and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income and comprehensive income, changes in capital, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ProAssurance Corporation and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in related to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ProAssurance Corporation’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 20, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

Birmingham, Alabama
February 20, 2014

Table of Contents

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

	December 31, 2013	December 31, 2012
Assets		
Investments		
Fixed maturities, available for sale, at fair value; amortized cost, $3,026,256 and $3,224,332, respectively	$3,118,049	$3,447,999
Equity securities, trading, at fair value; cost, $203,308 and $187,891, respectively	253,541	202,618
Short-term investments	248,605	71,737
Business owned life insurance	54,374	52,414
Investment in unconsolidated subsidiaries	214,236	121,049
Other investments	52,240	31,085
Total Investments	3,941,045	3,926,902
Cash and cash equivalents	129,383	118,551
Restricted Cash	78,000	—
Premiums receivable	115,403	106,312
Receivable from reinsurers on paid losses and loss adjustment expenses	3,231	4,517
Receivable from reinsurers on unpaid losses and loss adjustment expenses	247,518	191,645
Prepaid reinsurance premiums	21,449	13,404
Deferred policy acquisition costs	28,999	23,179
Deferred tax asset	1,757	—
Real estate, net	41,010	41,502
Intangible assets	52,002	53,225
Goodwill	161,115	163,055
Other assets	329,979	234,286
Total Assets	$5,150,891	$4,876,578
Liabilities and Shareholders' Equity		
Liabilities		
Policy liabilities and accruals		
Reserve for losses and loss adjustment expenses	$2,072,822	$2,054,994
Unearned premiums	256,255	233,861
Reinsurance premiums payable	34,321	45,591
Total Policy Liabilities	2,363,398	2,334,446
Deferred tax liability	—	14,585
Other liabilities	143,079	131,967
Long-term debt, at amortized cost	250,000	125,000
Total Liabilities	2,756,477	2,605,998
Shareholders' Equity		
Common shares, par value $0.01 per share, 100,000,000 shares authorized, 62,096,787 and 61,867,034 shares issued, respectively	621	619
Additional paid-in capital	349,894	341,780
Accumulated other comprehensive income (loss), net of deferred tax expense (benefit) of $32,127 and $78,284, respectively	59,661	145,380
Retained earnings	2,015,603	1,782,857
	2,425,779	2,270,636
Treasury shares, at cost, 900,281 shares and 243,530 shares, respectively	(31,365)	(56)

Total Shareholders' Equity	2,394,414	2,270,580
Total Liabilities and Shareholders' Equity	$5,150,891	$4,876,578

See accompanying notes.

Table of Contents

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2011	$344	$532,213	$ 79,124	$1,428,026	$(183,844)	$1,855,863
Common shares reacquired	—	—	—	—	(21,005)	(21,005)
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	2,433	—	—	441	2,874
Share-based compensation	—	7,119	—	—	—	7,119
Net effect of restricted and performance shares issued and stock options exercised	2	(3,140)	—	—	—	(3,138)
Dividends to shareholders	—	—	—	(15,269)	—	(15,269)
Other comprehensive income (loss)	—	—	50,913	—	—	50,913
Net income	—	—	—	287,096	—	287,096
Balance at December 31, 2011	346	538,625	130,037	1,699,853	(204,408)	2,164,453
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	3,041	—	—	553	3,594
Share-based compensation	—	8,639	—	—	—	8,639
Net effect of restricted and performance shares issued and stock options exercised	2	(4,455)	—	—	—	(4,453)
Dividends to shareholders	—	—	—	(192,466)	—	(192,466)
Two-for-one stock split effected in the form of a stock dividend	271	(204,070)	—	—	203,799	—
Other comprehensive income (loss)	—	—	15,343	—	—	15,343
Net income	—	—	—	275,470	—	275,470
Balance at December 31, 2012	619	341,780	145,380	1,782,857	(56)	2,270,580
Common shares reacquired	—	—	—	—	(32,454)	(32,454)
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	2,940	—	—	1,145	4,085
Share-based compensation	—	9,242	—	—	—	9,242
Net effect of restricted and performance shares issued and stock options exercised	2	(4,068)	—	—	—	(4,066)
Dividends to shareholders	—	—	—	(64,777)	—	(64,777)
Other comprehensive income (loss)	—	—	(85,719)	—	—	(85,719)
Net income	—	—	—	297,523	—	297,523
Balance at December 31, 2013	$621	$349,894	$ 59,661	$2,015,603	$(31,365)	$2,394,414

See accompanying notes.

92

Table of Contents

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

	Year Ended December 31		
	2013	2012	2011
Revenues			
Net premiums earned	$527,919	$550,664	$565,415
Net investment income	129,265	136,094	140,956
Equity in earnings (loss) of unconsolidated subsidiaries	7,539	(6,873)	(9,147)
Net realized investment gains (losses):			
Other-than-temporary impairment (OTTI) losses	(71)	(1,566)	(5,189)
Portion of OTTI losses recognized in (reclassified from) other comprehensive income before taxes	—	(201)	(823)
Net impairment losses recognized in earnings	(71)	(1,767)	(6,012)
Other net realized investment gains (losses)	67,975	30,630	12,006
Total net realized investment gains (losses)	67,904	28,863	5,994
Other income	7,551	7,106	13,566
Total revenues	740,178	715,854	716,784
Expenses			
Losses and loss adjustment expenses	243,015	161,726	151,270
Reinsurance recoveries	(18,254)	18,187	11,017
Net losses and loss adjustment expenses	224,761	179,913	162,287
Underwriting, policy acquisition and operating expenses	147,817	135,631	136,421
Interest expense	2,755	2,181	3,478
Loss on extinguishment of debt	—	2,163	—
Total expenses	375,333	319,888	302,186
Gain on acquisition	32,314	—	—
Income before income taxes	397,159	395,966	414,598
Provision for income taxes			
Current expense (benefit)	74,977	82,752	128,553
Deferred expense (benefit)	24,659	37,744	(1,051)
Total income tax expense (benefit)	99,636	120,496	127,502
Net income	297,523	275,470	287,096
Other comprehensive income (loss), after tax, net of reclassification adjustments	(85,719)	15,343	50,913
Comprehensive income	$211,804	$290,813	$338,009
Earnings per share:			
Basic	$4.82	$4.49	$4.70
Diluted	$4.80	$4.46	$4.65

Weighted average number of common shares outstanding:			
Basic	61,761	61,342	61,140
Diluted	62,020	61,833	61,684
Cash dividends declared per common share	$1.05	$3.13	$0.25

See accompanying notes.

Table of Contents

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

	Year Ended December 31		
	2013	2012	2011
Operating Activities			
Net income	$297,523	$275,470	$287,096
Adjustments to reconcile income to net cash provided by operating activities:			
Amortization, net of accretion	41,429	32,832	30,740
Depreciation	4,538	4,741	4,949
Loss (gain) on extinguishment of debt	—	2,163	—
Gain on acquisition	(32,314)	—	—
(Increase) decrease in cash surrender value of business owned life insurance	(1,960)	(2,008)	(2,070)
Net realized investment gains	(67,904)	(28,863)	(5,994)
Share-based compensation	9,242	8,639	7,119
Deferred income taxes	24,659	37,744	(1,051)
Policy acquisition costs, net amortization (net deferral)	(5,820)	3,448	655
Equity in earnings of unconsolidated subsidiaries, excluding distributions received and tax credit partnership amortization	(17,376)	450	3,757
Other	(3,014)	(2,957)	(866)
Other changes in assets and liabilities, excluding effect of business combinations:			
Premiums receivable	(6,105)	16,494	730
Receivable from reinsurers on paid losses and loss adjustment expenses	2,601	(342)	407
Receivable from reinsurers on unpaid losses and loss adjustment expenses	15,625	58,870	29,778
Prepaid reinsurance premiums	(849)	(482)	(1,545)
Other assets	9,582	(11,231)	613
Reserve for losses and loss adjustment expenses	(179,677)	(218,100)	(166,328)
Unearned premiums	(1,740)	(21,919)	(4,895)
Reinsurance premiums payable	(13,269)	(36,583)	(29,642)
Other liabilities	(36,569)	(27,116)	5,911
Net cash provided (used) by operating activities	$38,602	$91,250	$159,364

Continued on following page.

Table of Contents

	Year Ended December 31		
	2013	2012	2011
Investing Activities			
Purchases of:			
Fixed maturities, available for sale	$(519,161)	$(646,198)	$(782,555)
Equity securities, trading	(87,604)	(120,555)	(117,208)
Other investments	(34,699)	(9,977)	(4,671)
Funding of tax credit limited partnerships	(63,489)	(35,745)	(29,213)
(Investment in) distributions from unconsolidated subsidiaries, net	(3,261)	(9,621)	—
Proceeds from sales or maturities of:			
Fixed maturities, available for sale	970,708	926,221	789,709
Equity securities, available for sale	—	—	3,921
Equity securities, trading	123,645	54,670	50,386
Other investments	2,352	1,180	773
Net sales or maturities (purchases) of short-term investments	(176,092)	48,565	49,011
Cash received from (paid for) acquisitions	22,780	(28,439)	—
Deposit made for future acquisition	(205,244)	(153,700)	—
Unsettled security transactions, net	205	4,852	7
Funding for Syndicate 1729	(8,699)	—	—
Cash received (paid) for other assets	(11,244)	(4,410)	(9,771)
(Increase) decrease in restricted cash	(78,000)	—	—
Net cash provided (used) by investing activities	(67,803)	26,843	(49,611)
Financing Activities			
Proceeds from long-term debt	250,000	125,000	—
Repayment of long-term debt	(127,183)	(57,660)	(325)
Repurchase of common stock	(29,089)	—	(21,005)
Excess tax benefit from share-based payment arrangements	2,128	7,022	1,711
Dividends to shareholders	(46,375)	(200,118)	(7,617)
Other	(9,448)	(4,186)	(2,968)
Net cash provided (used) by financing activities	40,033	(129,942)	(30,204)
Increase (decrease) in cash and cash equivalents	10,832	(11,849)	79,549
Cash and cash equivalents at beginning of period	118,551	130,400	50,851
Cash and cash equivalents at end of period	$129,383	$118,551	$130,400
Supplemental Disclosure of Cash Flow Information			
Net cash paid during the year for income taxes	$117,107	$110,278	$98,141
Cash paid during the year for interest	$913	$2,342	$3,182
Significant non-cash transactions			
Deposit transferred as consideration for acquisition	$153,700	$—	$—
Other investment interest converted to equity securities	$—	$15,742	$—

See accompanying notes.

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

1. Accounting Policies

Organization and Nature of Business

ProAssurance Corporation (ProAssurance, PRA or the Company), a Delaware corporation, is an insurance holding company for wholly owned specialty property and casualty insurance companies that principally provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys, liability insurance for medical technology and life sciences risks and, effective January 1, 2014, workers' compensation insurance. ProAssurance is also the majority capital provider for Syndicate 1729 at Lloyd's of London (Syndicate 1729) which began writing a range of property and casualty insurance and reinsurance lines effective January 1, 2014. During the years ended December 31, 2013, 2012 and 2011 ProAssurance primarily operated in the United States of America (U.S.) in a single reportable segment.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ProAssurance Corporation and its wholly-owned subsidiaries. Investments in entities where ProAssurance holds a greater than minor interest but does not hold a controlling interest are accounted for using the equity method. All significant intercompany accounts and transactions are eliminated in consolidation.

Basis of Presentation

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and disclosures related to these amounts at the date of the financial statements. Actual results could differ from those estimates.

Stock Split

In 2012, the Board of Directors of ProAssurance Corporation (the Board) declared a two-for-one split of ProAssurance common shares which was effected December 27, 2012 in the form of a stock dividend. All share and per share information provided in this report reflects the effect of the split for all periods presented.

Gain on Acquisition

The year-end deferred tax review resulted in a $3.7 million reduction of the Gain on acquisition recorded for our acquisition of Medmarc. Certain deferred tax liabilities relating to unrealized gains on investments held by Medmarc were not established as a part of the assets acquired and liabilities assumed for Medmarc and as a result the value of the net assets acquired in the transaction were overstated. An adjustment was made to the Gain on acquisition in the fourth quarter of 2013 reducing the gain from $36.0 million to $32.3 million. The adjustment was not quantitatively or qualitatively material to the prior or current period presented.

Accounting Policies

The significant accounting policies followed by ProAssurance in making estimates that materially affect financial reporting are summarized in these notes to the consolidated financial statements.

Recognition of Revenues

Insurance premiums are recognized as revenues pro rata over the terms of the policies, which are principally one year in duration.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

At December 31, 2013 and 2012 ProAssurance had established allowances for credit losses related to premium and agency receivables (classified as a part of Other Assets) as follows:

(in thousands)	Premium Receivables	Agency Receivables
Allowance for credit losses:		
Balance at December 31, 2011	$990	$332
Estimated credit losses	157	—
Account write offs, net of recoveries	(147)	(46)
Balance at December 31, 2012	1,000	286
Estimated credit losses	236	—
Account write offs, net of recoveries	(246)	(236)
Balance at December 31, 2013	$990	$50

Losses and Loss Adjustment Expenses
ProAssurance establishes its reserve for losses and loss adjustment expenses ("reserve for losses" or "reserve") based on estimates of the future amounts necessary to pay claims and expenses associated with the investigation and settlement of claims. The reserve for losses is determined on the basis of individual claims and payments thereon as well as actuarially determined estimates of future losses based on past loss experience, available industry data and projections as to future claims frequency, severity, inflationary trends, judicial trends, legislative changes and settlement patterns.

Management establishes the reserve for losses after taking into consideration a variety of factors including the conclusions reached by internal actuaries, premium rates, claims frequency, historical paid and incurred loss development trends, the effect of inflation, general economic trends, the legal and political environment, and the reports received from consulting actuaries. Internal actuaries perform an in-depth review of the reserve for losses at least semi-annually using the loss and exposure data of ProAssurance subsidiaries. Management engages consulting actuaries to review subsidiary loss and exposure data and provide reports to Management regarding the adequacy of reserves.

