PROASSURANCE CORP
Form 10-Q
May 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2011

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from ______ to ______

Commission file number 0-16533
ProAssurance Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

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

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

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

As of April 26, 2011, there were 30,574,504 shares of the registrant s common stock outstanding.

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FORWARD-LOOKING STATEMENTS

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

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

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

- general economic conditions, either nationally or in our market areas, that are different than anticipated;
- regulatory, legislative and judicial actions or decisions that could affect our business plans or operations;
- the enactment or repeal of tort reforms;
- formation or dissolution of state-sponsored medical professional liability insurance entities that could remove or add sizable groups of physicians from the private insurance market;
- the impact of deflation or inflation;
- changes in the interest rate environment;
- the effect that changes in laws or government regulations affecting the U.S. economy or financial institutions may have on the U.S. economy and our business;
- performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;
- changes in accounting policies and practices that may be adopted by our regulatory agencies and the Financial Accounting Standards Board, the Securities and Exchange Commission, or the Public Company Accounting Oversight Board;
- changes in laws or government regulations affecting medical professional liability insurance or the financial community;
- the effects of changes in the health care delivery system, including but not limited to the Patient Protection and Affordable Care Act;
- uncertainties inherent in the estimate of loss and loss adjustment expense reserves and reinsurance, and changes in the availability, cost, quality, or collectability of insurance/reinsurance;
- the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;
- allegation of bad faith which may arise from our handling of any particular claim, including failure to settle;
- loss of independent agents;
- changes in our organization, compensation and benefit plans;
- our ability to retain and recruit senior management;

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- our ability to purchase reinsurance and collect recoveries from our reinsurers;

- assessments from guaranty funds;
- our ability to achieve continued growth through expansion into other states or through acquisitions or business combinations;
- changes to the ratings assigned by rating agencies to our insurance subsidiaries, individually or as a group;
- insurance market conditions may alter the effectiveness of our current business strategy and impact our revenues;
- the expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected due to business disruption, loss of customers and employees, increased operating costs or inability to achieve cost savings, and assumption of greater than expected liabilities, among other reasons.

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

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

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

	March 31 2011	December 31 2010
Assets		
Investments		
Fixed maturities available for sale, at fair value	**$3,635,683**	$3,603,754
Equity securities, available for sale, at fair value	**152**	3,637
Equity securities, trading, at fair value	**36,336**	37,286
Short-term investments	**145,490**	168,438
Business owned life insurance	**50,948**	50,484
Investment in unconsolidated subsidiaries	**102,290**	88,754
Other investments	**36,710**	38,078
Total Investments	**4,007,609**	3,990,431
Cash and cash equivalents	**59,504**	50,851
Premiums receivable	**123,628**	120,950
Receivable from reinsurers on paid losses and loss adjustment expenses	**4,589**	4,582
Receivable from reinsurers on unpaid losses and loss adjustment expenses	**280,866**	277,436
Prepaid reinsurance premiums	**12,657**	11,023
Deferred policy acquisition costs	**28,109**	27,281
Deferred taxes	**45,267**	56,862
Real estate, net	**43,601**	43,951
Intangible assets	**57,094**	60,031
Goodwill	**161,453**	161,453
Other assets	**80,802**	70,205
Total Assets	**$4,905,179**	$4,875,056
Liabilities and Shareholders Equity		
Liabilities		
Policy liabilities and accruals		
Reserve for losses and loss adjustment expenses	**$2,411,358**	$2,414,100
Unearned premiums	**275,598**	256,050
Reinsurance premiums payable	**107,509**	111,680
Total Policy Liabilities	**2,794,465**	2,781,830
Other liabilities	**174,925**	186,259
Long-term debt, $35,494 and $35,488, at amortized cost, respectively; $15,555 and $15,616 at fair value, respectively	**51,049**	51,104
Total Liabilities	**3,020,439**	3,019,193
Shareholders Equity		

Common shares, par value $0.01 per share, 100,000,000 shares authorized, 34,499,377 and 34,419,383 shares issued, respectively	**345**	344
Additional paid-in capital	**533,124**	532,213
Accumulated other comprehensive income (loss), net of deferred tax expense (benefit) of $40,296 and $42,607, respectively	**74,833**	79,124
Retained earnings	**1,475,719**	1,428,026
	2,084,021	2,039,707
Treasury shares, at cost, 3,924,970 shares and 3,666,149 shares, respectively	**(199,281)**	(183,844)
Total Shareholders Equity	**1,884,740**	1,855,863
Total Liabilities and Shareholders Equity	**$4,905,179**	$4,875,056

See accompanying notes

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

	Total	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Other Capital Accounts
Balance at December 31, 2010	**$1,855,863**	**$ 79,124**	**$1,428,026**	**$348,713**
Net income	**47,693**		**47,693**	
Change in net unrealized gains (losses) on investments, after tax, net of reclassification adjustments	**(4,291)**	**(4,291)**		
Repurchase of treasury shares	**(14,993)**			**(14,993)**
Common shares issued for compensation and net effect of performance shares issued and stock options exercised	**(1,269)**			**(1,269)**
Share-based compensation	**1,737**			**1,737**
Balance at March 31, 2011	**$1,884,740**	**$ 74,833**	**$1,475,719**	**$334,188**

	Total	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Other Capital Accounts
Balance at December 31, 2009	$1,704,595	$ 59,254	$1,196,428	$448,913
Net income	38,112		38,112	
Change in net unrealized gains (losses) on investments, after tax, net of reclassification adjustments	13,244	13,244		
Common shares issued for compensation and net effect of performance shares issued and stock options exercised	352			352
Share-based compensation	1,400			1,400
Balance at March 31, 2010	$1,757,703	$ 72,498	$1,234,540	$450,665

