

Best's Rating Report



PROASSURANCE[®]

Treated Fairly

PROASSURANCE GROUP

Birmingham, Alabama



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Associated With:

ProAssurance Corporation

PROASSURANCE GROUP

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AMB#: 018559

Associated Ultimate Parent#: 050660

BEST'S FINANCIAL STRENGTH RATING

Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A (Excellent). The group's Financial Size Category is Class XIII.

RATING UNIT MEMBERS

ProAssurance Group (AMB# 018559):

AMB#	Number	Company	Best's FSR
	002698	ProAssurance Casualty Company	A g
	003826	ProAssurance Indemnity Co Inc.	A g
	011697	ProAssurance Specialty Ins Co	A r

RATING RATIONALE

Rating Rationale: The rating reflects ProAssurance Group's excellent risk-adjusted capitalization, strong operating performance, its specialty expertise and leading business position within the medical professional liability insurance sector, and the financial flexibility afforded by ProAssurance Corporation (PRA) [NYSE:PRA], its publicly traded parent. The rating also acknowledges the group's solid balance sheet, aggressive claims defense, risk management expertise, geographical diversification and localized knowledge within the various jurisdic-

tions in which it operates. Partially offsetting these strengths are the inherent market risks associated with the medical professional liability insurance sector as they relate to price competition, legislative (tort) reform, loss cost trends and regulatory challenges. The outlook is based upon the group's proven cycle management capabilities and pricing and underwriting discipline.

The rating recognizes the financial flexibility available to the operating companies that is derived from PRA. PRA's financial leverage is very conservative, interest coverage is strong and it currently holds a significant amount of cash and short-term investments outside of its insurance subsidiaries that is available for use without regulatory approval. A.M. Best also recognizes PRA's successful growth strategy in expanding its geographic footprint via mergers and acquisitions. The acquisitions of NCRIC, Inc. in 2005 and Physicians Insurance Company of Wisconsin (PIC Wisconsin) in 2006 have been smoothly integrated into ProAssurance operations. In 2009, ProAssurance acquired Podiatry Insurance Company of America (PICA), Georgia Lawyers Insurance Company and ProAssurance Mid-Continent Underwriters (Mid-Continent) (f/k/a Mid-Continent General Agency, Inc.). These transactions have further strengthened ProAssurance's business profile by expanding its reach into the medical professional liability, lawyer professional liability and ancillary healthcare lines, respectively.

The rating applies to ProAssurance Indemnity Company, Inc. (f/k/a The Medical Assurance Company, Inc.) and ProAssurance Casualty Company (f/k/a ProNational Insurance Company) as well as its reinsured affiliate, ProAssurance Specialty Insurance Company, Inc. (f/k/a Red Mountain Casualty Insurance Company, Inc.). The rating is based on the consolidation of the companies to which the rating applies, in addition to separately rated affiliates, ProAssurance

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National Capital Insurance Company (f/k/a NCRIC, Inc.), ProAssurance Wisconsin Insurance Company (f/k/a Physicians Insurance Company of Wisconsin, Inc.), PICA and PACO Assurance Company, Inc. (PACO).

Best's Financial Strength Rating: A

Outlook: Stable

KEY FINANCIAL INDICATORS (\$000)

Year	Net Premiums Written	Pretax Operating Income	Total Admitted Assets	Policy- holders' Surplus	Comb. Ratio
2005	692,997	94,716	3,549,428	847,671	100.0
2006	673,470	463,542	3,780,660	915,090	95.2
2007	603,043	249,207	3,987,339	1,085,256	86.9
2008	525,106	313,984	3,908,586	1,157,340	72.9
2009	532,013	307,737	3,856,356	1,268,286	67.8

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

BUSINESS REVIEW

The ProAssurance Group is focused on the medical professional liability insurance market. The group has licenses in 48 states and the District of Columbia with the majority of its business written in the Midwestern and Southeastern regions of the United States. The group is the market leader in Alabama, Delaware, District of Columbia, and Wisconsin. All business in Alabama and Florida and a significant amount of business in the District of Columbia and Missouri is produced on a direct basis, while agencies are used in other territories. Companies within the group are engaged in the delivery of professional liability insurance to physicians and surgeons, dentists, hospitals and others involved in the delivery of health care. In addition, the group maintains a small, but growing lawyer professional liability book of business in its ProAssurance Casualty subsidiary. The purchase of Georgia Lawyers Insurance Company in 2009, which insured 2,700 lawyers and wrote \$5.5 million in direct written premiums at the time of acquisition, has bolstered this effort.