Estimating casualty insurance reserves, and particularly long-tailed insurance reserves, is a complex process. Long-tailed insurance is characterized by the extended period of time between collecting the premium for insuring a risk and the ultimate payment of losses. For ProAssurance the period of time required to resolve claims is often five years or more, and claims may be subject to litigation. Estimating losses for long-tailed insurance claims requires ProAssurance to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, reserve estimates may vary significantly from the eventual outcome. Reserve estimates and the assumptions on which these estimates are predicated are regularly reviewed and updated as new information becomes available. Any adjustments necessary are reflected in then current operations. Due to the size of ProAssurance’s reserve for losses, even a small percentage adjustment to these estimates could have a material effect on earnings in the period in which the adjustment is made, as was the case in 2013, 2012 and 2011.

The effect of adjustments made to reinsured losses is mitigated by the corresponding adjustment that is made to reinsurance recoveries. Thus, in any given year, ProAssurance may make significant adjustments to gross losses that have little effect on its net losses.

Reinsurance Receivables
ProAssurance enters into reinsurance agreements whereby other insurance entities agree to assume a portion of the risk associated with the policies issued by ProAssurance. In return, ProAssurance agrees to pay a premium to the reinsurer. ProAssurance purchases reinsurance to provide for greater diversification of business and to allow management to control exposure to potential losses arising from large risks.

Receivable from Reinsurers on Paid Losses is the estimated amount of losses already paid that will be recoverable from reinsurers. Receivable from Reinsurers on Unpaid Losses is the estimated amount of future loss payments that will be recoverable from reinsurers. Reinsurance Recoveries are the portion of losses incurred during the period that are estimated to be allocable to reinsurers. Premiums ceded are the estimated premiums that will be due to reinsurers with respect to premiums earned and losses incurred during the period.

These estimates are based upon management's estimates of ultimate losses and the portion of those losses that are allocable to reinsurers under the terms of the related reinsurance agreements. Given the uncertainty of the ultimate amounts of losses, these estimates may vary significantly from the eventual outcome. Management regularly reviews these estimates and

97

any adjustments necessary are reflected in the period in which the estimate is changed. Due to the size of the receivable from reinsurers, even a small adjustment to the estimates could have a material effect on ProAssurance's results of operations for the period in which the change is made.

Reinsurance contracts do not relieve ProAssurance from its obligations to policyholders. ProAssurance continually monitors its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Any amount determined to be uncollectible is written off in the period in which the uncollectible amount is identified.

Investments

Fair Values

Fair values of investment securities are primarily provided by independent pricing services. The pricing services provide an exchange traded price, if available, or provide an estimated price determined using multiple observable inputs, including exchange traded prices for similar assets. Management reviews valuations of securities obtained from the pricing services for accuracy based upon the specifics of the security, including class, maturity, credit rating, durations, collateral, and comparable markets for similar securities. Multiple observable inputs are not available for certain of our investments, including municipal bonds and corporate debt not actively traded, and investments in limited partnerships/limited liability companies (LPs/LLCs). Management values these municipal bonds and corporate debt either using a single non-binding broker quote or pricing models that utilize market based assumptions that have limited observable inputs. Management values investments in LPs/LLCs based on the net asset value of the interest held, as provided by the fund.

Fixed Maturities and Equity Securities

Fixed maturities and equity securities are considered as either available-for-sale or trading securities.

Available-for-sale securities are carried at fair value, determined as described above, and unrealized gains and losses on such available-for-sale securities are included, net of related tax effects, in Shareholders' Equity as a component of Accumulated Other Comprehensive Income (Loss).

Investment income includes amortization of premium and accretion of discount related to available-for-sale debt securities acquired at other than par value. Debt securities and mandatorily redeemable preferred stock with maturities beyond one year when purchased are classified as fixed maturities.

Trading portfolio securities are carried at fair value, determined as described above, with the holding gains and losses included in realized investment gains and losses in the current period.

Short-term Investments

Short-term investments, which have a maturity at purchase of one year or less, are primarily comprised of investments in U.S. Treasury obligations and commercial paper. All balances are reported at amortized cost, which approximates fair value.

Other Investments

Investments in LPs/LLCs where ProAssurance has virtually no influence over the operating and financial policies of an investee are accounted for using the cost method. Under the cost method, investments are valued at cost, with investment income recognized when received.

Investment in Unconsolidated Subsidiaries

Investments in LPs/LLCs where ProAssurance is deemed to have influence because it holds a greater than a minor interest are accounted for using the equity method. Under the equity method, the recorded basis of the investment is adjusted each period for the investor's pro rata share of the investee's income or loss. Investments in unconsolidated subsidiaries include tax credit partnerships accounted for using the equity method, whereby ProAssurance's proportionate share of income or loss is included in investment income. Tax credits received from the partnerships are recognized in the period received as a reduction to current tax expenses.

Business Owned Life Insurance (BOLI)

ProAssurance owns life insurance contracts on certain management employees. The life insurance contracts are carried at their current cash surrender value. Changes in the cash surrender value are included in income in the current period as investment income. Death proceeds from the contracts are recorded when the proceeds become payable under the policy terms.

98

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Realized Gains and Losses
Realized investment gains and losses are recognized on the specific identification basis.
Other-than-temporary Impairments
ProAssurance evaluates its 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 other-than-temporary declines. The assessment of whether the amortized cost basis of debt securities, particularly asset-backed debt securities, is expected to be recovered requires management to make assumptions regarding various matters affecting cash flows to be received in the future. The choice of assumptions is subjective and requires the use of judgments; actual credit losses experienced in future periods may differ from management's estimates of those credit losses.
If there is intent to sell the security or if it is more likely than not that the security will be required to be sold before full recovery of its amortized cost basis, ProAssurance considers a decline in fair value to be an other-than-temporary impairment. Otherwise, ProAssurance considers the following factors in determining whether an investment's decline is other-than-temporary:
For equity securities:
- the length of time for which the fair value of the investment has been less than its recorded basis;
- the financial condition and near-term prospects of the issuer underlying the investment, taking into consideration the economic prospects of the issuer's industry and geographical region, to the extent that information is publicly available;
- the historical and implied volatility of the fair value of the security;

For debt securities, an evaluation is made as to whether the decline in fair value is due to credit loss, which is defined as the excess of the current amortized cost basis of the security over the present value of expected future cash flows. Methodologies used to estimate the present value of expected cash flows to determine if a decline is due to a credit loss are:
- For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. Government and government agencies and authorities, 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. ProAssurance considers the following in projecting recovery values and recovery time frames:
- 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;
- 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;
- failure of the issuer of the security to make scheduled interest or principal payments;
- For structured securities (primarily asset-backed securities), ProAssurance 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). ProAssurance considers 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.

Investments in LPs/LLCs are evaluated for impairment by comparing ProAssurance's carrying value to net asset value (NAV) of ProAssurance's interest in the fund as reported by the fund manager. Additionally, Management considers the performance of the fund relative to the market, the stated objectives of the fund, and cash flows expected from the fund and fund audit reports, if available.

Investments in tax credit partnerships are evaluated for OTTI by considering both qualitative and quantitative factors which include: whether cash flows currently expected from the investment, primarily tax benefits, equal or exceed the carrying value of the investment, whether currently expected cash flows are less than those expected at the time the investment was acquired, and ProAssurance's ability and intent to hold the investment until the recovery of its carrying value.

ProAssurance recognizes other than temporary impairments, including impairments of debt securities due to credit loss, in earnings as a part of net realized investment gains (losses). In subsequent periods, any measurement of gain or loss or impairment is based on the revised amortized basis of the security. Declines in fair value, including impairments of debt

99

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

securities that are not evaluated as being due to credit loss, not considered to be other-than-temporary are recognized in other comprehensive income.
Asset-backed securities that have been impaired due to credit 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 then used to recognize income on the investment balance for subsequent accounting periods.
Cash and Cash Equivalents
For purposes of the consolidated balance sheets and statements of cash flow, ProAssurance considers all demand deposits and overnight investments to be cash equivalents.
Restricted Cash
Restricted cash represents cash balances which are not available for immediate or general use. At December 31, 2013 ProAssurance's Restricted cash was comprised entirely of a deposit collateralizing a standby letter of credit entered into as a part of our funding at Lloyd's.
Deferred Policy Acquisition Costs
Costs that vary with and are directly related to the successful production of new and renewal premiums (primarily premium taxes, commissions and underwriting salaries) are deferred to the extent they are recoverable against unearned premiums and are amortized as related premiums are earned.
Income Taxes/Deferred Taxes
ProAssurance files a consolidated federal income tax return. Tax-related interest and penalties are recognized as components of tax expense.
ProAssurance evaluates tax positions taken on tax returns and recognizes positions in the financial statements when it is more likely than not that the position will be sustained upon resolution with a taxing authority. If recognized, the benefit is measured as the largest amount of benefit that has a greater than fifty percent probability of being realized. Uncertain tax positions are reviewed each period by considering changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law, and adjustments are made as considered necessary. Adjustments to unrecognized tax benefits may affect income tax expense and the settlement of uncertain tax positions may require the use of cash.
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. ProAssurance’s temporary differences principally relate to loss reserves, unearned premium, deferred policy acquisition costs, unrealized investment gains (losses), basis differentials for investments, compensation accruals, and intangibles. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such benefits are realized. ProAssurance reviews its deferred tax assets quarterly for impairment. If management determines 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 the future operations of ProAssurance 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.
Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company’s results of operations, cash flows or financial position.
Real Estate
Real Estate balances are reported at cost or, for properties acquired in business combinations, estimated fair value on the date of acquisition, less accumulated depreciation. Real estate principally consists of properties in use as corporate offices. Depreciation is computed over the estimated useful lives of the related property using the straight-line

method. Excess office capacity is leased or made available for lease; rental income is included in other income and real estate expenses are included in underwriting, policy acquisition and operating expenses.

100

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Real estate accumulated depreciation was approximately $21.6 million and $20.2 million at December 31, 2013 and 2012, respectively. Real estate depreciation expense for the years ended December 31, 2013, 2012 and 2011 was $1.5 million, $1.4 million and $1.7 million, respectively.

Intangible Assets

Intangible assets with definite lives are amortized over the estimated useful life of the asset. Amortizable intangible assets primarily consist of renewal rights and agency relationships and had a carrying value of $51.7 million and $50.2 million at December 31, 2013 and 2012, respectively. Intangible assets with an indefinite life, primarily state licenses, are not amortized and had carrying values of $16.8 million and $14.3 million at December 31, 2013 and 2012, respectively. Increases in both amortizable and non-amortizable intangible assets during 2013 were attributable to intangible assets recognized related to 2013 business combinations. Intangible assets are evaluated for impairment on an annual basis.

Accumulated amortization of intangible assets was $16.5 million and $11.2 million at December 31, 2013 and 2012, respectively. Amortization expense for intangible assets for the three years ended December 31, 2013, 2012 and 2011 was $5.3 million, $4.5 million and $4.7 million, respectively. Aggregate amortization expense for intangible assets, excluding amortizable intangible assets recorded through our acquisition of Eastern, is estimated to be $5.1 million for 2014, $3.1 million for 2015, $2.8 million for 2016, $2.8 million for 2017 and $2.4 million for 2018.

Goodwill

ProAssurance makes at least an annual assessment as to whether the value of its goodwill assets are impaired. Management evaluates the carrying value of goodwill annually on October 1 and before the annual evaluation if events occur or circumstances change that would more likely than not reduce the fair value below the carrying value. Because ProAssurance operates in a single operating segment and all components within the segment are economically similar, ProAssurance is considered a single reporting unit for the purposes of the impairment evaluation. In assessing goodwill, Management estimates the fair value of the reporting unit on the evaluation date based on the Company's market capitalization and an expected premium that would be paid to acquire control of the Company (a control premium) and performs a sensitivity analysis using a range of historical stock prices and control premiums. Management concluded in 2013, 2012 and 2011 that the fair value of the Company's reporting unit exceeded the carrying value and no adjustment to impair goodwill was necessary.

Goodwill is recognized in conjunction with acquisitions as the excess of the purchase consideration for the acquisition over the fair value of identifiable assets acquired and liabilities assumed. The fair value of identifiable assets and liabilities, and thus goodwill, is subject to redetermination within a measurement period of up to one year following completion of an acquisition. During 2013 goodwill was reduced by $1.9 million primarily related to the after-tax effect of the re-determination of the fair value of the reserve for losses associated with a business combination completed in late 2012.

Other Assets

At December 31, 2013 and 2012, Other assets was principally comprised of deposits with third-party agents of $205 million and $153.7 million, respectively, related to the completion of pending business combination transactions. See Note 2.

Treasury Stock

Treasury shares are reported at cost, and are reflected on the balance sheets as an unallocated reduction of total equity.

Share-Based Payments

ProAssurance recognizes compensation cost for share-based payments (including stock options, performance share units, restricted share units, and purchase match units) using the modified prospective method whereby the methodology for recognizing compensation expense differs depending upon the grant date of each share-based payment award. Compensation cost for awards is recognized based on the grant-date fair value of the award over the relevant service period of the award; for awards that vest in increments (graded vesting), compensation cost is recognized over the relevant service period for each separately vested portion of the award. Excess tax benefits (tax deductions realized in excess of the compensation costs recognized for the exercise of the awards, multiplied by the incremental tax rate) are reported as financing cash inflows.

101

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Subsequent Events
In connection with its preparation of the Consolidated Financial Statements, ProAssurance has evaluated events that occurred subsequent to December 31, 2013, for recognition or disclosure in its financial statements and notes to the financial statements.
Accounting Changes Adopted
Intangibles-Goodwill and Other
Effective for fiscal years beginning after September 15, 2012, the Financial Accounting Standards Board (FASB) revised guidance related to impairment testing of indefinite-lived intangible assets. The new guidance permits an entity to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. Quantitative impairment testing is required only if the assessment of qualitative factors indicates it is more likely than not that impairment exists. ProAssurance adopted the guidance on January 1, 2013. Adoption of this guidance had no material effect on ProAssurance's results of operations or financial position.
Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income
Effective for interim and annual reporting periods beginning after December 15, 2012, the FASB revised guidance related to the disclosure of amounts reclassified out of accumulated other comprehensive income. The most significant provisions of the new guidance require entities to present additional disclosure, either on the face of the income statement or in the notes, regarding significant amounts reclassified, in their entirety, from accumulated other comprehensive income to net income. ProAssurance adopted the guidance on January 1, 2013. Adoption of this guidance had no material effect on ProAssurance’s results of operations or financial position as it impacts disclosures only.
Disclosures About Offsetting Assets and Liabilities
Effective for fiscal years beginning on or after January 1, 2013, the FASB revised guidance related to disclosures about certain assets and liabilities in an entity’s financial statements. The guidance requires disclosures related to the net and gross positions of certain financial instruments and transactions that are either eligible for offset in accordance with existing GAAP guidance or subject to an agreement that requires such offset. The guidance must be applied retrospectively for all prior periods presented. ProAssurance adopted the guidance on January 1, 2013. Adoption of this guidance had no material effect on ProAssurance’s results of operations or financial position as it impacts disclosures only.
Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts
Effective for fiscal years beginning after December 15, 2011, the FASB revised guidance regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. The guidance permits deferral of qualifying costs only when associated with successful contract acquisitions. Internal selling agent and underwriter salary and benefit costs allocated to unsuccessful contracts, as well as advertising costs, are excluded. The guidance permitted but did not require retrospective application. ProAssurance prospectively adopted the guidance on January 1, 2012. Adoption of this guidance had no material effect on ProAssurance’s results of operations or financial position.