See accompanying notes

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

	Three Months Ended March 31	
	2011	2010
Revenues		
Gross premiums written	**$160,813**	$157,178
Net premiums written	**$149,883**	$145,222
Premiums earned	**$141,373**	$134,272
Premiums ceded	**(9,296)**	(10,845)
Net premiums earned	**132,077**	123,427
Net investment income	**36,161**	37,628
Equity in earnings (loss) of unconsolidated subsidiaries	**(1,364)**	2,986
Net realized investment gains (losses):		
Other-than-temporary impairment losses (OTTI)	**(1,837)**	(6,305)
Portion of OTTI losses recognized in (reclassified from) other comprehensive income (before taxes)	**(568)**	972
Net impairment losses recognized in earnings	**(2,405)**	(5,333)
Other net realized investment gains (losses)	**6,529**	2,929
Total net realized investment gains (losses)	**4,124**	(2,404)
Other income	**2,587**	2,321
Total revenues	**173,585**	163,958
Expenses		
Losses and loss adjustment expenses	**77,101**	87,908
Reinsurance recoveries	**(6,678)**	(9,207)
Net losses and loss adjustment expenses	**70,423**	78,701
Underwriting, policy acquisition and operating expenses	**35,709**	31,203
Interest expense	**795**	813
Total expenses	**106,927**	110,717
Income before income taxes	**66,658**	53,241
Provision for income taxes		
Current expense (benefit)	**5,059**	8,819
Deferred expense (benefit)	**13,906**	6,310

Total income tax expense (benefit)	**18,965**	15,129
Net income	**$ 47,693**	$ 38,112
Earnings per share:		
Basic	**$ 1.56**	$ 1.17
Diluted	**$ 1.55**	$ 1.16
Weighted average number of common shares outstanding:		
Basic	**30,616**	32,447
Diluted	**30,853**	32,764

See accompanying notes

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ProAssurance Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Unaudited)
(In thousands)

	Three Months Ended March 31	
	2011	2010
Comprehensive income:		
Net income	**$47,693**	$38,112
Change in net unrealized gains (losses) on investments, after tax, net of reclassification adjustments	**(4,291)**	13,244
Comprehensive income	**$43,402**	$51,356

See accompanying notes

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

(In thousands)	Three Months Ended March 31 2011	2010
Operating Activities		
Net income	**$ 47,693**	$ 38,112
Depreciation and amortization	**9,115**	6,108
Net realized investment (gains) losses	**(4,124)**	2,404
Share-based compensation	**1,737**	1,400
Deferred income taxes	**13,906**	6,310
Other	**(757)**	(6,470)
Changes in assets and liabilities, excluding the effects of business combinations:		
Premiums receivable	**(2,678)**	950
Other assets	**650**	3,565
Reserve for losses and loss adjustment expenses	**(2,742)**	1,082
Unearned premiums	**19,548**	23,572
Reinsurance related assets and liabilities	**(9,242)**	5,083
Other liabilities	**(48,245)**	(34,340)
Net cash provided by operating activities	**24,861**	47,776
Investing Activities		
Purchases of:		
Fixed maturities available for sale	**(252,043)**	(238,380)
Equity securities trading	**(15,750)**	(3,933)
Other investments		(2,647)
Cash invested in unconsolidated subsidiaries	**(15,000)**	
Proceeds from sale or maturities of:		
Fixed maturities available for sale	**211,573**	165,080
Equity securities available for sale	**3,589**	
Equity securities trading	**18,621**	3,322
Other investments		603
Net sales or maturities (purchases) of short-term investments, excluding unsettled redemptions	**22,948**	35,252
Unsettled security transactions, net	**39,092**	15,487
Cash received (paid) for other assets	**(12,227)**	(13,176)
Net cash provided (used) by investing activities	**803**	(38,392)
Financing Activities		
Repurchase of treasury shares	**(14,993)**	
Other	**(2,018)**	(1,178)

Net cash provided (used) by financing activities	**(17,011)**	(1,178)
Increase (decrease) in cash and cash equivalents	**8,653**	8,206
Cash and cash equivalents at beginning of period	**50,851**	40,642
Cash and cash equivalents at end of period	**$ 59,504**	$ 48,848

See accompanying notes

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of ProAssurance Corporation and its consolidated subsidiaries (ProAssurance or PRA). The financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. ProAssurance s results for the three-month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes contained in ProAssurance s December 31, 2010 report on Form 10-K. In connection with its preparation of the Condensed Consolidated Financial Statements, ProAssurance evaluated events that occurred subsequent to March 31, 2011, for recognition or disclosure in its financial statements and notes to financial statements.

Reclassifications

As of March 31, 2011, ProAssurance has reported amortizable and unamortizable intangible assets as one line item, Intangible Assets, on the Balance Sheet. Prior period balances in this report have been reclassified to conform to the 2011 presentation. The reclassification had no effect on income from continuing operations, net income or total assets.

Accounting Changes Not Yet Adopted

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

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

Accounting Changes

Intangibles-Goodwill and Other

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

Fair Value Measurements

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

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

2. Acquisitions

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

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

The following table discloses the amount of APS revenues and earnings, from the acquisition on November 30, 2010, that are included in ProAssurance s consolidated results for the three months ended March 31, 2011. The table also includes supplemental pro forma information reflecting the combined results of ProAssurance and APS as if the acquisition had occurred as of January 1, 2010.

	Actual APS Results Included in ProAssurance Consolidated Results Three Months Ended March 31	Supplemental Pro forma Combined Results Three Months Ended March 31	
(In thousands)	**2011**	**2011**	2010
Revenue	**$ 15,872**	**$173,585**	$183,812
Earnings	**$ 4,661**	**$ 48,011**	$ 42,052

Pro forma combined results shown above have been adjusted, net of related tax effects, to reflect the following: 1) workforce reductions as if the reductions had occurred January 1, 2010, 2) the exclusion of transaction costs, 3) the reversal of the effect of writing off policy acquisition costs as of the acquisition date, 4) the amortization of intangibles recorded as a result of the purchase price allocation and 5) the amortization of the investment purchase adjustments.

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

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement

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

Level 1: quoted (unadjusted) market prices in active markets for identical assets and liabilities. For ProAssurance, Level 1 inputs are generally quotes for debt or equity securities actively traded in exchange or over-the-counter markets.

Level 2: market data obtained from sources independent of the reporting entity (observable inputs). For ProAssurance, Level 2 inputs generally include quoted prices in markets that are not active, quoted prices for similar assets/liabilities, and results from pricing models that use observable inputs such as interest rates and yield curves that are generally available at commonly quoted intervals.

Level 3: the reporting entity s own assumptions about market participant assumptions based on the best information available in the circumstances (non-observable inputs). For ProAssurance, Level 3 inputs are used in situations where little or no Level 1 or 2 inputs are available or are inappropriate given the particular circumstances. Level 3 inputs include results from pricing models for which some or all of the inputs are not observable, discounted cash flow methodologies, single non-binding broker quotes and adjustments to externally quoted prices that are based on management judgment or estimation.