Policies are written on claims made forms in all states except Wisconsin, where a small amount of occurrence coverage remains in force. Prior to the 2006 acquisition of PIC Wisconsin, ProAssurance had made an active decision to end occurrence coverage and its last occurrence coverage expired in the third quarter of 2004. However, the reporting pattern in Wisconsin and the presence of a state-run fund for losses above \$1 million mitigates the risk of occurrence exposure in Wisconsin. Thus, the company's significant occurrence exposure will be to a declining number of policies that are in runoff. Policy limits range from \$250,000 up to \$16 million per occurrence. Additional insurance products, such as professional office package, workers' compensation and accident and health coverage, have been developed to enhance the insurance package available to certain classes of health care providers and are written on a limited basis.

ProAssurance Indemnity Company, Inc. (ProAssurance Indemnity) writes medical professional liability insurance for physicians, surgeons, dentists, hospitals, clinics and other health care providers, principally in the East, South and Midwest. Commercial general liability policies are issued to hospitals. Currently, it is the leading provider of medical professional liability insurance in its home state of Alabama, with an estimated 65% market share. ProAssurance Indemnity is endorsed by the Medical Association of the State of Alabama, the

Alabama Dental Association, the Indiana State Medical Association and the Indiana Dental Association. The company was formed as a mutual insurance company, Mutual Assurance, Inc., in 1976 to write professional liability insurance for Alabama physicians. It demutualized in 1991 and later became a subsidiary of Medical Assurance, Inc., an insurance holding company formed in 1996. Woodbrook Casualty, a West Virginia medical professional liability writer in the ProAssurance Group, was merged into ProAssurance Indemnity effective December 31, 2008.

ProAssurance Casualty Company (ProAssurance Casualty) provides professional liability coverage for physicians, dentists, hospitals, health care groups, healthcare facilities and other professionals, primarily in Midwestern and Mid-Atlantic states and Florida. The Company's legal professional liability business is primarily in the Midwest and Georgia, with growing markets in the far west and mid-Atlantic states where MGA's are being used. While the lawyer professional liability book is growing, most premium volume continues to be generated from the physician book of business. Between 1999 and 2005, the company also provided personal lines coverage through its ownership stake in MEEMIC. The company was formed in 1980 and known as Physicians Insurance Company of Michigan before changing its name first to ProNational Insurance Company, and then to ProAssurance Casualty. It is currently among Michigan's leading providers of medical professional liability insurance, with a greater than 20% share of direct premiums written. The company is also well represented in Florida as a result of a 1998 merger with Physicians Protective Trust Fund (PPTF). ProAssurance Casualty is currently endorsed by various county medical societies and specialty organizations in Illinois, Florida and Michigan.

ProAssurance Specialty Insurance Company, Inc.'s (ProAssurance Specialty) origins date back to 1994, when ProNational formed a wholly owned subsidiary, PICOM Insurance Company of Illinois to renew a book of physician professional liability insurance formerly written by a physician-owned carrier in that state. This gave the group a significant entry into the Illinois market and broadening the group's spread of underwriting risk. In September 2002, the subsidiary adopted the name of Red Mountain Casualty Insurance Company, Inc., re-domesticated to Alabama and began writing business in several states on an excess and surplus lines basis. It is currently authorized in virtually every state, and is active as an excess and surplus lines medical professional liability insurer in a number of jurisdictions. The company maintains a 100% quota share agreement with ProAssurance Casualty, its former parent and current affiliate, which enables it to carry ProAssurance Casualty's rating.

On July 1, 1996 ProNational acquired American Insurance Management Corporation (AIMC), of Indiana. AIMC is the attorney-in-fact for American Medical Insurance Exchange (AMIE). ProNational then renewed AMIE insureds into its own book as part of the acquisition agreement. AMIE ceased writing business and became inactive in 1997. Presently, AMIE's claims are in run-off.

ProAssurance National Capital Insurance Company (ProAssurance National) provides medical professional liability coverage for physicians in the District of Columbia, the majority of whom practice individually or in small groups. Historically, the company wrote medical professional liability business in Washington, D.C., Delaware,

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Maryland, Virginia and West Virginia. However, since 2006, all policies renewed outside the district have been written by other ProAssurance affiliates, making ProAssurance National Capital a Washington, D.C.-only insurer, including the renewal of Washington, D.C. business that was formerly written by other ProAssurance affiliates. The company sells most of the District of Columbia business on a direct basis. The Medical Society of the District of Columbia endorses ProAssurance National.