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Accounting Changes Not Yet Adopted

Investments-Equity Method and Joint Ventures-Accounting for Investments in Qualified Affordable Housing Projects

Effective for fiscal years beginning after December 15, 2014, the FASB issued guidance which permits qualified reporting entities to use a new accounting method, the proportional amortization method, for investments in qualified affordable housing projects. Under the new method the initial cost of an investment is amortized in proportion to the tax benefits received, and investment performance is recognized as a component of income tax expense (benefit) rather than as a component of investment income. ProAssurance is in the process of evaluating the effect that the use of the new method would have on its results of operations and financial position and whether it meets the qualification requirements for using the new method. ProAssurance plans to adopt the guidance beginning January 1, 2015.

Liabilities-Obligations Resulting from Joint and Several Liability Arrangements

Effective for fiscal years beginning after December 15, 2013, the FASB revised guidance related to obligations resulting from joint and several liability arrangements. The new guidance requires an entity to recognize, measure and disclose obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations already addressed within existing GAAP guidance, with retrospective application required for such arrangements existing at the beginning of the fiscal year of adoption. ProAssurance plans to adopt the guidance beginning January 1, 2014. Adoption of this guidance is expected to have no effect on ProAssurance's results of operations or financial position.

Income Taxes-Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

Effective for fiscal years beginning after December 15, 2013, the FASB issued guidance related to the financial statement presentation of unrecognized tax benefits. The new guidance requires an entity to present unrecognized tax benefits as a reduction to a deferred tax asset resulting from a net operating loss carryforward, a similar tax loss, or tax credit carryforward except in circumstances where the relevant taxing authority does not permit offset or does not require offset and the entity does not intend to use the deferred tax asset for offset. The guidance requires prospective application for all unrecognized tax benefits that exist as of the effective date, but may be applied retrospectively. ProAssurance plans to adopt the guidance prospectively beginning January 1, 2014. Adoption of this guidance is expected to have no effect on ProAssurance's results of operations or financial position.

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

2. Business Combinations

All entities acquired in 2013 and 2012 were accounted for in accordance with GAAP relating to business combinations. No entities were acquired in 2011.

On January 1, 2013, ProAssurance completed the acquisition of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc), through a sponsored demutualization. Medmarc is based in Chantilly, Virginia and provides products liability insurance for medical technology and life sciences companies and also provides legal professional liability insurance. ProAssurance acquired Medmarc for cash of $153.7 million, including the funding of future policy credits for eligible members of $7.5 million. ProAssurance transferred all of the cash required to complete the transaction to a third-party agent for the benefit of Medmarc eligible members on December 27, 2012; the deposit was classified as a part of Other Assets at December 31, 2012. ProAssurance incurred expenses related to the purchase of approximately $2.6 million during the year ended December 31, 2013 and approximately $1.0 million during the year ended December 31, 2012. These expenses were included as a part of operating expenses in the periods incurred.

The purchase consideration for Medmarc was allocated to the assets acquired and liabilities assumed based on their estimated fair values on the acquisition date, as shown in the table below. The purchase consideration was less than the estimated fair value of the net assets acquired resulting in a gain on the acquisition of $32.3 million, which reflects a reduction of $3.7 million recorded in the fourth quarter of 2013, as discussed in Note 1. ProAssurance believes it was able to acquire Medmarc for less than the fair value of its net assets due to Medmarc's declining premium base and its small capital position relative to other insurers in the medical technology and life sciences products liability insurance market.

(In thousands)		
Fixed maturities, available for sale	$269,529	
Equity securities, trading	30,976	
Cash and short-term investments	24,008	
Other investments	5,340	
Premiums receivable	2,986	
Receivable from reinsurers on paid and unpaid losses and LAE	73,107	
Intangible assets	3,630	
Other assets	14,614	
Reserve for losses and loss adjustment expenses	(201,072	)
Unearned premiums	(16,937	)
Deferred tax liabilities	(4,934	)
Other liabilities	(15,233	)
Fair value of net assets acquired	$186,014	
Gain on Acquisition	(32,314	)
Total purchase consideration	$153,700	

Intangible assets acquired principally consist of non-compete agreements, which are amortizable over their useful life of two years, and insurance licenses, which have an indefinite useful life and are not amortized.

ProAssurance believes that all contractual cash flows related to acquired receivables will be collected. The fair value of reserves for losses and loss adjustment expenses and related reinsurance recoverables were estimated based on the present value of the expected underlying net cash flows, including a 5% profit margin and a 5% risk premium, and were determined to be materially the same as the recorded cost basis acquired.

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

The following table provides Pro Forma Consolidated Results for the years ended December 31, 2013 and 2012 as if the Medmarc transaction had occurred on January 1, 2012. Pro Forma Consolidated Results reflect ProAssurance Actual Consolidated Results adjusted by the following, net of related tax effects:

- For the year ended December 31, 2012, the ProAssurance 2012 Actual Consolidated Results did not include Medmarc, and have been adjusted to include Medmarc's 2012 operating results. ProAssurance Actual Consolidated Results for the year ended December 31, 2013 included Medmarc operating results (Revenue of $46.5 million and Net Income of $15.7 million).
- Certain costs included in ProAssurance Actual Consolidated Results for the year ended December 31, 2013 have been reported in the Pro Forma Consolidated Results as if the costs had been incurred for the year ended December 31, 2012. Such costs include direct transaction costs and certain compensation costs directly related to the integration of Medmarc operations.
- Prior to the acquisition date, Medmarc reported on a statutory basis and expensed policy acquisition costs associated with successful contracts as incurred. After the acquisition date, in accordance with GAAP, Medmarc policy acquisition costs associated with successful contracts were capitalized and amortized to expense as the related premium revenues were earned, but no amortization was recognized for Medmarc policies written prior to the acquisition date. The Pro Forma Consolidated Results for both 2013 and 2012 have been adjusted to reflect policy acquisition costs as if Medmarc had followed GAAP guidance for these costs in pre-acquisition periods.
- Earnings for the year ended December 31, 2012 were reduced to reflect amortization of intangible assets and debt security premiums and discounts recorded as a part of the Medmarc purchase price allocation.
- The non-taxable gain on the acquisition of $32.3 million that was included in ProAssurance Actual Consolidated Results for the year ended December 31, 2013 has been reported in the Pro Forma Consolidated Results as being recognized during the year ended December 31, 2012.

(In thousands)	Year Ended December 31, 2013		Year Ended December 31, 2012	
	ProAssurance Pro Forma Consolidated Results	ProAssurance Actual Consolidated Results	ProAssurance Pro Forma Consolidated Results	ProAssurance Actual Consolidated Results
Revenue	$740,178	$740,178	$757,240	$715,854
Net Income	$263,820	$297,523	$317,097	$275,470

During 2012, ProAssurance also completed an acquisition of a reciprocal exchange that converted to a stock insurance company upon acquisition. The acquisition was not material to ProAssurance.

On January 1, 2014, ProAssurance completed the acquisition of Eastern Insurance Holdings, Inc. (Eastern) (NASDAQ: EIHI) by purchasing 100% of its outstanding common shares for cash of $205 million. Eastern is based in Lancaster, Pennsylvania and specializes in workers' compensation insurance and reinsurance products and services, including a segregated portfolio cell reinsurance business. Allocation of the Eastern purchase consideration to the assets acquired and liabilities assumed was not complete as of the date of this report. ProAssurance transferred all of the cash required to complete the transaction to a third-party agent for the benefit of Eastern eligible shareholders on December 27, 2013; the deposit was classified as a part of Other Assets at December 31, 2013.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

3. Fair Value Measurement

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

Level 1:	quoted (unadjusted) market prices in active markets for identical assets and liabilities. For ProAssurance, Level 1 inputs are generally quotes for debt or equity securities actively traded in exchange or over-the-counter markets.
Level 2:	market data obtained from sources independent of the reporting entity (observable inputs). For ProAssurance, Level 2 inputs generally include quoted prices in markets that are not active, quoted prices for similar assets 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 December 31, 2013 and December 31, 2012, including financial instruments for which ProAssurance has elected fair value, are shown in the following tables. 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 requires judgment and consideration of factors specific to the assets being valued.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

	December 31, 2013			
	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	$—	$170,714	$—	$170,714
U.S. Government-sponsored enterprise obligations	—	32,768	—	32,768
State and municipal bonds	—	1,147,328	7,338	1,154,666
Corporate debt, multiple observable inputs	—	1,346,977	—	1,346,977
Corporate debt, limited observable inputs:				
Other corporate debt, NRSRO ratings available	—	—	11,449	11,449
Other corporate debt, NRSRO ratings not available	—	—	2,727	2,727
Residential mortgage-backed securities	—	235,614	—	235,614
Agency commercial mortgage-backed securities	—	27,475	—	27,475
Other commercial mortgage-backed securities	—	61,390	—	61,390
Other asset-backed securities	—	67,455	6,814	74,269
Equity securities				
Financial	81,536	—	—	81,536
Utilities/Energy	32,350	—	—	32,350
Consumer oriented	66,461	—	—	66,461
Industrial	57,262	—	—	57,262
All other	15,932	—	—	15,932
Short-term investments	248,605	—	—	248,605
Financial instruments carried at fair value, classified as a part of:				
Investment in unconsolidated subsidiaries	—	—	72,062	72,062
Total assets	$502,146	$3,089,721	$100,390	$3,692,257

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

	December 31, 2012			
	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	$—	$205,857	$—	$205,857
U.S. Government-sponsored enterprise obligations	—	56,947	—	56,947
State and municipal bonds	—	1,212,804	7,175	1,219,979
Corporate debt, multiple observable inputs	—	1,455,333	—	1,455,333
Corporate debt, limited observable inputs:				
Private placement senior notes	—	—	346	346
Other corporate debt, NRSRO ratings available	—	—	13,835	13,835
Other corporate debt, NRSRO ratings not available	—	—	1,010	1,010
Residential mortgage-backed securities	—	289,850	—	289,850
Agency commercial mortgage-backed securities	—	59,464	—	59,464
Other commercial mortgage-backed securities	—	74,106	—	74,106
Other asset-backed securities	—	67,237	4,035	71,272
Equity securities				
Financial	70,900	—	—	70,900
Utilities/Energy	31,383	—	—	31,383
Consumer oriented	51,100	—	—	51,100
Industrial	29,695	—	—	29,695
All other	19,540	—	—	19,540
Short-term investments	59,761	11,976	—	71,737
Financial instruments carried at fair value, classified as a part of:				
Investment in unconsolidated subsidiaries	—	—	33,739	33,739
Total assets	$262,379	$3,433,574	$60,140	$3,756,093

The fair values for securities included in the Level 2 category, with the few exceptions described below, have been 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 has selected a primary source for each type of security in the portfolio, and reviews the values provided for reasonableness by comparing data to alternate pricing services and to available market and trade data. Values that appear inconsistent are further reviewed for appropriateness. If a value does not appear reasonable, the valuation is discussed with the service that provided the value and would be adjusted, if necessary. No such adjustments were necessary in 2013 or 2012.

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

U.S. Government-sponsored enterprise obligations are valued using pricing models that consider current and historical market data, normal trading conventions, credit ratings, and the particular structure and characteristics of the security being valued, such as yield to maturity, redemption options, and contractual cash flows. Adjustments to model inputs or model results are included in the valuation process when necessary to reflect recent regulatory, government or corporate actions or significant economic, industry or geographic events that would affect the security's fair value. State and municipal bonds are valued using a series of matrices that consider credit ratings, the structure of the security, the sector in which the security falls, yields, and contractual cash flows. Valuations are further adjusted, when necessary, to reflect recent significant economic or geographic events or ratings changes that would affect the security's fair value.

108

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

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

Residential and commercial mortgage backed securities. Agency pass-through securities are valued using a matrix, considering the issuer type, coupon rate and longest cash flows outstanding. The matrix is developed daily based on available market information. Agency and non-agency collateralized mortgage obligations are both valued using models that consider the structure of the security, current and historical information regarding prepayment speeds, ratings and ratings updates, and current and historical interest rate and interest rate spread data. Valuations of Alt-A mortgages include a review of collateral performance data, which is generally updated monthly.

Other asset-backed securities are valued using models that consider the structure of the security, monthly payment information, current and historical information regarding prepayment speeds, ratings and ratings updates, and current and historical interest rate and interest rate spread data. Spreads and prepayment speeds consider collateral type. Valuations of subprime home equity loans use the same valuation methodology as previously described for Alt-A mortgages.

Short-term investments are securities maturing within one year, carried at cost which approximates the fair value of the security due to the short term to maturity.

Level 3 Valuations

Below is a summary description of the valuation processes and methodologies used as well as quantitative information regarding securities in the Level 3 category.

Level 3 Valuation Processes

- Level 3 securities are priced by the Vice President of Investments for our subsidiaries, who reports to the Chief Financial Officer.
- Level 3 valuations are computed quarterly. Prices are evaluated quarterly against prior period prices and the expected change in price.
- Exclusive of Investments in unconsolidated subsidiaries, which are valued at net asset value (NAV), the securities noted in the disclosure are primarily NRSRO rated corporate debt instruments for which comparable market inputs are commonly available for evaluating the securities in question. Valuation of these corporate debt instruments is not overly sensitive to changes in the unobservable inputs used.

Level 3 Valuation Methodologies

State and municipal bonds consists of auction rate municipal bonds valued internally using either published quotes for similar securities or values produced by discounted cash flow models using yields currently available on fixed rate securities with a similar term and collateral, adjusted to consider the effect of a floating rate and a premium for illiquidity. At December 31, 2013, 99% of the securities were rated; the average rating was A.