The following tables present information about ProAssurance s assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 and indicate the fair value hierarchy of the valuation techniques utilized to determine such value. For some assets, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When this is the case, the asset is categorized based on the level of the most significant input to the fair value measurement. ProAssurance s assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the assets being valued.

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement (continued)

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

	March 31, 2011			
	Fair Value Measurements Using			Total
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Fixed maturities, available for sale				
U.S. Treasury obligations	$	$ 232,963	$	$ 232,963
U.S. Agency obligations		76,513		76,513
State and municipal bonds		1,220,240	7,450	1,227,690
Corporate bonds		1,321,518	16,880	1,338,398
Residential mortgage-backed securities		580,892		580,892
Commercial mortgage-backed securities		95,498		95,498
Other asset-backed securities		83,729		83,729
Equity securities, available for sale				
Financial	20			20
Energy				
Consumer cyclical				
Consumer non-cyclical				
Technology				
Industrial	132			132
Communications				
All Other				
Equity securities, trading				
Financial	3,324			3,324
Energy	6,789			6,789
Consumer cyclical	552			552
Consumer non-cyclical	1,392			1,392
Technology	2,145			2,145
Industrial	924			924
Communications	1,045			1,045
Index funds	18,791			18,791
All Other	1,374			1,374
Short-term investments (1)	132,267	13,223		145,490
Investment in unconsolidated subsidiaries (2)			25,662	25,662
Total assets	$168,755	$3,624,576	$49,992	$3,843,323
Liabilities:				
2019 Note Payable			15,555	15,555
Interest rate swap agreement			3,415	3,415

Total liabilities	**$**	**$**	**$18,970**	**$ 18,970**

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement (continued)

	December 31, 2010			
	Fair Value Measurements Using			Total
(In thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Fixed maturities, available for sale				
U.S. Treasury obligations	$	$ 225,908	$	$ 225,908
U.S. Agency obligations		68,878		68,878
State and municipal bonds		1,236,374	7,550	1,243,924
Corporate bonds		1,312,035	21,229	1,333,264
Residential mortgage-backed securities		567,640	2,198	569,838
Commercial mortgage-backed securities		99,386		99,386
Other asset-backed securities		62,534	22	62,556
Equity securities, available for sale				
Financial	392			392
Energy	257			257
Consumer cyclical	521			521
Consumer non-cyclical	656			656
Technology	768			768
Industrial	737			737
Communications				
All Other	306			306
Equity securities, trading				
Financial	4,317			4,317
Energy	7,149			7,149
Consumer cyclical	1,599			1,599
Consumer non-cyclical	4,534			4,534
Technology	3,400			3,400
Industrial	2,403			2,403
Communications	2,623			2,623
Index funds	3,568			3,568
All Other	7,693			7,693
Short-term investments (1)	150,344	18,094		168,438
Investment in unconsolidated subsidiaries (2)			25,112	25,112
Total assets	$191,267	$3,590,849	$56,111	$3,838,227
Liabilities:				
2019 Note Payable			15,616	15,616
Interest rate swap agreement			3,658	3,658
Total liabilities	$	$	$19,274	$ 19,274

(1) Short-term investments are reported at amortized cost, which approximates fair value.

(2) Includes interests in private investment funds that are valued at the net asset value provided by the fund, which approximates fair value. Other equity interests for which the carrying value of the interest does not approximate fair value are excluded.

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

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement (continued)

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 and agency obligations, and corporate bonds (exclusive of privately placed debt) are valued using pricing models that consider current and historical market data, normal trading conventions, credit ratings, and the particular structure and characteristics of the security being valued, such as yield to maturity, redemption options, and contractual cash flows. Adjustments to model inputs or model results are included in the valuation process when necessary to reflect recent events, such as regulatory, government or corporate actions or significant economic, industry or geographic events that would affect the security s fair value.

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

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

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.

Privately placed corporate debt is valued by an outside vendor rather than a third party pricing service. The valuation is prepared based on a widely available matrix that is produced daily by a leading seller of secondary private placements. The matrix considers the market sector, issuer credit ratings and the remaining loan term and is developed from market data such as interest rate yield curves, credit spreads, quoted market prices for comparable securities and other applicable market data.

Bank loans are also valued by an outside vendor. The valuation is 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.

Short term securities, primarily U. S. Treasury securities and commercial paper maturing within one year, are carried at cost which approximates the fair value of the security due to the short term to maturity.

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

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

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement (continued)

Corporate debt instruments are valued internally using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities having like terms and payment features that are of comparable credit quality. Assessments of credit quality are based on NRSRO ratings, if available, or are subjectively determined by management if not available. Corporate debt instruments include private placement senior notes valued at approximately $4.1 million and $9.3 million at March 31, 2011 and December 31, 2010, respectively. The notes are all rated A+ or better at March 31, 2011 and December 31, 2010 and are unconditionally guaranteed by large regional banks. The remaining Level 3 corporate securities are not guaranteed or fully collateralized. Approximately $11.3 million have an average NRSRO rating of A at March 31, 2011, and approximately $10.4 million had an average NRSRO rating of A- at December 31, 2010. Approximately $1.4 million and $1.5 million at March 31, 2011 and December 31, 2010, respectively, do not have an NRSRO rating.

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

Interests in private investment funds are valued using the net asset value provided by the fund.

The following table provides additional information regarding investments in private investment funds valued using the net asset value provided by the fund at March 31, 2011:

	Fair Value		**Unfunded Commitments**
(In thousands)	**March 31, 2011**	December 31, 2010	**March 31, 2011**
Private fund primarily invested in long/short equities (1)	**$19,053**	$18,801	**None**
Private fund primarily invested in non-public equities, including other private funds (2)	**6,609**	6,311	**$ 1,708**
	$25,662	$25,112	

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

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

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ProAssurance Corporation and Subsidiaries
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March 31, 2011

3. Fair Value Measurement (continued)

The following tables present summary information regarding changes in the fair value of assets and liabilities measured at fair value using Level 3 inputs, including financial instruments for which ProAssurance has elected fair value accounting. Transfers are as of the end of the period, unless otherwise specified.