ProAssurance Wisconsin Insurance Company (ProAssurance Wisconsin), specializes in writing professional liability insurance for healthcare professionals. The company focuses on physician professional liability insurance in its home state but has expanded into seven additional states, primarily Iowa and Nevada. The company is offering professional liability insurance to other healthcare providers, including dentists and community-based hospitals. The company utilizes agency distribution to market its products and services.

PICA specializes in writing professional liability insurance for podiatrists in the United States. It is a leading provider of this coverage in the country with an estimated seventy percent market share and is licensed in forty-eight states and the District of Columbia. Business is primarily produced on a direct basis.

PACO, which is licensed in forty-three states, underwrites medical professional liability risk for chiropractors, acupuncturists, and errors and omissions (E&O) professional liability risk for insurance agents. However, effective March 2010, PACO began exiting the Agent E&O line and will non-renew all policies. PACO also began writing optometrists as the endorsed carrier of the American Optometric Association, starting in July 2010.

2009 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Med Prof Liab CM . . .	509,276	478,012	89.8	17.1	1,624,373
Med Prof Liab Occur . .	31,757	29,628	5.6	25.3	385,511
Oth Liab CM	26,818	19,296	3.6	93.8	61,570
All Other	6,532	5,077	1.0	6.4	24,778
Totals	574,383	532,013	100.0	19.5	2,096,232

Consolidated Balance Sheet Admitted Assets (\$000)

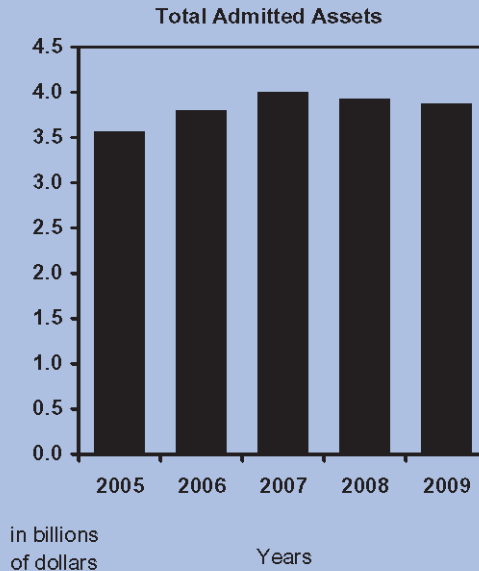
	12/31/2009	%
Bonds	\$3,255,963	84.4
Common stock	22,439	0.6
Cash & short-term invest	163,828	4.2
Real estate, investment	1,780	0.0
Other non-affil inv asset	48,593	1.3
Investments in affiliates	12,447	0.3
Real estate, offices	<u>27,619</u>	<u>0.7</u>
Total invested assets	\$3,532,669	91.6
Premium balances	121,106	3.1
Accrued interest	36,983	1.0
All other assets	<u>165,598</u>	<u>4.3</u>
Total assets	\$3,856,356	100.0

Liabilities & Surplus (\$000)

Loss & LAE reserves	\$2,096,232	54.4
Unearned premiums	285,771	7.4
Conditional reserve funds	2,575	0.1
All other liabilities	<u>203,493</u>	<u>5.3</u>
Total liabilities	\$2,588,070	67.1
Surplus notes	22,594	0.6
Capital & assigned surplus	425,881	11.0
Unassigned surplus	<u>819,811</u>	<u>21.3</u>
Total policyholders' surplus	\$1,268,286	32.9
Total liabilities & surplus	\$3,856,356	100.0

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FINANCIAL SUMMARY (\$000) as of 12/31/2009

Policyholders' Surplus	\$ 1,268,286
Direct Premiums Written	\$ 574,383
Combined Ratio	67.8
Net Underwriting Income	\$ 157,514
Net Investment Income	\$ 145,655

Best's Rating Report

Why is this Best's® Rating Report important to you?

A Rating Report from the A.M. Best Company represents an independent opinion from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of insurance companies since 1899. The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is **not a recommendation** to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

A Best's Rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial strength, operating performance and market profile.

Best's Ratings are assigned according to the following scale:

Secure Best's Ratings

A++ and A+	.....	Superior
A and A-	.....	Excellent
B++ and B+	.....	Good

Vulnerable Best's Ratings

B and B-	.....	Fair
C++ and C+	.....	Marginal
C and C-	.....	Weak
D	Poor
E	Under Regulatory Supervision
F	In Liquidation
S	Rating Suspended

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