Corporate debt with limited observable inputs consists of corporate bonds and, at December 31, 2012, private placement senior notes guaranteed by large regional banks. Valuations are determined using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities having like terms and payment features that are of comparable credit quality. Assessments of credit quality are based on NRSRO ratings, if available, or are subjectively determined by management if not available. At December 31, 2013, the average rating of rated securities was A-.

Other asset-backed securities consists of securitizations of receivables valued using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities.

Investment in unconsolidated subsidiaries consist of limited partnership (LP) and limited liability company (LLC) interests valued using the NAV provided by the LP/LLC, which approximates the fair value of the interest.

Such interests include the following:

	Unfunded Commitments	Fair Value	
(In thousands)	December 31, 2013	December 31, 2013	December 31, 2012
Investments in LPs/LLCs:			
Secured debt fund (1)	$27,000	$13,233	$—
Long equity fund (2)	None	6,574	—
Long/Short equity funds (3)	None	28,385	17,115
Non-public equity funds (4)	87,603	23,870	16,624
		$72,062	$33,739

(1) The LP is structured to provide income and capital appreciation primarily through investments in senior secured debt. Redemptions are not allowed. Income and capital are to be periodically distributed at the discretion of the LP over an anticipated time frame that spans from 7 to 9 years.

(2) The LP 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.

(3) Comprised of interests in two unrelated LP funds, each holds primarily long and short U.S. and North American equities, and targets absolute returns using a strategy designed to take advantage of event-driven market opportunities. One LP allows redemption with a notice requirement of up to 45 days with the redemption payable within 30 days of the redemption date, unless the redemption request is for 90% or more of the requestor's capital balance. Redemptions at the 90% and above level will be paid at 90%, with the remainder paid after the LP's annual audit. The other LP generally allows redemption of substantially all the capital semi-annually with 30 days notice.

(4) Comprised of interests in three unrelated LP funds, each structured to provide capital appreciation through diversified investments in private equity, which can include investments in buyout, venture capital, mezzanine debt, distressed debt and other private equity-oriented LPs. One LP allows redemption by special consent; 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 from 4 to 12 years.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Quantitative Information Regarding Level 3 Valuations
Quantitative Information about Level 3 Fair Value Measurements

(In millions)	Fair Value at December 31, 2013	December 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
State and municipal bonds	$7.3	$7.2	Market Comparable Securities	Comparability Adjustment	0% - 10% (5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 10% (5%)
Corporate debt with limited observable inputs	$14.2	$15.2	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Other asset-backed securities	$6.8	$4.0	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)

The significant unobservable inputs used in the fair value measurement of the entity’s corporate bonds are the valuations of comparable securities with similar issuer, credit quality and maturity. Changes in the availability of comparable securities could result in changes in the fair value measurements.

111

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

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.

	December 31, 2013 Level 3 Fair Value Measurements – Assets					
(In thousands)	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance December 31, 2012	$7,175	$15,191	$ 4,035	$ 33,739	$ —	$60,140
Total gains (losses) realized and unrealized:						
Included in earnings, as a part of:						
Net investment income	—	(103)	(17)	—	—	(120)
Equity in earnings of unconsolidated subsidiaries	—	—	—	6,877	—	6,877
Net realized investment gains (losses)	(44)	(69)	—	—	—	(113)
Included in other comprehensive income	1	(725)	(61)	—	—	(785)
Purchases	—	9,470	1,356	24,567	—	35,393
Sales	(2,106)	(1,629)	(18)	(14,632)	—	(18,385)
Transfers in	2,312	2,114	3,800	21,511	—	29,737
Transfers out	—	(10,073)	(2,281)	—	—	(12,354)
Balance December 31, 2013	$7,338	$14,176	$ 6,814	$ 72,062	$ —	$100,390
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$—	$ —	$ 6,877	$ —	$6,877

	December 31, 2012 Level 3 Fair Value Measurements – Assets					
(In thousands)	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance December 31, 2011	$7,200	$8,082	$ —	$ 23,841	$ 15,873	$54,996
Total gains (losses) realized and unrealized:						
Included in earnings, as a part of:						
Net investment income	—	14	—	—	—	14
Equity in earnings of unconsolidated subsidiaries	—	—	—	278	—	278
Net realized investment gains (losses)	—	10	—	—	(131)	(121)
Included in other comprehensive income	—	611	35	—	—	646
Purchases	—	3,136	6,734	11,008	—	20,878
Sales	(25)	(1,951)	(1,118)	(1,388)	—	(4,482)
Transfers in	—	9,220	—	—	—	9,220
Transfers out	—	(3,931)	(1,616)	—	(15,742)	(21,289)

Balance December 31, 2012	$7,175	$15,191	$ 4,035	$ 33,739	$ —	$60,140
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$—	$ —	$ 278	$ (131)	$147

112

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Transfers

There were no transfers between the Level 1 and Level 2 categories during 2012. Short-term investments of $7.2 million were transferred from Level 2 to Level 1 as of the end of 2013.

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

The transfer in for Investment in unconsolidated subsidiaries reported in the Level 3 Tables for 2013 reflected an interest in an LP previously accounted for using the cost method and thus not carried at fair value. During 2013, the interest began to be accounted for using the equity method which approximates fair value.

Transfers of Other investments reported in the Level 3 Tables for 2012 related to an interest in an LLC. The LLC converted into a publicly traded investment fund during 2012 and the interest was valued using Level 1 inputs at December 31, 2012.

All remaining transfers during 2013 and 2012 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 Value Measurements - Level 3 Liabilities

The following table presents information for the year ended December 31, 2012 regarding liabilities for which ProAssurance had elected fair value treatment at December 31, 2011 and during 2012.

	December 31, 2012 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Balance December 31, 2011	$14,180	$4,659	$18,839
Total (gains) losses realized and unrealized:			
Included in earnings as a part of:			
Net realized investment (gains) losses	769	476	1,245
Loss on extinguishment of debt	2,163	—	2,163
Settlements	(17,112)	(5,135)	(22,247)
Balance December 31, 2012	$—	$—	$—
Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	$—	$—	$—

At December 31, 2011 ProAssurance held a note payable, the 2019 Note Payable, and a related interest rate swap agreement (the Swap), both of which were measured at fair value on a recurring basis, with changes in fair value recorded in net realized investment gains (losses). ProAssurance assumed both liabilities as part of a previous acquisition. The fair value option was elected for each because valuation at fair value better reflected the economics of the related liabilities and eliminated the inconsistency that would have otherwise resulted from carrying the 2019 Note Payable on an amortized cost basis and the Swap at fair value. Both liabilities were repaid in July 2012. The fair values of these liabilities were determined using the present value of the expected underlying cash flows of each instrument, discounted at rates available on the valuation date for similar instruments issued by entities with a similar credit standing to ProAssurance.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Financial Instruments - Methodologies Other Than Fair Value
The following table provides the estimated fair value of our 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 fall within the Level 3 fair value category.

(In thousands)	December 31, 2013 Carrying Value	December 31, 2013 Fair Value	December 31, 2012 Carrying Value	December 31, 2012 Fair Value
Financial assets:				
BOLI	$54,374	$54,374	$31,085	$38,656
Investment in unconsolidated subsidiaries	142,174	139,548	87,310	91,528
Other investments	52,240	51,833	52,414	52,414
Other assets	17,940	17,940	11,400	11,385
Financial liabilities:				
Senior notes due 2023	$250,000	$262,500	$—	$—
Revolving credit agreement	—	—	125,000	125,000
Other liabilities	13,303	13,303	12,130	12,085

The fair value of the BOLI was equal to the cash surrender value associated with the policies on the valuation date.
Investment in unconsolidated subsidiaries consisted of investments in tax credit partnerships, accounted for using the equity method with the carrying value approximating ProAssurance's initial investment commitment to the partnership less a pro rata portion of partnership operating losses over the period the investment has been held. The estimated fair value of the partnership is based on the net present value of the expected cash flows from the partnership and considers the timing of tax benefits expected to be received, the funding schedule for the partnership, and current rates for investments with similar risk structures and repayment periods.

Other investments listed in the table above include interests in certain investment fund LPs/LLCs accounted for using the cost method, investments in Federal Home Loan Bank (FHLB) common stock carried at cost, and an annuity investment carried at amortized cost. The estimated fair value of the LP/LLC interests was based on the NAVs provided by the LP/LLC managers. The estimated fair value of the FHLB common stock was based on the amount ProAssurance would receive if its membership were canceled, as the membership cannot be sold. The fair value of the annuity was 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. Fair values of the funded deferred compensation assets and liabilities were based on the NAVs of the underlying securities. Other assets also included a secured note receivable and an unsecured receivable under a revolving credit agreement. Fair value of these receivables was based on the present value of expected cash flows from the receivables, discounted at market rates on the valuation date for receivables with similar credit standings and similar payment structures. At December 31, 2012, Other liabilities also included certain contractual liabilities related to prior business combinations. The fair values of the business combination liabilities were based on the present value of the expected future cash outflows, discounted at ProAssurance's assumed incremental borrowing rate on the valuation date for unsecured liabilities with similar repayment structures.

The fair values of the long-term debt and revolving credit agreement were 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.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

4. Investments
Available-for-sale securities at December 31, 2013 and December 31, 2012 included the following:

	December 31, 2013			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities				
U.S. Treasury obligations	$166,115	$6,118	$(1,519)	$170,714
U.S. Government-sponsored enterprise obligations	30,942	2,251	(425)	32,768
State and municipal bonds	1,116,060	46,533	(7,927)	1,154,666
Corporate debt	1,321,838	53,059	(13,744)	1,361,153
Residential mortgage-backed securities	230,861	7,608	(2,855)	235,614
Agency commercial mortgage-backed securities	27,268	343	(136)	27,475
Other commercial mortgage-backed securities	59,066	2,491	(167)	61,390
Other asset-backed securities	74,106	487	(324)	74,269
	$3,026,256	$118,890	$(27,097)	$3,118,049

	December 31, 2012			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities				
U.S. Treasury obligations	$191,642	$14,266	$(51)	$205,857
U.S. Government-sponsored enterprise obligations	52,110	4,837	—	56,947
State and municipal bonds	1,134,744	85,329	(94)	1,219,979
Corporate debt	1,375,880	96,187	(1,543)	1,470,524
Residential mortgage-backed securities	272,990	17,070	(210)	289,850
Agency commercial mortgage-backed securities	57,234	2,255	(25)	59,464
Other commercial mortgage-backed securities	69,062	5,049	(5)	74,106
Other asset-backed securities	70,670	1,203	(601)	71,272
	3,224,332	226,196	(2,529)	3,447,999

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

The recorded amortized cost basis and estimated fair value of available-for-sale fixed maturities at December 31, 2013, 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	$166,115	$15,501	$107,433	$44,102	$3,678	$170,714
U.S. Government-sponsored enterprise obligations	30,942	3,226	21,564	7,759	219	32,768
State and municipal bonds	1,116,060	57,081	406,444	467,219	223,922	1,154,666
Corporate debt	1,321,838	124,080	578,894	627,496	30,683	1,361,153
Residential mortgage-backed securities	230,861					235,614
Agency commercial mortgage-backed securities	27,268					27,475
Other commercial mortgage-backed securities	59,066					61,390
Other asset-backed securities	74,106					74,269
	$3,026,256					$3,118,049

Excluding investments in bonds and notes of the U.S. Government and U.S. Government-sponsored enterprise obligations, no investment in any entity or its affiliates exceeded 10% of shareholders’ equity at December 31, 2013.
Cash and securities with a carrying value of $36.3 million at December 31, 2013 were on deposit with various state insurance departments to meet regulatory requirements.

BOLI

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

Other Investments

Other Investments at December 31, 2013 and December 31, 2012 was comprised as follows:

(In thousands)	December 31, 2013	December 31, 2012
Investments in LPs/LLCs, at cost	$47,258	$25,092
FHLB capital stock, at cost	3,449	4,278
Other, principally an annuity, at amortized cost	1,533	1,715
	$52,240	$31,085

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

116

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

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

	December 31, 2013		Carrying Value	
(In thousands)	Unfunded Commitments*	Percentage Ownership	December 31, 2013	December 31, 2012
Investment in LPs/LLCs:				
Tax credit partnerships	$22,441	See below	$142,174	$87,310
Secured debt fund	27,000	< 20%	13,233	—
Long equity fund	None	< 20%	6,574	—
Long/Short equity funds	None	< 25%	28,385	17,115
Non-public equity funds	87,603	< 20%	23,870	16,624
			$214,236	$121,049

* Unfunded commitments are included in the carrying value of tax credit partnerships, only.

Tax credit partnership interests held by ProAssurance generate investment returns by providing tax benefits to fund investors in the form of project operating losses and tax credits. The related properties are principally low income housing projects. ProAssurance's ownership percentage relative to two of the tax credit partnership interests was almost 100%; these interests had a carrying value of $62.4 million at December 31, 2013. ProAssurance's ownership percentage relative to the remaining tax credit partnership interests was less than 20%; these interests had a carrying value of $79.8 million at December 31, 2013. All are accounted for under the equity method as ProAssurance does not have the ability to exert control over the partnerships.

The Secured debt fund is structured to provide interest distributions and capital appreciation primarily through investments in senior secured debt.

The Long equity fund targets long-term total returns through holdings in public international companies.

The Long/Short equity funds target absolute returns using strategies designed to take advantage of event-driven market opportunities. ProAssurance’s interest in one investment LP increased as other investors liquidated their holdings, and ProAssurance therefore determined it appropriate to begin applying the equity method of accounting instead of the previously applied cost method. When there is a change from the cost to the equity method, GAAP requires retroactive recording of accumulated earnings since the origination of the investment. As the amounts are not material in the current period or any of the prior periods affected, prior period financial statements have not been restated. Accordingly, Equity in earnings (loss) of unconsolidated subsidiaries for 2013 included our portion of the LP’s accumulated earnings from the date of initial investment, which totaled $10.5 million, $8.4 million of which was related to prior periods.

The Non-public equity funds hold diversified private equities and are structured to provide capital appreciation.