	March 31, 2011 Level 3 Fair Value Measurements - Assets						
(In thousands)	State and Municipal Bonds	Corporate Bonds	Asset-backed Securities	Equity Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Assets							
Balance December 31, 2010	**$7,550**	**$21,229**	**$ 2,220**	**$**	**$ 25,112**	**$**	**$56,111**
Total gains (losses) realized and unrealized:							
Included in earnings, as a part of:							
Equity in earnings of unconsolidated subsidiaries					**550**		**550**
Realized investment gains (losses)			**314**				**314**
Included in other comprehensive income		**(180)**	**(15)**				**(195)**
Purchases							
Sales	**(100)**	**(5,195)**	**(1,921)**				**(7,216)**
Transfers in		**3,447**					**3,447**
Transfers out		**(2,421)**	**(598)**				**(3,019)**
Balance March 31, 2011	**$7,450**	**$16,880**	**$**	**$**	**$ 25,662**	**$**	**$49,992**
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	**$**	**$**	**$**	**$**	**$ 550**	**$**	**$ 550**

There were no transfers between Level 1 and Level 2 categories for the three months ended March 31, 2011. Transfers from Level 2 to Level 3 for the three months ended March 31, 2011 include:

- Two corporate bonds having a combined value of $3.4 million. Multiple observable inputs were not available for use in valuing the bonds at March 31, 2011. Such information was available for valuing the bonds at December 31, 2010.

Transfers from Level 3 to Level 2 for the three months ended March 31, 2011 include:

- Five corporate bonds having a combined value of $2.4 million. Multiple observable inputs were available for use in valuing the securities at March 31, 2011. Such information was not available for valuing the bonds at December 31, 2010.
- Two asset-backed securities valued at $0.6 million. Multiple observable inputs were available for use in valuing the security at March 31, 2011. Such information was not available for valuing the securities at December 31, 2010.

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March 31, 2011

3. Fair Value Measurement (continued)

	March 31, 2010 Level 3 Fair Value Measurements - Assets						
(In thousands)	State and Municipal Bonds	Corporate Bonds	Asset-backed Securities	Equity Securities	Investment in Unconsolidated Subsidiaries	Other Investments	Total
Balance December 31, 2009	$9,495	$24,335	$ 940	$	$ 48,502	$10,932	$94,204
Total gains (losses) realized and unrealized:							
Included in earnings, as a part of:							
Net investment income					2,986		2,986
Realized investment gains (losses)						(1,943)	(1,943)
Included in other comprehensive income	195	11	60			2,385	2,651
Purchases		1,060				363	1,423
Sales	(100)	(72)				(603)	(775)
Transfers in							
Transfers out		(161)					(161)
Balance March 31, 2010	$9,590	$25,173	$ 1,000	$	$ 51,488	$11,134	$98,385
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$	$	$	$	$ 2,986	$ (1,943)	$ 1,043

There were no transfers between Level 1 and Level 2 for the three months ended March 31, 2010.

There were no transfers from Level 2 to Level 3 for the three months ended March 31, 2010.

Transfers from Level 3 to Level 2 for the three months ended March 31, 2010 include:

-

Corporate bond valued at $0.2 million. There was no active market for the bond or a nearly identical bond during the prior period. Market activity increased during the first quarter of 2010, which provided multiple observable inputs that could be used to value the bond.

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement (continued)

	March 31, 2011 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Liabilities			
Balance December 31, 2010	**$15,616**	**$3,658**	**$19,274**
Total (gains) losses realized and unrealized:			
Included in earnings as a part of net realized investment (gains) losses	**19**	**(243)**	**(224)**
Included in other comprehensive income			
Settlements	**(80)**		**(80)**
Transfers in			
Transfers out			
Balance March 31, 2011	**$15,555**	**$3,415**	**$18,970**
Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	**$ 19**	**$ (243)**	**$ (224)**

	March 31, 2010 Level 3 Fair Value Measurements - Liabilities		
(In thousands)	2019 Note Payable	Interest rate swap agreement	Total
Liabilities			
Balance December 31, 2009	$14,740	$2,937	$17,677
Total (gains) losses realized and unrealized:			
Included in earnings as a part of net realized investment (gains) losses	631	238	869
Included in other comprehensive income			
Settlements	(75)		(75)
Transfers in			
Transfers out			
Balance March 31, 2010	$15,296	$3,175	$18,471

Change in unrealized (gains) losses included in earnings for the above period for Level 3 liabilities outstanding at period-end	$ 631	$ 238	$ 869

Fair Value Option Elections

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

The 2019 Note Payable had an outstanding principal balance of $17.4 million at March 31, 2011 and $17.7 million at March 31, 2010.

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

3. Fair Value Measurement (continued)

Financial Instruments Not Measured At Fair Value

Financial assets and liabilities which are not measured at fair value on a recurring basis on the Condensed Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011		December 31, 2010	
(In thousands)	**Carrying Value**	**Estimated Fair Value**	Carrying Value	Estimated Fair Value
Financial assets:				
Other investments	**$36,710**	**$43,981**	$38,078	$44,387
Investment in Unconsolidated Subsidiaries	**$76,628**	**$82,473**	$63,642	$66,862
BOLI	**$50,948**	**$50,948**	$50,484	$50,484
Other assets	**$ 8,367**	**$ 8,367**	$ 7,743	$ 7,743
Financial liabilities:				
Trust Preferred Securities	**$22,992**	**$22,992**	$22,992	$22,992
Surplus Notes due May 2034	**$12,000**	**$12,000**	$12,000	$12,000
Surplus Notes due February 2012	**$ 502**	**$ 523**	$ 496	$ 521
Other liabilities	**$22,610**	**$22,197**	$22,367	$21,837

Other investments listed in the table above primarily includes investments in private investment funds, investments in FHLB common stock, and an annuity investment. The fair value of the private investment fund is estimated as the net asset value provided by the underlying fund. The fair value of the FHLB common stock is estimated as the carrying value of the investment as it is the amount we would receive if we cancel our membership; the investment has been determined not to have suffered an OTTI and the membership cannot be sold.. The fair value of the annuity is the present value of the expected future cash flows discounted using a rate available in active markets for similarly structured instruments.

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

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

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

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

ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

4. Investments

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

	March 31, 2011			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities				
U.S. Treasury obligations	**$ 226,380**	**$ 8,125**	**$ (1,542)**	**$ 232,963**
U.S. Agency obligations	**72,773**	**3,856**	**(116)**	**76,513**
State and municipal bonds	**1,190,082**	**41,864**	**(4,256)**	**1,227,690**
Corporate bonds	**1,296,534**	**48,904**	**(7,040)**	**1,338,398**
Residential mortgage-backed securities	**559,506**	**25,176**	**(3,790)**	**580,892**
Commercial mortgage-backed securities	**92,254**	**3,272**	**(28)**	**95,498**
Other asset-backed securities	**83,036**	**847**	**(154)**	**83,729**
	3,520,565	**132,044**	**(16,926)**	**3,635,683**
Equity securities	**138**	**14**		**152**
	$3,520,703	**$132,058**	**$(16,926)**	**$3,635,835**

	December 31, 2010			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturities				
U.S. Treasury obligations	$ 219,631	$ 7,519	$ (1,242)	$ 225,908
U.S. Agency obligations	64,804	4,113	(39)	68,878
State and municipal bonds	1,204,327	44,047	(4,450)	1,243,924
Corporate bonds	1,287,842	52,757	(7,335)	1,333,264
Residential mortgage-backed securities	549,543	25,409	(5,114)*	569,838
Commercial mortgage-backed securities	95,758	3,663	(35)	99,386
Other asset-backed securities	61,314	1,373	(131)	62,556
	3,483,219	138,881	(18,346)	3,603,754
Equity securities	2,438	1,212	(13)	3,637
	$3,485,657	$140,093	$(18,359)	$3,607,391

* Includes other-than-temporary impairments recognized in accumulated other comprehensive income of $3.6 million at March 31, 2011 and $4.1 million at December 31, 2010.

The recorded cost basis and estimated fair value of available-for-sale fixed maturities at March 31, 2011, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. ProAssurance uses the call date as the contractual maturity for pre-refunded state and municipal bonds which are 100% backed by U.S. Treasury obligations.

	March 31, 2011					
(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	$ 226,380	$ 2,612	$ 116,309	$ 110,448	$ 3,594	$ 232,963
U.S. Agency obligations	72,773	4,472	42,220	23,401	6,420	76,513
State and municipal bonds	1,190,082	25,162	297,621	604,806	300,101	1,227,690
Corporate bonds	1,296,534	71,261	692,374	541,554	33,209	1,338,398
Residential mortgage-backed securities	559,506					580,892
Commercial mortgage-backed securities	92,254					95,498
Other asset-backed securities	83,036					83,729
	$ 3,520,565					$ 3,635,683

ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

4. Investments (continued)

Excluding investments in bonds and notes of the U.S. Government, a U.S. Government agency, or pre-refunded state and municipal bonds which are 100% backed by U.S. Treasury obligations, no investment in any entity or its affiliates exceeded 10% of shareholders equity at March 31, 2011.

At March 31, 2011, ProAssurance has available-for-sale securities with a fair value of $28.5 million on deposit with various state insurance departments to meet regulatory requirements. ProAssurance also has available-for-sale securities with a fair value of $28.3 million that are pledged as collateral security for the 2019 Note Payable (see Note 9.)

Business Owned Life Insurance (BOLI)

ProAssurance holds BOLI policies on management employees that are carried at the current cash surrender value of the policies (original cost $35 million). The primary purpose of the program is to offset future employee benefit expenses through earnings on the cash value of the policies. ProAssurance is the owner and principal beneficiary of these policies.

Other Investments

ProAssurance has Other Investments comprised of the following:

(In millions)	**March 31 2011**	December 31 2010
Equity interests in private investment funds, at cost; estimated fair value of $37.1 and $37.5, respectively	**$29.8**	$ 31.2
Federal Home Loan Bank (FHLB) capital stock, at cost	**5.2**	5.2
Other, principally an annuity, at amortized cost	**1.7**	1.7
	$36.7	$ 38.1

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

Unconsolidated Subsidiaries

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

	Carrying Value		**Percentage**
(In millions)	**March 31 2011**	December 31 2010	**Ownership March 31, 2011**
Investment in Unconsolidated Subsidiaries			
Investment in tax credit partnerships	**$ 74.1**	$ 60.3	**<20%**
Other business interest	**2.5**	3.4	**<50%**
Private investment fund-primarily invested in long/short equities	**19.1**	18.8	**<20%**
Private investment fund-primarily invested in non-public equities	**6.6**	6.3	**<20%**

	$102.3	$ 88.8

Investments in tax credit partnerships are comprised of multiple separate limited partner interests designed to generate investment returns by providing tax benefits to fund investors in the form of net operating losses and tax credits. The related properties are principally low income housing properties. The $74.1 million carrying value in the partnerships reflects the commitments to the partnerships (less amortization) of which approximately $55 million was not yet funded as of March 31, 2011.

The other business interest is a non-controlling interest in a development stage limited liability company. The start-up phase is expected to continue through 2011 and into 2012.

The long/short equity fund targets absolute returns using a strategy designed to take advantage of event-driven market opportunities.

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4. Investments (continued)

The non-public equity fund holds diversified private equities and is 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 March 31, 2011 and December 31, 2010, including the length of time the investment has been held in a continuous unrealized loss position.

	March 31, 2011					
	Total		Less than 12 months		More than 12 months	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities, available for sale						
U.S. Treasury obligations	**$ 76,749**	**$ (1,542)**	**$ 76,749**	**$ (1,542)**	**$**	**$**
U.S. Agency obligations	**13,334**	**(116)**	**13,334**	**(116)**		
State and municipal bonds	**211,282**	**(4,256)**	**203,389**	**(3,687)**	**7,893**	**(569)**
Corporate bonds	**289,337**	**(7,040)**	**285,600**	**(6,438)**	**3,737**	**(602)**
Residential mortgage-backed securities	**115,467**	**(3,790)**	**103,416**	**(1,673)**	**12,051**	**(2,117)**
Commercial mortgage-backed securities	**10,732**	**(28)**	**9,754**	**(6)**	**978**	**(22)**
Other asset-backed securities	**26,211**	**(154)**	**25,771**	**(133)**	**440**	**(21)**
	$743,112	**$(16,926)**	**$718,013**	**$(13,595)**	**$25,099**	**$(3,331)**
Equity securities, available for sale	**$**	**$**	**$**	**$**	**$**	**$**
Other investments						
Equity interests in private investment funds carried at cost of $0.5 million	**$ 347**	**$ (164)**	**$ 347**	**$ (164)**	**$**	**$**

	December 31, 2010					
	Total		Less than 12 months		More than 12 months	
(In thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

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

As of March 31, 2011, there were 453 debt securities (17% of all available-for-sale fixed maturity securities held) in an unrealized loss position representing 315 issuers. The single greatest unrealized loss position is approximately $0.7 million; the second greatest unrealized loss position is approximately $0.6 million. The securities were evaluated for impairment as of March 31, 2011.