Investments Held in a Loss Position

The following tables provide summarized information with respect to investments held in an unrealized loss position at December 31, 2013 and December 31, 2012, including the length of time the investment had been held in a continuous unrealized loss position.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

	December 31, 2013					
	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	$47,668	$(1,519)	$44,304	$(1,182)	$3,364	$(337)
U.S. Government-sponsored enterprise obligations	6,640	(425)	5,752	(321)	888	(104)
State and municipal bonds	203,970	(7,927)	184,401	(6,640)	19,569	(1,287)
Corporate debt	349,277	(13,744)	324,510	(12,061)	24,767	(1,683)
Residential mortgage-backed securities	93,608	(2,855)	84,045	(2,393)	9,563	(462)
Agency commercial mortgage-backed securities	11,658	(136)	11,082	(116)	576	(20)
Other commercial mortgage-backed securities	11,153	(167)	10,215	(159)	938	(8)
Other asset-backed securities	25,539	(324)	21,804	(77)	3,735	(247)
	$749,513	$(27,097)	$686,113	$(22,949)	$63,400	$(4,148)
Other investments						
Investments in LPs/LLCs carried at cost	$14,752	$(1,059)	$13,166	$(1,018)	$1,586	$(41)

	December 31, 2012					
	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	$4,073	$(51)	$4,073	$(51)	$—	$—
State and municipal bonds	11,234	(94)	9,232	(65)	2,002	(29)
Corporate debt	90,154	(1,543)	81,878	(1,377)	8,276	(166)
Residential mortgage-backed securities	10,721	(210)	10,029	(205)	692	(5)
Agency commercial mortgage-backed securities	1,643	(25)	498	(2)	1,145	(23)
Other commercial mortgage-backed securities	2,100	(5)	1,103	(1)	997	(4)
Other asset-backed securities	10,746	(601)	7,707	(20)	3,039	(581)
	$130,671	$(2,529)	$114,520	$(1,721)	$16,151	$(808)
Other investments						
Investments in LPs/LLCs carried at cost	$9,474	$(851)	$8,697	$(688)	$777	$(163)

As of December 31, 2013, excluding government backed securities, there were 714 debt securities (26.3% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 516 issuers. Both the single greatest and second greatest unrealized loss positions among those securities was approximately $0.4 million. The securities were evaluated for impairment as of December 31, 2013.

As of December 31, 2012, excluding government backed securities, there were 110 debt securities (4.4% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 93 issuers. The single greatest unrealized loss position among those securities approximated $0.6 million; the second greatest unrealized loss position approximated $0.2 million. The securities were evaluated for impairment as of December 31, 2012.

118

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Each quarter, ProAssurance performs a detailed analysis for the purpose of assessing whether any of the securities it holds in an unrealized loss position have suffered an other-than-temporary impairment in value. A detailed discussion of the factors considered in the assessment is included in Note 1.

Fixed maturity securities held in an unrealized loss position at December 31, 2013, excluding asset-backed securities, have paid all scheduled contractual payments and are expected to continue doing so. Expected future cash flows of asset-backed securities held in an unrealized loss position were estimated as part of the December 31, 2013 impairment 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.

Net Investment Income

Net investment income by investment category was as follows:

	Year Ended December 31		
(In thousands)	2013	2012	2011
Fixed maturities	$122,065	$133,088	$140,897
Equities	9,454	6,947	1,808
Short-term investments and Other invested assets	2,584	660	2,812
Business owned life insurance	1,960	2,008	2,017
Investment fees and expenses	(6,798)	(6,609)	(6,578)
Net investment income	$129,265	$136,094	$140,956

Net Realized Investment Gains (Losses)

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

	Year Ended December 31		
(In thousands)	2013	2012	2011
Total other-than-temporary impairment losses:			
State and municipal bonds	$(71)	$—	$—
Residential mortgage-backed securities	—	(557)	(782)
Corporate debt	—	(878)	(505)
Other investments	—	(131)	(3,827)
High yield asset-backed securities	—	—	(75)
Portion recognized in (reclassified from) Other Comprehensive Income:			
Residential mortgage-backed securities	—	(201)	(823)
Net impairment losses recognized in earnings	(71)	(1,767)	(6,012)
Gross realized gains, available-for-sale securities	18,130	18,645	14,625
Gross realized (losses), available-for-sale securities	(7,031)	(2,076)	(1,754)
Net realized gains (losses), trading securities	20,444	1,485	2,212
Change in unrealized holding gains (losses), trading securities	35,507	12,673	(3,188)
Decrease (increase) in the fair value of liabilities carried at fair value	—	(1,245)	111
Other	925	1,148	—
Net realized investment gains (losses)	$67,904	$28,863	$5,994

No significant impairment losses were recognized during 2013. Significant impairment losses recognized during 2012 and 2011 were as follows:

- ProAssurance recognized impairment losses related to certain residential mortgage-backed securities in 2012 and 2011 because carrying values for those securities were greater than the future cash flows expected to be received from the securities.

119

- ProAssurance recognized impairments related to corporate debt securities in 2012 and 2011 because the credit standing of the issuers had deteriorated.
- ProAssurance recognized impairments in 2012 and 2011 related to an interest in an LLC, accounted for using the cost method, that was classified as a part of Other Investments. In 2011, the LLC announced a plan to convert to a publicly traded investment fund, and OTTI was recognized in subsequent periods in order to carry the interest at the NAV reported by the fund. The conversion occurred in 2012.

The following table presents a roll forward of cumulative credit losses recorded in earnings related to impaired debt securities for which a portion of the other-than-temporary impairment was recorded in Other Comprehensive Income.

(In thousands)	2013	2012	2011
Balance January 1	$3,301	$5,870	$4,446
Additional credit losses recognized during the period, related to securities for which:			
OTTI has been previously recognized	—	268	1,424
Reductions due to:			
Securities sold during the period (realized)	(3,218)	(2,837)	—
Balance December 31	$83	$3,301	$5,870

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

	Year Ended December 31		
(In millions)	2013	2012	2011
Proceeds from sales (exclusive of maturities and paydowns)	$593.3	$500.2	$424.8
Purchases	$519.2	$646.2	$782.6

5. Reinsurance

ProAssurance has various excess of loss, quota share, and cession reinsurance agreements in place, with each agreement relating to the policies written during a specified coverage period, typically one year. Historically, the professional liability per claim retention level has varied between 90% and 100% of the first $1 million and up to 5% of claims exceeding those levels depending on the coverage year and the state in which business was written. Also, there are various fronting and quota share arrangements that apply to certain healthcare professional policies, generally those associated with a group of affiliated insureds or an insured with a large number of risk exposures. Gross and net written premium associated with such arrangements approximated $37.5 million and $20.2 million, respectively, during the year ended December 31, 2013. Medical technology and life sciences products coverages are separately reinsured, generally with 100% retention on the first $1 million of coverage and between 5% and 33% of coverage exceeding those levels, with additional loss participation if specified limits are exceeded. ProAssurance also insures professional and product liability risks that are above the limits of its basic reinsurance treaties. These risks are reinsured on a facultative basis, whereby the reinsurer agrees to insure a particular risk up to a designated limit.

The effect of reinsurance on premiums written and earned was as follows (in thousands):

	2013 Premiums		2012 Premiums		2011 Premiums	
	Written	Earned	Written	Earned	Written	Earned
Direct	$566,745	$568,629	$536,318	$558,200	$565,746	$570,891
Assumed	802	804	113	116	149	154
Ceded	(42,365)	(41,514)	(8,133)	(7,652)	(7,388)	(5,630)
Net premiums	$525,182	$527,919	$528,298	$550,664	$558,507	$565,415

The receivable from reinsurers on unpaid losses and loss adjustment expenses represents Management’s estimate of amounts that will be recoverable under ProAssurance reinsurance agreements. Most Company reinsurance agreements base the amount of premium that is due to the reinsurer in part on losses reimbursed or to be reimbursed under the agreement, and may also reflect maximum and minimum amounts of ceded premium. Ceded premium amounts are estimated based on Management’s expectation of ultimate losses and the portion of those losses that are allocable to reinsurers according to the terms of the agreements, including any minimums or maximums. Given the uncertainty of the ultimate amounts of losses,

120

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Management's estimates of losses and related amounts recoverable may vary significantly from the eventual outcome. During the years ended December 31, 2013, 2012 and 2011 ProAssurance reduced premiums ceded by $16.4 million, $34.3 million and $30.6 million, respectively, due to changes in Management's estimates of amounts due to reinsurers related to prior accident year loss recoveries.

Reinsurance contracts do not relieve ProAssurance from its obligations to policyholders and ProAssurance remains liable to its policyholders whether or not reinsurers honor their contractual obligations to ProAssurance. ProAssurance continually monitors its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

At December 31, 2013, $92.1 million of the total amounts due from reinsurers of $237.9 million (including receivables related to paid and unpaid losses and LAE and prepaid reinsurance premiums, less reinsurance premiums payable) was due from four reinsurers which had an individual balance which exceeded $20 million. Each of these reinsurers had an A.M. Best credit rating of A or above.

At December 31, 2013 and 2012 ProAssurance had no allowance for credit losses related to its reinsurance receivables. During the years ended December 31, 2013, 2012 and 2011 no reinsurance balances were written off for credit reasons.

At December 31, 2013, all reinsurance recoverables were considered collectible. Reinsurance recoverables totaling approximately $25 million were collateralized by letters of credit or funds withheld. At December 31, 2013 no amounts due from individual reinsurers exceeded 5% of shareholders' equity.

There were no significant reinsurance commutations in 2013 or 2012. During 2011, ProAssurance commuted (terminated) various outstanding reinsurance agreements for approximately $4.3 million in cash. The commutations reduced Receivable from Reinsurers on Paid Losses and Receivable from Reinsurers on Unpaid Losses, combined, by approximately $4.0 million (net of cash received) and reduced Reinsurance Premiums Payable by approximately $5.6 million.

6. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of ProAssurance's deferred tax assets and liabilities were as follows:

(In thousands)	2013	2012
Deferred tax assets		
Unpaid loss discount	$51,879	$57,811
Unearned premium adjustment	21,861	20,497
Compensation related	18,172	14,634
Intangibles	2,074	2,214
Total deferred tax assets	93,986	95,156
Deferred tax liabilities		
Deferred acquisition costs	10,150	8,112
Unrealized gains on investments, net	32,127	78,284
Fixed assets	4,166	5,630
Basis differentials–investments	31,247	3,029
Intangibles	13,238	14,311
Other	1,301	375
Total deferred tax liabilities	92,229	109,741
Net deferred tax assets (liabilities)	$1,757	$(14,585)

At December 31, 2013, ProAssurance has no available net operating loss carryforwards, capital loss carryforwards, or Alternative Minimum Tax credit carryforwards. ProAssurance files income tax returns in the U.S. federal jurisdiction and various states.

121

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

The IRS has concluded an examination of the 2009 and 2010 returns and has issued a Notice of Proposed Adjustment (NOPA) for these years which would increase ProAssurance's current tax liability by approximately $130 million. During 2013 ProAssurance submitted a comprehensive written protest to the IRS Office of Appeals regarding certain issues within the NOPA, all of which related to the timing of deductions. ProAssurance and the IRS have since reached a tentative settlement on the contested issues which will result in no additional tax liability for ProAssurance. Other non-contested issues addressed by the NOPA are expected to result in a net Federal income tax refund of approximately $9.6 million. ProAssurance believes that the tentative settlement with the IRS will be finalized during 2014.

At December 31, 2013, ProAssurance had a receivable for federal income taxes of $27 million, which was carried as a part of Other Assets. ProAssurance had a payable for federal income taxes of $20 million at December 31, 2012, which was carried as a part of Other Liabilities.

Except for the 2006 tax year, the statutes of limitation are closed for all years prior to 2009. The statutes for the 2006, 2009 and 2010 tax years have been extended until September 30, 2014.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits for 2013 and 2012 was as follows:

(In thousands)	2013	2012	2011
Balance at January 1	$4,823	$18,585	$8,344
(Decreases) for tax positions taken during the current year	—	(10,206)	—
Increases for tax positions taken during prior years	—	—	18,585
(Decreases) for tax positions taken during prior years	—	(3,556)	—
(Decreases) relating to settlements with taxing authorities	—	—	(8,344)
Balance at December 31	$4,823	$4,823	$18,585

ProAssurance's provision for uncertain tax positions at both December 31, 2013 and December 31, 2012 related entirely to the timing of deductions. Changes to the provision recognized in current taxes in 2012 were offset by the recognition of a like but opposite change to deferred taxes. Unrecognized tax benefits at December 31, 2013, if recognized, would not affect the effective tax rate but would accelerate the payment of tax. As with any uncertain tax position, there is a possibility that the ultimate deduction recognized could differ from the provision established by ProAssurance. As the Company's uncertain tax positions relate to the timing of deductions, management expects the liability to fully reverse during the next twelve months.

ProAssurance recognizes interest and/or penalties related to income tax matters in income tax expense. No interest was recognized in the income statement during the year ended December 31, 2013. Interest recognized during the years ended December 31, 2012 and 2011approximated $0.5 million and $0.8 million, respectively. The accrued liability for interest approximated $1.3 million and $1.4 million at December 31, 2013 and 2012, respectively.

A reconciliation of “expected” income tax expense (35% of income before income taxes) to actual income tax expense in the accompanying financial statements follows:

(In thousands)	2013	2012	2011
Computed “expected” tax expense	$139,005	$138,588	$145,109
Tax-exempt income	(14,509)	(14,374)	(13,793)
Tax credits	(17,888)	(10,005)	(5,654)
Non-taxable gain on acquisition	(11,310)	—	—
Other	4,338	6,287	1,840
Total	$99,636	$120,496	$127,502

7. Deferred Policy Acquisition Costs

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

Amortization of deferred policy acquisition costs was $59.1 million, $57.0 million and $59.6 million for the years ended December 31, 2013, 2012 and 2011, respectively.

122

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

8. Reserve for Losses and Loss Adjustment Expenses

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

ProAssurance 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 and 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 an external actuary's certification as to their respective reserves in accordance with the requirements of the NAIC.