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

Each quarter, ProAssurance performs a detailed analysis for the purpose of assessing whether any of the securities it holds in an unrealized loss position have suffered an other-than-temporary impairment

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ProAssurance Corporation and Subsidiaries
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March 31, 2011

4. Investments (continued)

in value. A detailed discussion of the factors considered in the assessment is included in Note 1 of the Notes to the Consolidated Financial Statements included in ProAssurance s December 31, 2010 Form 10-K.

At March 31, 2011 fixed maturity securities held in an unrealized loss position, excluding asset-backed securities, have paid all scheduled contractual payments and are expected to continue doing so. Expected future cash flows of asset-backed securities were estimated using the most recently available six-month historical performance data for the collateral (loans) underlying the security or, if historical data was not available, sector based assumptions. Expected future cash flows from the equity interest carried in a loss position were also evaluated and are expected to equal or exceed the carrying value of the equity interest.

Net Investment Income

Net investment income by investment category is as follows:

	Three Months Ended March 31	
(In thousands)	**2011**	2010
Fixed maturities	**$35,951**	$37,696
Equities	**230**	218
Short-term investment	**55**	104
Other invested assets	**992**	551
Business owned life insurance	**464**	408
	37,692	38,977
Investment expenses	**(1,531)**	(1,349)
Net investment income	**$36,161**	$37,628

Net Realized Investment Gains (Losses)

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

	Three Months Ended March 31	
(In thousands)	**2011**	2010
Total other-than-temporary impairment losses:		
Residential mortgage-backed securities	**$ (450)**	$ (23)
Corporate bonds		
Equities		
Equity interest in a private investment fund	**(1,387)**	(3,373)
High yield asset-backed securities		(2,909)
Portion recognized in (reclassified from) Other Comprehensive Income:		
Residential mortgage-backed securities	**(568)**	6
High yield asset-backed securities, beneficially owned		966
Net impairment losses recognized in earnings	**(2,405)**	(5,333)
Gross realized gains, available-for-sale securities	**4,628**	1,878

Gross realized (losses), available-for-sale securities	**(244)**	(60)
Net realized gains (losses), short-term		238
Net realized gains (losses), trading securities	**2,692**	808
Change in unrealized holding gains (losses), trading securities	**(771)**	935
Increase in the fair value of liabilities carried at fair value	**224**	(870)
Net realized investment gains (losses)	**$ 4,124**	$(2,404)

ProAssurance recognized an impairment of $1.4 million in the first quarter of 2011 related to an interest in a private investment fund, accounted for on a cost basis. The fund has notified ProAssurance of its intention to be sold publicly in the next few months, and the Company has reduced the carrying value of its interest in the fund to reflect the expected market value of the assets.

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ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
March 31, 2011

4. Investments (continued)

ProAssurance recognized credit-related impairments in earnings of $1.0 million in 2011, including $568,000 reclassified from OCI, related to residential mortgage-backed securities. Expected future cash flows were less than ProAssurance s carrying value for these securities; therefore, ProAssurance reduced the carrying value of its interest in these securities and recognized the loss in its 2011 net income.

Net gains (losses) related to fixed maturities are $2.1 million and $1.8 million during the three months ended March 31, 2011 and March 31, 2010, respectively.

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

(In thousands)	**Three Months Ended March 31, 2011**
Balance December 31, 2010	**$ 4,446**
Additional credit losses recognized during the period, related to securities for which:	
No OTTI has been previously recognized	
OTTI has been previously recognized	**888**
Reductions due to:	
Securities sold during the period (realized)	
Securities which will be sold in coming periods	
Securities for which it is more likely than not that the security will be required to be sold prior to anticipated recovery of amortized cost basis	
Accretion recognized during the period related to cash flows that are expected to exceed the amortized cost basis of the security	
Balance March 31, 2011	**$ 5,334**

Proceeds from the sales of available-for-sale securities during the three months ended March 31, 2011 and 2010 are $169.5 million and $144.9 million, respectively. Purchases of available-for-sale securities were $252.0 million and $238.4 million during the three months ended March 31, 2011 and 2010, respectively.

5. Income Taxes

ProAssurance estimates its annual effective tax rate at the end of each quarterly reporting period which is used to record the provision for income taxes in the interim financial statements. The provision for income taxes is different from that which would be obtained by applying the statutory Federal income tax rate to income before taxes primarily because a portion of ProAssurance s investment income is tax-exempt.

ProAssurance files income tax returns in the U.S. federal jurisdiction and various states. The Internal Revenue Service has completed an examination of the Company s 2005 through 2008 returns (the 2005-2008 exam) and has begun an examination of the 2009 return. The 2005-2008 exam principally resulted in delaying the deductibility of certain bonus compensation which increased taxes due for the 2007 and 2008 tax years but decreased taxes due for the 2009 tax year by an offsetting amount, the effect of which had previously been recorded as an uncertain tax position. The 2005-2008 exam resulted in no adjustment to tax expense (exclusive of interest accruals) and no penalties or fines. Upon finalization of the 2005-2008 exam, uncertain tax positions totaling $8.3 million were deemed effectively settled and were reversed (along with approximately $324,,000 of related accrued interest) in the first quarter of 2011. The Company s Illinois state tax returns for the years 2006 through 2008 are currently under examination by the Illinois

Department of Revenue.

ProAssurance s liability for unrecognized tax benefits is $0 at March 31, 2011 and $8.3 million at December 31, 2010.

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6. Deferred Policy Acquisition Costs

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

Amortization of deferred policy acquisition costs are $14.4 million and $14.3 million for the three months ended March 31, 2011 and 2010, respectively.

7. Reserve for Losses and Loss Adjustment Expenses

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

ProAssurance recognized favorable net loss development of $40.0 million related to previously established reserves for the three months ended March 31, 2011. The favorable net loss development reflects reductions in the Company s estimates of claims severity, principally for the 2004 through 2008 accident years.

For the three months ended March 31, 2010, ProAssurance recognized favorable net loss development of $25.0 million, to reflect reductions in estimated claim severity principally for accident years 2004 through 2008.

8. Commitments and Contingencies

ProAssurance is involved in various legal actions related to insurance policies and claims handling including, but not limited to, claims asserted by policyholders. ProAssurance has considered such legal actions in establishing its loss and loss adjustment expense reserves. The outcome of any individual legal action is not presently determinable for a number of reasons. For example, in the event that ProAssurance or its insureds receive adverse verdicts, post-trial motions may result in unfavorable rulings; any appeals that may be undertaken may be unsuccessful; ProAssurance may be unsuccessful in legal efforts to limit the scope of coverage available to its insureds; and ProAssurance may become a party to bad faith litigation over the payment of any judgment above an insured s policy limits. ProAssurance s management is of the opinion, based on consultation with legal counsel, that the resolution of these actions will not have a material adverse effect on ProAssurance s financial position. However, the ultimate cost of resolving these legal actions may differ from the reserves established, and the resulting difference could have a material effect on ProAssurance s results of operations for the period in which any such action is resolved.

As a result of its acquisition of APS, ProAssurance assumed risk of loss related to certain non-claims related legal actions previously asserted against APS subsidiaries. ProAssurance included a liability of $5.2 million related to these actions as a component of the fair value of assets acquired and liabilities assumed in the purchase price allocation. The value of the reserve was based on Management s assessment of the expected outcome of the actions and a reasonable estimate of losses expected to be incurred.

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8. Commitments and Contingencies (continued)

ProAssurance has commitments to fund an additional $55 million to tax credit partnerships primarily in 2011 and 2012. ProAssurance also entered into agreements to invest $54 million in certain private equity investment partnerships, to be funded within the next five years as requested by the partnership as partnership investments are increased.

9. Long-term Debt

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

	(In thousands)	
	March 31 2011	December 31 2010
Trust Preferred Securities due 2034, unsecured. Bears interest at a variable rate of LIBOR plus 3.85%, adjusted quarterly (4.2% at March 31, 2011).	**$22,992**	$22,992
Surplus Notes due May 2034, unsecured. Bears interest at a variable rate of LIBOR plus 3.85%, adjusted quarterly (4.2% at March 31, 2011).	**12,000**	12,000
Note Payable due February 2019, carried at fair value, principal of $17.4 million at March 31, 2011 and December 31, 2010. Secured by available-for-sale securities having a fair value at March 31, 2011 of approximately $28.3 million. Bears interest at a variable rate of LIBOR plus 0.7%. See information below regarding the associated interest rate swap.	**15,555**	15,616
Note Payable due February 2012, unsecured, principal of $517,000 net of an unamortized discount of $15,000 at March 31, 2011 and $21,000 at December 31, 2010. Bears interest at the U.S. prime rate, paid and adjusted quarterly (3.3% at March 31, 2011).	**502**	496
	$51,049	$51,104

Interest Rate Swap

ProAssurance, through its PICA subsidiary, is party to an interest rate swap agreement (the Swap) with the issuing bank of the Note Payable due February 2019 (the 2019 Note Payable). The purpose of the Swap is to reduce the market risk from changes in future interest rates relative to the 2019 Note Payable. The Swap fixes the interest rate related to the 2019 Note Payable at 6.6%. The Swap will terminate February 1, 2019. The notional amount of the Swap corresponds directly to the unamortized portion of the debt being hedged each month. Under the Swap agreement, PICA agrees to exchange, at monthly intervals, the difference between the fixed-rate and LIBOR variable rate by reference to the notional principal amount. The liability associated with the Swap is measured at fair value on a recurring basis which approximates $3.4 million at March 31, 2011 and $3.7 million at December 31, 2010. The Swap liability is classified as a part of other liabilities.

Additional Information

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

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10. Shareholders Equity

At March 31, 2011 and December 31, 2010, ProAssurance had 100 million shares of authorized common stock and 50 million shares of authorized preferred stock. The Board of Directors of ProAssurance Corporation (the Board) has the authority to determine provisions for the issuance of preferred shares, including the number of shares to be issued, the designations, powers, preferences and rights, and the qualifications, limitations or restrictions of such shares. To date, the Board has not approved the issuance of preferred stock.

At March 31, 2011 approximately $194.0 million in prior authorizations from the Board for the repurchase of common shares or the retirement of outstanding debt remains available for use. The timing and quantity of purchases depends upon market conditions and changes in ProAssurance s capital requirements and is subject to limitations that may be imposed on such purchases by applicable securities laws and regulations, and the rules of the New York Stock Exchange.

ProAssurance repurchased approximately 252,000 common shares, having a total cost of $15.0 million, during the three months ended March 31, 2011 and also reacquired approximately 7,000 forfeited match shares (cost basis of $444,000) due to the termination of the ProAssurance Corporation Stock Ownership Plan. No common shares were repurchased during the three months ended March 31, 2010.

Share-based compensation expense is $1.7 million for the three months ended March 31, 2011 and $1.4 million for the three months ended March 31, 2010. Related tax benefits are $608,000 for the three months ended March 31, 2011 and $490,000 for the three months ended March 31, 2010.

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

ProAssurance awarded approximately 93,000 (target) performance share units to employees in February 2011. The awards 100% vest at the end of a three-year period if the service requirements are met and minimum performance goals are achieved. If minimum performance goals are achieved, the payment of awards can vary from 75% to 125% of set targets depending upon the degree to which the performance goals are achieved. The fair value of each award was estimated at $64.08, equal to the market value of a ProAssurance common share on the date of grant. ProAssurance issued approximately 52,000 common shares to employees in February 2011 related to performance share awards granted in 2008. The awards were issued at the maximum level (125% of target) based on performance levels achieved. Cash was given in lieu of shares sufficient to satisfy required tax withholdings.

ProAssurance issued approximately 20,000 and 40,000 common shares to employees in February 2011 and February 2010, respectively, as bonus compensation, as approved by the Compensation Committee of the Board. The shares issued were valued at fair value (the market price of a ProAssurance common share on the date of award).