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

(In thousands)	2013	2012	2011
Balance, beginning of year	$2,054,994	$2,247,772	$2,414,100
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	191,645	247,658	277,436
Net balance, beginning of year	1,863,349	2,000,114	2,136,664
Net reserves acquired from acquisitions	126,007	22,464	—
Net losses:			
Current year	447,510	451,951	488,152
Favorable development of reserves established in prior years, net	(222,749)	(272,038)	(325,865)
Total	224,761	179,913	162,287
Paid related to:			
Current year	(43,616)	(38,439)	(34,240)
Prior years	(345,197)	(300,703)	(264,597)
Total paid	(388,813)	(339,142)	(298,837)
Net balance, end of year	1,825,304	1,863,349	2,000,114
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	247,518	191,645	247,658
Balance, end of year	$2,072,822	$2,054,994	$2,247,772

As discussed in Note 1, estimating liability reserves is complex and requires the use of many assumptions. As time passes and ultimate losses for prior years are either known or become subject to a more precise estimation, ProAssurance increases or decreases the reserve estimates established in prior periods. The favorable development recognized in 2013 primarily reflects a lower than anticipated claims severity trend for accident years 2005 through 2011. The favorable development recognized in 2012 and 2011 was primarily due to lower than anticipated claims severity trends for accident years 2004 through 2009 and accident years 2004 through 2008, respectively. Actuarial evaluations of both internal and industry actual claims data in 2013, 2012 and 2011 all indicated that claims severity (i.e. the average size of a claim) is increasing more slowly than was anticipated when the reserves for 2004 through

2009 were initially established.

123

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

9. Commitments and Contingencies
ProAssurance is involved in various legal actions related to insurance policies and claims handling including, but not limited to, claims asserted by policyholders. These types of legal actions arise in the Company’s ordinary course of business and, in accordance with GAAP for insurance entities, are considered as a part of the Company’s loss reserving process, which is described in detail under “Accounting Policies – Losses and Loss Adjustment Expenses” in Note 1.
ProAssurance has funding commitments primarily related to non-public investment entities totaling approximately $164.2 million, expected to be paid as follows: $49.6 million in 2014, $68.9 million in 2015 and 2016 combined, $26.8 million in 2017 and 2018 combined, and $18.9 million thereafter.
As a member of Lloyd's and a capital provider to Syndicate 1729 ProAssurance is required to provide capital, referred to as Funds at Lloyd's (FAL), to support Syndicate 1729. In order to meet these FAL requirements, ProAssurance, through a wholly owned subsidiary, provided a standby letter of credit (LOC) of £41.9 million ($69.3 million at December 31, 2013) and cash deposits of $8.7 million. At December 31, 2013 the LOC was fully secured by cash deposits, see Note 1. The LOC, unless earlier released by Lloyd's, expires four years from the date it is terminated or canceled. Any amounts advanced under the LOC will bear interest at prime plus 400 basis points or the highest legal rate for the borrowing. ProAssurance must pay a fee related to the LOC during the period it is outstanding, currently 50 basis points, which is to be re-determined annually based on ProAssurance’s then current credit standing and whether the LOC has been secured, with the maximum fee set at 188 basis points. No amounts have been drawn against the LOC at December 31, 2013.
ProAssurance has also issued an unconditional revolving credit agreement (the Credit Agreement) of up to £10 million ($17 million at December 31, 2013) to the Premium Trust Fund of Syndicate 1729 for the purpose of providing working capital. Advances under the Credit Agreement bear interest at 8.5% annually, and are repayable upon demand after December 31, 2016. As of December 31, 2013, £1.0 million ($1.7 million) had been advanced under the agreement.
ProAssurance is involved in a number of operating leases primarily for office space and office equipment. The following is a schedule of future minimum lease payments for operating leases that had initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2013.

Operating Leases	
(In thousands)	
2014	$3,039
2015	2,750
2016	2,553
2017	2,394
Thereafter	9,175
Total minimum lease payments	$19,911

ProAssurance incurred rent expense of $3.2 million, $2.7 million and $3.4 million in the years ended December 31, 2013, 2012 and 2011, respectively.

Table of Contents

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

10. Long-term Debt

ProAssurance's outstanding long-term debt consisted of the following:

(In thousands)	December 31, 2013	December 31, 2012
Senior notes due 2023, unsecured, interest at 5.3% annually	$250,000	$—
Revolving credit agreement, expires in 2016	—	125,000
	$250,000	$125,000

Senior Notes due 2023 (the Senior Notes)

The Senior Notes are the unsecured obligations of ProAssurance Corporation, due in full in November 2023, unless sooner redeemed, with interest payable semiannually. Redemptions may be made prior to maturity, in whole or part, at the greater of par or the sum of the present values of the outstanding principal and remaining interest payments calculated at 40 basis points above the then-current rate for U.S. Treasury Notes with a term comparable to the remaining term of the Senior Notes. There are no financial covenants associated with the Senior Notes.

Revolving Credit Agreement

ProAssurance has entered into a revolving credit agreement (the "Agreement") with five participating lenders with an expiration date of April 15, 2016. The Agreement permits ProAssurance to borrow, repay and reborrow from the lenders during the term of the Agreement; aggregate outstanding borrowings are not permitted to exceed $150 million at any time. All borrowings are required to be repaid prior to the expiration date of the Agreement. ProAssurance is required to pay a commitment fee, ranging from 15 to 30 basis points based on ProAssurance's credit ratings, on the average unused portion of the credit line during the term of the Agreement. Borrowings under the agreement may be secured or unsecured and accrue interest at a selected base rate, adjusted by a margin, which can vary from 0 to 188 basis points, based on ProAssurance's credit rating and whether the borrowing is secured or unsecured. The base rate selected may be the current one-, three- or six-month LIBOR rate, with the LIBOR term selected fixing the interest period for which the rate is effective. If LIBOR is not selected, the base rate defaults to the highest of (1) the Prime rate (2) the Federal Funds rate plus 50 basis points or (3) the one month LIBOR rate plus 100 basis points, determined daily. Rates are reset each successive interest period until the borrowing is repaid.

The Agreement contains customary representations, covenants and events constituting default, and remedies for default. Additionally, the Agreement carries the following financial covenants:

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

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

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

Covenant Compliance

ProAssurance is currently in compliance with all covenants.

Loss on Extinguishment

ProAssurance recognized a $2.2 million loss on extinguishment of debt during the third quarter of 2012 upon repayment of a note payable carried at fair value.

125

Table of Contents

11. Shareholders’ Equity

At December 31, 2013 and 2012, 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.

The Board has declared cash dividends quarterly since the third quarter of 2011. Initially, dividends were $0.125 per share but were increased to $0.25 per share in the fourth quarter of 2012 and increased to $0.30 per share in the fourth quarter of 2013. With the exception of the fourth quarter 2012 dividend which was accelerated and paid in December 2012, each quarterly dividend was paid in the month following the end of the quarter. The liability for unpaid dividends at December 31, 2013 of $18.4 million was included in other liabilities. The Board also declared and paid a special dividend of $2.50 per share during December 2012.

ProAssurance's ability to pay dividends to its shareholders is limited by its holding company structure, to the extent of the net assets held by its insurance subsidiaries, as discussed in Note 16. Otherwise, there are no other regulatory restrictions on ProAssurance's retained earnings or net income that materially impact its ability to pay dividends. Based on Shareholders' Equity at December 31, 2013, total equity of $572 million was free of debt covenant restrictions regarding the payment of dividends. However, 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.

As of December 31, 2013 Board authorizations for the repurchase of common shares or the retirement of outstanding debt of $202.6 million remained available for use. The timing and quantity of purchases depends upon market conditions and changes in ProAssurance's capital requirements and is subject to limitations that may be imposed on such purchases by applicable securities laws and regulations, and the rules of the New York Stock Exchange.

ProAssurance repurchased 0.7 million common shares during both the years ended December 31, 2013 and 2011. ProAssurance did not repurchase any common shares during the year ended December 31, 2012. During the years ended December 31, 2013, 2012 and 2011 ProAssurance reissued approximately 25,000, 23,000 and 18,000 treasury shares, respectively, to participant accounts of the ProAssurance Corporation 2011 Employee Stock Ownership Plan. In December, 2012 treasury shares were reissued to provide 7.7 million of the shares needed for the two-for-one stock split effected December 27, 2012 in the form of a stock dividend.

ProAssurance issued approximately 41,000, 37,000 and 40,000 common shares to employees in February 2013, 2012 and 2011, respectively, as bonus compensation, as approved by the Compensation Committee of the Board. The shares issued were valued at fair value (the market price of a ProAssurance common share on the date of award).

As of December 31, 2013, approximately 3.0 million of ProAssurance's authorized common shares were reserved by the Board for award or issuance under the incentive compensation plans described in Note 12 and an additional 0.8 million of authorized common shares were reserved for the issuance of currently outstanding restricted share and performance share unit awards and for the exercise of outstanding stock options.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Other Comprehensive Income (Loss) (OCI)
For all periods presented, OCI was comprised of unrealized gains and losses arising during the period, less reclassification adjustments, related to available-for-sale securities, net of tax. At December 31, 2013 and 2012, accumulated other comprehensive income was comprised entirely of unrealized gains and losses from available-for-sale securities, including non-credit impairment losses previously recognized in OCI of $0.5 million and $0.9 million, respectively, net of tax. All tax effects were computed using a 35% rate.
Amounts reclassified from accumulated other comprehensive income to net income during the years ended December 31, 2013, 2012 and 2011 all related to available-for-sale securities and included the following:

(In thousands)	2013	2012	2011
Reclassifications from accumulated other comprehensive income to net income, available for sale securities:			
Realized investment gains (losses)	$11,375	$17,350	$13,101
Non-credit impairment losses reclassified to earnings, due to sale of securities or reclassification as a credit loss	(347)	(2,417)	(2,415)
Total amounts reclassified, before tax effect	11,028	14,933	10,686
Tax effect (at 35%)	(3,860)	(5,227)	(3,740)
Net reclassification adjustments	$7,168	$9,706	$6,946

12. Share-Based Payments
Share-based compensation costs are primarily classified as underwriting, policy acquisition and operating expenses. Since May 2013, ProAssurance has provided share-based compensation to employees under the ProAssurance Corporation Amended and Restated 2014 Equity Incentive Plan. Previously, compensation was provided under the ProAssurance Corporation 2008 Equity Incentive Plan (2009 to May 2013), the ProAssurance Corporation 2004 Equity Incentive Plan (2005 to 2008) and the ProAssurance Corporation Incentive Compensation Stock Plan (prior to 2005). The Compensation Committee of the Board is responsible for the administration of all four plans.
ProAssurance has provided share-based compensation to employees utilizing four types of awards: stock options, restricted share units, performance share units and purchase match units. The following table provides a summary of compensation expense and compensation cost that will be charged to expense in future periods, by award type, and the total related tax benefit recognized during each period.

	Share-Based Compensation Expense Year Ended December 31			Unrecognized Compensation Cost December 31, 2013	
	2013	2012	2011	Amount	Remaining Recognition Period
	(In millions)			(In millions)	(Weighted average years)
Stock Options	$—	$—	$0.1	$—	N/A
Restricted Share Units	1.6	1.6	1.3	2.1	1.7
Performance Share Units	7.1	6.7	5.6	8.1	1.7
Purchase Match Units	0.5	0.3	0.1	1.5	2.2
Total share-based compensation expense	$9.2	$8.6	$7.1	$11.7	
Tax benefit recognized	$3.2	$3.0	$2.5		

All awards are charged to expense as an increase to equity over the service period (generally the vesting period) associated with the award. Except for stock options, which are separately described below, awards 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. A ProAssurance common share is issued for each restricted, performance or purchase match unit once vesting requirements are met, except that units sufficient to satisfy required tax withholdings are paid in cash.

On December 27, 2012 ProAssurance paid a special dividend of $2.50 per common share and effected a two-for-one split. Thereafter, the Compensation Committee adjusted outstanding awards and options so as to put award holders in the same economic position after the split and dividend as before. No compensation resulted from the adjustments because there was no

127

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

change to the intrinsic value of the awards. The following tables reflect award activity as if the adjustments had occurred at the beginning of the earliest period presented.

Stock Options

ProAssurance's stock options generally vested in five equal installments, the first installment occurring six months after the grant date and the other installments occurring annually thereafter. All options were granted with an exercise price equal to the market price of a ProAssurance common share on the date of grant, and an original term of ten years. ProAssurance option agreements permit cashless exercise whereby the exercise price and any required tax withholdings are allowed to be satisfied by the retention of shares that would otherwise be deliverable to the option holder. ProAssurance issues new shares for options exercised.

Activity for stock options during 2013, 2012 and 2011 is summarized below.

	2013		2012		2011	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	20,302	$23.15	1,014,661	$22.76	1,430,105	$21.85
Granted	—	—	—	—	—	—
Exercised	(2,220)	24.28	(994,148)	22.75	(412,695)	19.61
Forfeited or expired	—	—	(211)	25.67	(2,749)	25.36
Outstanding at end of year	18,082	23.00	20,302	23.15	1,014,661	22.76
Exercisable at end of year	18,082	23.00	20,302	23.15	959,889	22.59
Outstanding at end of year, vested or expected to vest	18,082	23.00	20,302	23.15	1,014,064	22.75

All options were vested as of December 31, 2012. The aggregate grant date fair value of options vested during the years ended December 31, 2012 and 2011 was $0.9 million and $0.9 million, respectively. The aggregate intrinsic value of options exercised during 2013, 2012 and 2011 was $0.1 million, $19.8 million and $5.8 million, respectively. ProAssurance outstanding options had an aggregate intrinsic value of $0.5 million and a weighted average remaining contractual term of 2.93 years at December 31, 2013. There were no cash proceeds from options exercised during the years ended December 31, 2013, 2012 or 2011.

Restricted Share Units

Activity for restricted share units during 2013, 2012 and 2011 is summarized below. Grant date fair values are based on the market value of a ProAssurance common share on the date of grant.

	2013		2012		2011	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Beginning non-vested balance	157,212	$31.94	167,236	$25.52	120,478	$23.88
Granted	39,400	46.97	51,864	42.22	52,256	29.27
Forfeited	(603)	35.91	(2,823)	35.23	(5,075)	25.38
Vested and released	(57,239)	25.25	(59,065)	22.61	(423)	22.56
Ending non-vested balance	138,770	38.92	157,212	31.94	167,236	25.52

The aggregate grant date fair value of restricted share units vested and released in 2013 and 2012 totaled $1.4 million and $1.3 million respectively. The aggregate intrinsic value of restricted share units vested and released in 2013 and 2012 (including units paid in cash to cover tax withholdings) totaled $2.7 million and $2.6 million, respectively.

128

ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

Performance Share Units

Performance share units vest only if minimum performance objectives are met, and the number of units earned varies from 75% to 125% of a base award depending upon the degree to which stated performance objectives are achieved. Performance share unit activity for 2013, 2012 and 2011 is summarized below. The table reflects the base number of units; actual awards that vest depends upon the extent to which performance objectives are achieved. Grant date fair values are based on the market value of a ProAssurance common share on the date of grant.

	2013		2012		2011	
	Base Units	Weighted Average Grant Date Fair Value	Base Units	Weighted Average Grant Date Fair Value	Base Units	Weighted Average Grant Date Fair Value
Beginning non-vested balance	552,417	$33.21	522,599	$26.36	493,661	$24.56
Granted	145,580	46.97	212,205	42.22	196,186	30.30
Forfeited	(17,043)	38.90	(20,492)	31.44	(15,804)	26.28
Vested and released	(194,274)	26.39	(161,895)	23.13	(151,444)	25.61
Ending non-vested balance	486,680	39.86	552,417	33.21	522,599	26.36
Common shares issued due to vesting of awards	135,044		114,884		112,822	

The aggregate grant date fair value of performance share units (base level) vested and released in 2013, 2012 and 2011 totaled $5.1 million, $3.7 million and $3.9 million, respectively. The aggregate intrinsic value of performance share units vested and released in 2013, 2012 and 2011 (including units paid in cash to cover tax withholdings) totaled $9.1 million, $7.2 million and $5.3 million, respectively. The vested units were issued at the maximum level (125%) based on performance levels achieved.

Purchase Match Units

The ProAssurance Corporation 2011 Employee Stock Ownership Plan (the 2011 Plan) began operating effective January 1, 2011. The 2011 Plan provides a purchase match unit for each share purchased with contributions by eligible plan participants, limited to $5,000 annually per participant.

Purchase match unit activity during 2013, 2012 and 2011 is summarized below. Grant date fair values are based on the market value of a ProAssurance common share on the date of grant.

	2013		2012		2011	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Beginning non-vested balance	40,985	$39.85	18,900	$36.20	—	$—
Granted	25,151	43.57	23,799	42.59	19,016	36.20
Forfeited	(2,456)	40.71	(1,610)	37.72	(116)	36.20
Vested and released	(555)	36.33	(104)	36.20	—	—
Ending non-vested balance	63,125	41.34	40,985	39.85	18,900	36.20

13. Variable Interest Entities

ProAssurance holds passive interests in a number of entities that are considered to be Variable Interest Entities (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 VIE interests carried as a part of Other Investments totaled $27.3 million at December 31, 2013 and $25.1 million at December 31, 2012. ProAssurance VIE interests, carried as a part of Investment in Unconsolidated Subsidiaries, totaled $49.5 million at December 31, 2013 and $33.7 million at December 31, 2012.

ProAssurance has not consolidated these VIE's because it has either very limited or no power to control the activities that most significantly affect the economic performance of these entities and is not the primary beneficiary of any of the entities. ProAssurance's involvement with each entity is limited to its direct ownership interest in the entity. ProAssurance has no arrangements or agreements of significance with any of the entities to provide other financial support to or on behalf of the

129

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

entity. At December 31, 2013, ProAssurance’s maximum loss exposure relative to these investments was limited to the carrying value of ProAssurance’s investment in the VIE.

14. Earnings Per Share

Diluted weighted average shares is calculated as basic weighted average shares plus the effect, calculated using the treasury stock method, of assuming that dilutive stock options have been exercised and that performance, restricted, and purchase share units have vested. All outstanding stock options, performance, restricted, and purchase share units had a dilutive effect for the years ended December 31, 2013, 2012 and 2011.

15. Benefit Plans

ProAssurance maintains a defined contribution savings and retirement plan (the ProAssurance Savings Plan) that is intended to provide retirement income to eligible employees. The plan provides for employer contributions to the plan of between 5% and 10% of salary for qualified employees. During 2013 and 2011, ProAssurance also maintained similar plans of acquired entities prior to the plans being merged into the ProAssurance Savings Plan. ProAssurance incurred expense related to the savings and retirement plans of $9.8 million, $5.1 million and $4.3 million during the years ended December 31, 2013, 2012 and 2011, respectively.

ProAssurance also maintains a non-qualified deferred compensation plan (the ProAssurance Plan) that allows participating management employees to defer a portion of their current salary. ProAssurance incurred expense related to the ProAssurance Plan of $0.2 million during each of the years ended December 31, 2013, 2012 and 2011. ProAssurance deferred compensation liabilities totaled $13.1 million at December 31, 2013 and $11.1 million at December 31, 2012. The liabilities included amounts due under the ProAssurance Plan and amounts due under individual agreements with current or former employees.

16. Statutory Accounting and Dividend Restrictions

ProAssurance’s insurance subsidiaries are required to file statutory financial statements with state insurance regulatory authorities, prepared based upon statutory accounting practices prescribed or permitted by regulatory authorities. ProAssurance did not use any prescribed or permitted statutory accounting practices that differed from the National Association of Insurance Commissioners' statutory accounting practices at December 31, 2013, 2012 or 2011. Differences between net income prepared in accordance with GAAP and statutory net income are principally due to: (a) policy acquisition and certain software and equipment costs which are deferred under GAAP but expensed for statutory purposes and (b) certain deferred income taxes which are recognized under GAAP but are not recognized for statutory purposes.

The NAIC specifies risk-based capital requirements for property and casualty insurance providers. At December 31, 2013 actual statutory capital and surplus for each of ProAssurance’s insurance subsidiaries substantially exceeded the regulatory requirements. Net earnings and capital and surplus of ProAssurance’s insurance subsidiaries on a statutory basis are shown in the following table. The table does not include Eastern, as the acquisition occurred on January 1, 2014 (see Note 18).

(In millions)

Statutory Net Earnings			Statutory Capital and Surplus	
2013	2012	2011	2013	2012
$256	$312	$291	$1,642	$1,499

At December 31, 2013 $1.8 billion of ProAssurance's consolidated net assets were held at its insurance subsidiaries, of which approximately $243 million are permitted to be paid as dividends over the course of 2014 without 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 prevent the dividend if, in its judgment, payment of the dividend would have an adverse effect on the capital and surplus of the insurance subsidiary.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2013

17. Quarterly Results of Operations (unaudited)

The following is a summary of unaudited quarterly results of operations for 2013 and 2012:

	2013			
(In thousands, except per share data)	1st	2nd	3rd	4th
Net premiums earned	$134,578	$130,352	$133,598	$129,392
Net losses and loss adjustment expenses:				
Current year	110,726	109,109	110,987	116,689
Prior year	(53,100)	(38,500)	(49,350)	(81,799)
Net income	112,850	50,451	63,357	70,864
Basic earnings per share*	1.83	0.82	1.02	1.15
Diluted earnings per share*	1.82	0.81	1.02	1.14

	2012			
(In thousands, except per share data)	1st	2nd	3rd	4th
Net premiums earned	$136,659	$131,266	$127,125	$155,615
Net losses and loss adjustment expenses:				
Current year	117,656	108,134	106,621	119,539
Prior year	(47,457)	(60,050)	(50,000)	(114,531)
Net income	55,645	58,453	60,106	101,266
Basic earnings per share*	0.91	0.95	0.98	1.65
Diluted earnings per share*	0.90	0.95	0.97	1.64

* Quarterly and year-to-date computations of per share amounts are made independently; therefore, the sum of per share amounts for the quarters may not equal per share amounts for the respective year-to-date periods.

18. Subsequent Events

As discussed in Note 2, on January 1, 2014 ProAssurance completed the acquisition of Eastern. Funds required for the purchase were transferred to a third party agent on December 27, 2013 and distributed to eligible Eastern shareholders subsequent to the completion of the transaction.

ProAssurance Corporation and Subsidiaries
Schedule I – Summary of Investments – Other than Investments in Related Parties
December 31, 2013

Type of Investment	Recorded Cost Basis	Fair Value	Amount Which is Presented in the Balance Sheet
(In thousands)			
Fixed Maturities			
Bonds:			
U.S. Government or government agencies and authorities	$197,057	$203,482	$203,482
States, municipalities and political subdivisions	1,116,060	1,154,666	1,154,666
Foreign Governments	5,141	5,348	5,348
Public utilities	95,943	98,501	98,501
All other corporate bonds	1,220,604	1,250,311	1,250,311
Certificates of deposit	150	6,993	6,993
Mortgage-backed securities	391,301	398,748	398,748
Total Fixed Maturities	3,026,256	3,118,049	3,118,049
Equity Securities, available-for-sale			
Common Stocks:			
Banks, trusts and insurance companies	—	—	—
Total Equity Securities, available-for-sale	—	—	—
Equity Securities, trading			
Common Stocks:			
Public utilities	5,880	7,107	7,107
Banks, trusts and insurance companies	68,596	81,536	81,536
Industrial, miscellaneous and all other	128,832	164,898	164,898
Total Equity Securities, trading	203,308	253,541	253,541
Other long-term investments	320,850	317,816	320,850
Short-term investments	248,605	248,605	248,605
Total Investments	$3,799,019	$3,938,011	$3,941,045

Table of Contents
ProAssurance Corporation and Subsidiaries
Schedule II – Condensed Financial Information of Registrant

ProAssurance Corporation – Registrant Only
Condensed Balance Sheets

	December 31	
(In thousands)	2013	2012
Assets		
Investment in subsidiaries, at equity	$2,005,420	$2,092,445
Fixed maturities available for sale, at fair value	86,603	249,318
Equity securities, trading, at fair value	12,043	10,487
Short-term investments	191,991	4,366
Cash and cash equivalents	37,459	29,397
Restricted cash	78,000	—
Due from subsidiaries	3,315	23,708
Other assets	255,313	7,747
Total Assets	$2,670,144	$2,417,468
Liabilities and Shareholders' Equity		
Liabilities:		
Other liabilities	$25,730	$21,888
Long-term debt	250,000	125,000
Total Liabilities	275,730	146,888
Shareholders' Equity:		
Common stock	621	619
Other shareholders' equity, including unrealized gains (losses) on securities of subsidiaries	2,393,793	2,269,961
Total Shareholders' Equity	2,394,414	2,270,580
Total Liabilities and Shareholders' Equity	$2,670,144	$2,417,468

Table of Contents

ProAssurance Corporation and Subsidiaries
Schedule II – Condensed Financial Information of Registrant

ProAssurance Corporation – Registrant Only
Condensed Statements of Income

	Year Ended December 31		
(In thousands)	2013	2012	2011
Net investment income	$5,789	$5,281	$1,582
Equity in earnings (loss) of unconsolidated subsidiaries	—	(728)	(2,479)
Net realized investment gains (losses)	5,334	3,230	(141)
Other income (loss)	170	54	101
	11,293	7,837	(937)
Expenses:			
Interest expense	2,747	1,534	1,833
Other expenses	13,213	8,870	7,855
	15,960	10,404	9,688
Income (loss) before income tax expense (benefit) and equity in net income of consolidated subsidiaries	(4,667)	(2,567)	(10,625)
Income tax expense (benefit)	(1,007)	773	(3,209)
Income (loss) before equity in net income of consolidated subsidiaries	(3,660)	(3,340)	(7,416)
Equity in net income of consolidated subsidiaries	301,183	278,810	294,512
Net income	$297,523	$275,470	$287,096

134

Table of Contents

ProAssurance Corporation and Subsidiaries

Schedule II – Condensed Financial Information of Registrant

ProAssurance Corporation – Registrant Only

Condensed Statements of Cash Flow

	Year Ended December 31		
(In thousands)	2013	2012	2011
Net cash provided (used) by operating activities	$(26,319)	$3,601	$(3,982)
Investing activities			
Purchases of equity securities trading	(1,265)	(364)	(990)
Proceeds from sale or maturities of:			
Fixed maturities, available for sale	224,993	150,192	19,398
Equity securities trading	1,113	616	6,887
Net decrease (increase) in short-term investments	(187,625)	58,657	(28,708)
Dividends from subsidiaries	239,484	59,369	90,020
Contribution of capital to subsidiaries	—	(184,330)	(12,500)
Deposit made for future acquisition	(205,244)	—	—
(Increase) decrease in restricted cash	(78,000)	—	—
Funding for Syndicate 1729	(8,699)	—	—
Other	(20)	(1)	(3,070)
Net cash provided (used) by investing activities	(15,263)	84,139	71,037
Financing activities			
Proceeds from long-term debt	250,000	125,000	—
Principal repayment of debt	(125,000)	(32,992)	—
Repurchase of common stock	(29,089)	—	(21,005)
Subsidiary payments for common shares and share-based compensation awarded to subsidiary employees	6,258	7,066	6,071
Excess of tax benefit from share-based payment arrangements	2,128	7,022	1,711
Dividends to shareholders	(46,375)	(200,118)	(7,617)
Other	(8,278)	(12,259)	(2,561)
Net cash provided (used) by financing activities	49,644	(106,281)	(23,401)
Increase (decrease) in cash and cash equivalents	8,062	(18,541)	43,654
Cash and cash equivalents, beginning of period	29,397	47,938	4,284
Cash and cash equivalents, end of period	$37,459	$29,397	$47,938
Significant non-cash transactions:			
Securities transferred at fair value as dividends from subsidiaries	$69,011	$241,081	$197,224

Table of Contents

ProAssurance Corporation and Subsidiaries
Schedule II – Condensed Financial Information of Registrant

Notes to Condensed Financial Statements of Registrant

1. Basis of Presentation

The registrant-only financial statements should be read in conjunction with ProAssurance Corporation's (PRA Parent) consolidated financial statements. At December 31, 2013 and 2012, PRA Parent's investment in subsidiaries is stated at the initial consolidation value plus equity in the undistributed earnings of subsidiaries since the date of acquisition.

2. Business Combinations

On January 1, 2013, ProAssurance, through a wholly owned subsidiary, completed the acquisition of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc), through a sponsored demutualization. A gain recognized on the acquisition is included in the December 31, 2013 Consolidated Statements of Income and Comprehensive Income.

On January 1, 2014, ProAssurance completed the acquisition of Eastern Insurance Holdings, Inc. (Eastern) (NASDAQ: EIHI) by purchasing 100% of its outstanding common shares. ProAssurance acquired Eastern for cash of $205 million. ProAssurance transferred all of the cash required to complete the transaction to a third-party agent for the benefit of Eastern eligible shareholders on December 27, 2013; the deposit was classified as a part of Other Assets at December 31, 2013.

Additional information regarding business combinations is provided in Note 2 of the Notes to Consolidated Financial Statements.

3. Other Assets

At December 31, 2013 Other assets was principally comprised of a $205 million deposit made related to the Eastern transaction, discussed in Note 2 above.