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

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11. Earnings Per Share

Diluted weighted average shares is calculated as basic weighted average shares plus the effect, calculated using the treasury stock method, of assuming that dilutive stock options have been exercised and that performance share awards and restricted stock units have vested.

Stock options are not dilutive when the option exercise price exceeds the average price of a common share during the period or when the result from assuming an option is exercised is a net decrease to outstanding shares. All outstanding options were considered to be dilutive during the three months ended March 31, 2011. During the three months ended March 31, 2010 approximately 233,000 outstanding options were not considered to be dilutive.

12. Variable Interest Entities

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

The entities consist of 1) private investment funds formed for the purpose of achieving diversified equity and debt returns, 2) private investment funds formed to provide investment returns through the transfer of tax credits (principally federal or state tax credits related to federal low-income housing) and 3) a limited liability interest in a development stage business operation. In those instances where ProAssurance holds a minor interest in the entity, ProAssurance accounts for its interest on a cost basis. Cost basis investments are included in Other Investments and have a carrying value of $29.8 million and $31.2 million at March 31, 2011 and December 31, 2010, respectively. In those instances where ProAssurance holds a greater than minor interest, ProAssurance accounts for its interest using the equity method. Equity method investments are included in Investment in Unconsolidated Subsidiaries and have a carrying value of $102.3 million at March 31, 2011 and $88.8 million at December 31, 2010.

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13. Subsequent Events

On April 15, 2011 ProAssurance entered into a revolving credit agreement (the Agreement) with five participating lenders that provides an aggregate commitment of $150 million which will expire April 15, 2014. During the term of the Agreement, ProAssurance may borrow up to $150 million. ProAssurance will pay a commitment fee, initially set at 25 basis points, during the term of the Agreement based on the average unused portion of the credit line and ProAssurance s credit ratings. The interest rate applicable to borrowings under the Agreement will depend upon ProAssurance s credit ratings at the time funds are borrowed, and on whether the borrowing is secured or unsecured. The Agreement contains customary representations, covenants and events constituting default, and remedies for default. Additionally, the Agreement carries the following financial covenants:

(1) ProAssurance is not permitted to have a leverage ratio of Consolidated Funded Indebtedness to Consolidated Total Capitalization 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 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 we enter into in the normal course of business. To date, ProAssurance has not borrowed any funds under the agreement.

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

The following discussion should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes to those statements which accompany this report as well as our 2010 Form 10-K. A glossary of insurance terms and phrases is available on the investor section of our website. Throughout the discussion, references to ProAssurance, PRA, Company, we, us and our refer to ProAssurance Corporation and its consolidated subsid The discussion contains certain forward-looking information that involves risks and uncertainties. As discussed under Forward-Looking Statements, our actual financial condition and operating results could differ significantly from these forward-looking statements.

Critical Accounting Estimates

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

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

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

The largest component of our liabilities is our reserve for losses, and the largest component of expense for our operations is incurred losses. Incurred losses reported in any period reflect our estimate of losses incurred related to the premiums earned in that period as well as any changes to our estimates of the reserve established for losses of prior periods.

The estimation of professional liability losses is inherently difficult. Loss costs, even for claims with similar characteristics, can vary significantly depending upon many factors, including but not limited to: the nature of the claim and the personal situation of the claimant or the claimant s family, the outcome of jury trials, the legislative and judicial climate where the insured event occurred, general economic conditions and, for medical professional liability, the trend of health care costs. Professional liability claims are typically resolved over an extended period of time, often five years or more. The combination of changing conditions and the extended time required for claim resolution results in a loss cost estimation process that requires actuarial skill and the application of judgment, and such estimates require periodic revision. Our reserves are established by management after taking into consideration a variety of factors including premium rates, claims frequency, historical paid and incurred loss development trends, the effect of inflation, general economic trends, the legal and political environment, and the conclusions reached by our internal actuaries.

We update and review the data underlying the estimation of our reserve for losses each reporting period and make adjustments to loss estimation assumptions that we believe best reflect emerging data. Our internal actuaries perform an in-depth review of our reserve for losses on at least a semi-annual basis using the loss and exposure data of our insurance subsidiaries. We also engage consulting actuaries to review our data semi-annually and provide us with their observations regarding our data and the adequacy of our established reserve, believing that the consulting actuaries provide an independent view of our loss data as well as a broader perspective on industry loss trends.

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

Reinsurance

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

We evaluate each of our ceded reinsurance contracts at inception to confirm that there is sufficient risk transfer to allow the contract to be accounted for as reinsurance under current accounting guidance. At March 31, 2011 all ceded contracts are accounted for as risk transferring contracts.

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

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

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

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

Investment Valuations

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

	Distribution by GAAP Fair Value Hierarchy			March 31, 2011
	Level 1	Level 2	Level 3	Total Investments

Fair Value	4%	91%	1%	96%
Cost or cash surrender value				4%
Total Investments				100%

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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All of our fixed maturity and equity securities investments are carried at fair value. Our short-term securities are carried at amortized cost, which approximates fair value.

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

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

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

As of March 31, 2011, fair values for our equity and a portion of our short-term securities have been determined using an exchange traded price. There is little judgment involved when fair value is determined using an exchange traded price. In accordance with GAAP, for disclosure purposes we classify securities valued using an exchange traded price as Level 1 securities.

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

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

We hold interests in private investment funds which hold debt and equity securities. We value these investments, which at March 31, 2011 total $25.7 million or less than 1% of total investments, based on quarterly net asset values provided to us by fund managers, which approximate fair value. In accordance with GAAP, for disclosure purposes we classify interests valued in this manner as Level 3 securities.

Our investments that are not valued at fair value include:

- Interests in private investment funds having a carrying value of $29.8 million at March 31, 2011; valued at cost.

- Business owned life insurance policies having a carrying value of $50.9 million at March 31, 2011, valued at cash surrender value.

Interests in tax credit partnerships having a carrying value of approximately $74.1 million at March 31, 2011; valued under the equity method.

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An other business interest that has a carrying value of $2.5 million at March 31, 2011; valued under the equity method based on the latest financial statements of the entity.

Federal Home Loan Bank capital stock having a carrying value of $5.2 million at March 31, 2011; valued at cost.

Other investments having a carrying value at $1.7 million at March 31, 2011; valued at cost.

Investment Impairments

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

For equity securities, we consider the following:

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; and

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

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