4. Long-term Debt

Outstanding long-term debt, as of December 31, 2013 and 2012, consists of the following:

(In thousands)	2013	2012
Senior notes due 2023, unsecured, interest at 5.3% annually	$250,000	$—
Revolving credit agreement, expires in 2016	—	125,000
	$250,000	$125,000

See Note 10 of the Notes to Consolidated Financial Statements included herein for a detailed description of the terms of the Senior Notes due 2023 and the Revolving Credit Agreement.

5. Related Party Transactions

PRA Parent received dividends from its subsidiaries of $308.5 million, $300.5 million and $287.2 million during the years ended December 31, 2013, 2012 and 2011, respectively. PRA Parent did not contribute capital to its subsidiaries during the year ended December 31, 2013 and contributed capital of $184.3 million and $12.5 million during the years ended December 31, 2012 and 2011, respectively. Capital contributed in 2012 was primarily for the purpose of funding the Medmarc acquisition.

6. Income Taxes

Under terms of PRA Parent's tax sharing agreement with its subsidiaries, income tax provisions for individual companies are allocated on a separate company basis.

7. Transactions with Syndicate 1729

As a member of Lloyd's and a capital provider to Syndicate 1729 ProAssurance is required to provide capital, referred to as Funds at Lloyd's (FAL), to support Syndicate 1729. In order to meet these FAL requirements, ProAssurance, through a wholly owned subsidiary, provided a standby letter of credit of £41.9 million ($69.3 million at December 31, 2013) and cash deposits of $8.7 million. At December 31, 2013 the LOC was fully secured by cash deposits of PRA Parent, shown separately on the registrant-only Condensed Balance Sheet as Restricted cash.

ProAssurance also has a revolving credit agreement (the Credit Agreement) with Syndicate 1729 to provide operating funds of up to £10 million (approximately $17 million at December 31, 2013). At December 31, 2013, £1.0 million ($1.7 million) had been drawn under the Credit Agreement. Both the required funded capital and the funds drawn under the Credit Agreement were classified as a part of Other assets at December 31, 2013. See Note 9 of the Notes to Consolidated Financial Statements for more information regarding transactions with Syndicate 1729.

Table of Contents

ProAssurance Corporation and Subsidiaries

Schedule III – Supplementary Insurance Information

(In thousands)	2013	2012	2011
Deferred policy acquisition costs	$28,999	$23,179	$26,626
Reserve for losses and loss adjustment expenses	2,072,822	2,054,994	2,247,772
Unearned premiums	256,255	233,861	251,155
Net premiums earned	527,919	550,664	565,415
Net investment income	129,265	136,094	140,956
Losses and loss adjustment expenses incurred related to current year, net of reinsurance	447,510	451,951	488,152
Losses and loss adjustment expenses incurred related to prior year, net of reinsurance	(222,749)	(272,038)	(325,865)
Paid losses and loss adjustment expenses, net of reinsurance	388,813	339,142	298,837
Underwriting, policy acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	59,063	57,007	59,591
Other underwriting, policy acquisition and operating expenses	88,754	78,624	76,830
Net premiums written	525,182	528,298	558,507

Note: all amounts above are derived entirely from consolidated property and casualty entities.

137

Table of Contents

ProAssurance Corporation and Subsidiaries

Schedule IV – Reinsurance

(In thousands)	2013	2012	2011
Property and Liability (1)			
Premiums earned	$568,629	$558,200	$570,891
Premiums ceded	(41,514)	(7,652)	(5,630)
Premiums assumed	804	116	154
Net premiums earned	$527,919	$550,664	$565,415
Percentage of amount assumed to net	0.15%	0.02%	0.03%

(1) All of ProAssurance's premiums are related to property and liability coverages.

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
2	Schedules to the following documents are omitted; the contents of the schedules are generally described in the documents; and ProAssurance will upon request furnish to the Commission supplementally a copy of any omitted schedule
2.1	Plan of Conversion of PICA as filed with the Illinois Director of Insurance on November 13, 2008 (1)
2.2	Stock Purchase Agreement executed by ProAssurance Corporation and PICA dated October 28, 2008 (1)
2.3	Agreement and Plan of Merger by and among ProAssurance Corporation, CA Bridge Corporation and American Physicians Service Group, Inc. dated August 31, 2010 (2)
2.4	Stock Purchase Agreement dated as of June 26, 2012, by and among ProAssurance Corporation, PRA Professional Liability Group, Inc. and Medmarc Mutual Insurance Company
2.5	Agreement and Plan of Merger by and among ProAssurance Corporation, PA Merger Company and Eastern Insurance Holdings, Inc., dated September 23, 2013 (3)
3.1(a)	Certificate of Incorporation of ProAssurance (4)
3.1(b)	Certificate of Amendment to Certificate of Incorporation of ProAssurance (5)
3.2	Third Restatement of the Bylaws of ProAssurance (6)
4.1	Indenture, dated November 21, 2013, between ProAssurance and Wilmington Trust Company (26)
4.2	First Supplemental Indenture, dated November 21, 2013, between ProAssurance and Wilmington Trust Company relating to the $250,000 5.30% Senior Notes due 2023 (26)
	ProAssurance will file with the Commission upon request pursuant to the requirements of Item 601 (b)(4) of Regulation S-K documents defining rights of holders of ProAssurance's long-term indebtedness that has not been registered. See also the documents related to long term indebtedness filed as material contracts under Exhibits 10.16(a), (b), (c) and (d), and 10.20(a), (b) and (c) to this Form 10-K
10.1(a)	Medical Assurance, Inc. Incentive Compensation Stock Plan (formerly known as the Mutual Assurance, Inc. 1995 Stock Award Plan) (7)*
10.1(b)	Amendment and Assumption Agreement by and between ProAssurance and Medical Assurance, Inc. (8)*
10.1(c)	Amendment and Assumption Agreement by and between Mutual Assurance, Inc. and MAIC Holdings, Inc. dated April 8, 1996 (4)*
10.2(a)	ProAssurance Corporation 2004 Equity Incentive Plan (9)*

10.2(b)	First amendment to 2004 Equity Incentive Plan (10)*
10.3(a)	Form of Release and Severance Compensation Agreement dated as of January 1, 2008 between ProAssurance and each of the following named executive officers (11):* Edward L. Rand, Jr. Howard H. Friedman Jeffrey P. Lisenby Frank B. O'Neil

139

Table of Contents

10.4(a)	Employment Agreement between ProAssurance and W. Stancil Starnes dated as of May 1, 2007 (12)*
10.4(b)	Amendment to Employment Agreement with W. Stancil Starnes (May 1, 2007), effective as of January 1, 2008 (11)*
10.5	Consulting Agreement between ProAssurance and William J. Listwan (13)*
10.6	Deferred Compensation Plan and Agreement dated December 31, 2010 between ProAssurance and Victor T. Adamo (12)*
10.7	Form of Release and Severance Compensation Agreement dated as of September 1, 2011 between ProAssurance and Ross E. Taubman (18)*
10.8	Form of Indemnification Agreement between ProAssurance and each of the following named executive officers and directors of ProAssurance (18)*
	Lucian F. Bloodworth Samuel A. Di Piazza, Jr. Robert E. Flowers Howard H. Friedman M. James Gorrie Jeffrey P. Lisenby William J. Listwan John J. McMahon Drayton Nabers Frank B. O'Neil Ann F. Putallaz Edward L. Rand, Jr. Frank A. Spinosa W. Stancil Starnes Ross E. Taubman Anthony R. Tersigni Adam P. Wilczek Thomas A. S. Wilson, Jr.
10.9	ProAssurance Group Employee Benefit Plan which includes the Executive Supplemental Life Insurance Program (Article VIII) (21)*
10.10	Amendment and Restatement of the Executive Non-Qualified Excess Plan and Trust effective January 1, 2008 (10)*
10.11(a)	Director Deferred Compensation Plan as amended and restated December 7, 2011 (20)*
10.11(b)	Amendment No. 1 to the Amended and Restated Director Deferred Compensation Plan dated May 22, 2013 (22)*
10.12	ProAssurance Corporation 2008 Equity Incentive Plan (15)*

10.13	First Amendment to the 2008 Equity Incentive Plan (20)*
10.14	ProAssurance Corporation 2008 Annual Incentive Compensation Plan (16)*

140

Table of Contents

10.15	ProAssurance Corporation 2011 Employee Stock Ownership Plan (11)*
10.16(a)	Revolving Credit Agreement, dated April 15, 2011, between ProAssurance and U.S. Bank National Association, Wells Fargo Bank, National Association, Branch Banking and Trust Company, First Tennessee Bank, N.A., and JP Morgan Chase Bank N.A. (17)
10.16(b)	Amendment No. 1 to Revolving Credit Agreement between ProAssurance and U.S. Bank National Association, Wells Fargo Bank, National Association, Branch Banking and Trust Company, First Tennessee Bank, N.A., and JP Morgan Chase Bank N.A. (19)
10.16(c)	Amendment No. 2 to Revolving Credit Agreement between ProAssurance and U.S. Bank National Association, Wells Fargo Bank, National Association, Branch Banking and Trust Company, First Tennessee Bank, N.A., and JP Morgan Chase Bank N.A. (25)
10.16(d)	Pledge and Security Agreement between ProAssurance and U.S. Bank National Association (17)
10.17	ProAssurance Corporation Amended and Restated 2014 Equity Incentive Plan (23)*
10.18	ProAssurance Corporation 2014 Annual Incentive Plan (24)*
10.19	Retention and Severance Compensation Agreement effective January 1, 2013, between ProAssurance and Mary Todd Peterson*
10.20(a)	Standby Letter of Credit Agreement, dated November 8, 2013, between ProAssurance and Wells Fargo Bank, National Association (25)
10.20(b)	Parent Guaranty, dated November 8, 2013, by ProAssurance in favor of Wells Fargo Bank, National Association (25)
10.20(c)	Pledge and Security Agreement dated November 8, 2013, between ProAssurance and Wells Fargo Bank, National Association (25)
10.21	Facility Agreement between ProAssurance and the Premiums Trust Fund of Syndicate 1729
10.22	Underwriting Agreement between ProAssurance and Goldman, Sachs & Co. and Wells Fargo Securities, LLC (26)
10.23	Retention and Severance Compensation Agreement effective January 1, 2014, between ProAssurance and Michael L. Boguski*
21.1	Subsidiaries of ProAssurance Corporation
23.1	Consent of Ernst & Young LLP
31.1	Certification of Principal Executive Officer of ProAssurance as required under SEC Rule 13a-14(a)
31.2	Certification of Principal Financial 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 Officer of ProAssurance as required under SEC Rule 13a-14(b) and 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

* Denotes a management contract or compensatory plan, contract or arrangement required to be filed as an exhibit to this report.

141

Table of Contents

Footnotes

(1) Filed as an Exhibit to ProAssurance’s Current Report on Form 8-K for event occurring November 13, 2008 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(2) Filed as an Exhibit to ProAssurance’s Current Report on Form 8-K for event occurring August 31, 2010 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(3) Filed as an Exhibit to ProAssurance's Current Report on Form 8-K for event occurring September 24, 2013 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(4) Filed as an Exhibit to ProAssurance’s Registration Statement on Form S-4 (File No. 333-49378) and incorporated herein by reference pursuant to Rule 12b-32 of the Securities and Exchange Commission (SEC)

(5) Filed as an Exhibit to ProAssurance’s Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(6) Filed as an Exhibit to ProAssurance’s Current Report on Form 8-K for the event occurring December 1, 2010 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(7) Filed as an Exhibit to MAIC Holding’s Registration Statement on Form S-4 (File No. 33-91508) and incorporated herein by reference pursuant to SEC Rule 12b-32

(8) Filed as an Exhibit to MAIC Holding’s Proxy Statement for the 1996 Annual Meeting (File No. 0-19439) is incorporated herein by reference pursuant to SEC Rule 12b-32

(9) Filed as an Exhibit to ProAssurance’s Definitive Proxy Statement (File No. 001-165333) on April 16, 2004 and incorporated herein by reference pursuant to SEC Rule 12b-32

(10) Filed as an Exhibit to ProAssurance’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-16533) and incorporated herein by this reference pursuant to SEC Rule 12b-32

(11) Filed as an Exhibit to ProAssurance’s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-16533) and incorporated herein by this reference pursuant to SEC Rule 12b-32

(12) Filed as an Exhibit to ProAssurance’s Annual Report on Form 10-K for the year ended December 31, 2010 (File No. 001-16533) and incorporated herein by reference pursuant to Rule 12b-32

(13) Filed as an Exhibit to ProAssurance’s Current Report on Form 8-K for the event occurring May 12, 2007 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(14) Filed as an Exhibit to ProAssurance’s Current Report on Form 8-K for event occurring on September 13, 2006 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(14) Filed as an Exhibit to ProAssurance’s Annual Report on Form 10-K for the year ended December 31, 2009 (File No. 001-16533) and incorporated herein by this reference pursuant to SEC Rule 12b-32

(15) Filed as an Exhibit to ProAssurance’s Registration Statement on Form S-8 (File No. 333-156645) and incorporated by reference pursuant to SEC Rule 12b-32

(16) Filed as an Exhibit to ProAssurance’s Definitive Proxy Statement (File No. 001-165333) on April 11, 2008 and incorporated herein by reference pursuant to SEC Rule 12b-32

(17) Filed as an Exhibit to ProAssurance’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(18) Filed as an Exhibit to ProAssurance's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(19) Filed as an Exhibit to ProAssurance's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(20) Filed as an Exhibit to ProAssurance's Annual Report on Form 10K for the year ended December 31, 2011 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(21) Filed as an exhibit to ProAssurance's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(22) Filed as an exhibit to ProAssurance's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(23) Filed as an Exhibit to ProAssurance’s Current Report on Form 8-K for event occurring May 14, 2013 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(24) Filed as an Exhibit to ProAssurance's Definitive Proxy Statement (File No. 001-165333) filed on April 22, 2013 and incorporated herein by reference pursuant to SEC Rule 12b-32

142

Table of Contents

(25) Filed as an Exhibit to ProAssurance's Current Report on Form 8-K for even occurring November 8, 2013 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32

(26) Filed as an Exhibit to ProAssurance's Current Report on Form 8-K for even occurring November 21, 2013 (File No. 001-16533) and incorporated herein by reference pursuant to SEC Rule 12b-32