

Ratings

Category	Moody's Rating
Rating Outlook	STA

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Key Indicators

ProAssurance Corporation[1]

	2010	2009	2008	2007	2006
Total Assets (\$ Mil.)	\$ 4,875	\$ 4,647	\$ 4,281	\$ 4,441	\$ 4,343
Shareholders' Equity (\$ Mil.)	\$ 1,856	\$ 1,705	\$ 1,424	\$ 1,255	\$ 1,119
Net Income (\$ Mil.)	\$ 232	\$ 222	\$ 178	\$ 168	\$ 236
Gross Premiums Written (\$ Mil.)	\$ 533	\$ 554	\$ 471	\$ 549	\$ 579
Net Premiums Written (\$ Mil.)	\$ 505	\$ 514	\$ 429	\$ 506	\$ 543
High Risk Assets % Shareholders' Equity	14.1%	14.8%	13.8%	15.7%	13.0%
Reinsurance Recoverables % Shareholders' Equity	15.8%	17.1%	21.0%	30.4%	34.8%
Goodwill & Intangibles % Shareholders' Equity	12.6%	9.3%	6.4%	7.5%	0.0%
Gross Underwriting Leverage	1.6x	1.8x	2.0x	2.5x	2.9x
Return on Capital (1 yr.)	12.6%	13.8%	12.4%	12.4%	21.2%
Sharpe Ratio of ROC (5 yr.)	380.5%	371.8%	---	---	---
Adv/(Fav) Dev. % Beg. Reserves (1 yr.)	-10.8%	-9.8%	-8.3%	-4.7%	-1.9%
Adjusted Financial Leverage	3.4%	3.7%	3.1%	12.2%	14.5%
Total Leverage	3.7%	4.0%	3.5%	12.6%	14.9%
Earnings Coverage (1 yr.)	76.7x	69.6x	32.7x	19.3x	24.8x
Cashflow Coverage (1 yr.)	75.3x	58.7x	29.4x	13.5x	16.8x

[1] Information based on GAAP financial statements

Opinion

SUMMARY RATING RATIONALE

Moody's A3 insurance financial strength ratings on the ProAssurance Insurance Companies (PRA Group), and Baa3 senior unsecured debt rating of ProAssurance Corporation (ProAssurance; NYSE: PRA) are based primarily on the company's established track record and solid competitive market position as a specialist underwriter of medical professional liability (MPL) insurance in the USA. Other strengths include overall strong financial fundamentals - reflecting its very high quality investment portfolio, its strong operating profitability and claim handling discipline, its modest underwriting and operational leverage profile and sound reserve position, as well as its a modest level of financial leverage. These strengths are tempered primarily by the company's well above-average product risk and lack of product diversification as a mono-line business profile in a sector of the property-casualty insurance marketplace that - despite particularly strong performance in recent years - has over time exhibited one of the highest levels of volatility in underwriting results and liability claim trends among all lines of insurance. PRA Group has expanded its operations geographically through a series of mergers and acquisitions, which involves execution and integration risks, but appears to have been well managed over time. While the Company now has business in 49 states and DC, its premiums remain somewhat concentrated in several states. In Moody's view, these risk factors temper our view of the company's generally very conservative financial profile, which we see as providing an important buffer to the intrinsically high volatility and risk profile of the sector.

ProAssurance Corporation, through its subsidiaries, provides professional liability insurance products primarily to physicians, dentists, other healthcare providers, and healthcare facilities in the United States. It also engages in the legal professional liability business. The company markets its products through both direct marketing and specialized independent agents. ProAssurance Corporation was founded in 1976 and is based in Birmingham, Alabama. The group has expanded since the mid-1990s through the consolidation of more than twenty other MPL insurers, particularly in the eastern and central states.

Credit Strengths

Key credit strengths/opportunities include:

- Established track record and solid competitive market position as a specialist underwriter of medical professional liability (MPL) insurance in the USA
- High quality investment profile, and relatively modest levels of reinsurance recoverables and goodwill intangibles
- Strong operating profitability track record and claim handling discipline
- Solid capital adequacy, reflecting modest underwriting and operational leverage and sound reserve position
- Good financial flexibility, reflecting a modest level of financial leverage

Credit Challenges

Key credit challenges/weaknesses include the following:

- High product-risk underwriting profile, given the mono-line focus in professional liability (primarily medical)
- Lack of product diversification; moderate geographic concentration
- Active acquisition strategy involves execution and integration risks
- Low fixed-income investment returns likely to pressure operating margins, given the relatively longer duration of MPL liabilities as compared with other property and liability insurance segments
- Competition in the form of physicians moving into hospital captives and large clinic alternative risk transfer programs

Rating Outlook

The outlook for ProAssurance's ratings is stable.

What to watch for:

- Potential for further growth through acquisitions; integration of American Physicians Service Group ("APS")
- Combined ratio trend in coming 1-2 years
- Share repurchase activity

What Could Change the Rating - Up

The following could lead to a ratings upgrade:

- Continued strength of MPL franchise through the underwriting cycle;
- Sustained modest financial leverage profile (e.g. below 15%), combined with very strong capital adequacy (e.g. GUL at 1.5x or below) and solid reserve position;
- Sustained interest and shareholder dividend coverage in excess of 8x;
- Absence of adverse reserve development (i.e. consistently 0% or better) through the underwriting cycle.

What Could Change the Rating - Down

The following could lead to a ratings downgrade:

- Material negative developments in the medical professional liability environment or legislation that could reduce franchise strength and/or elevate operational risk;
- Combined ratios at 110% or above;
- Sustained adjusted financial leverage in excess of 25%, together with interest and preferred dividend earnings and cash-flow coverage below 6x and 4x, respectively;
- Annual adverse reserve development in excess of 3% of total reserves;
- Gross underwriting leverage at 3x or greater, or weakening of risk-adjusted capital measures to A-level or below.

Notching Considerations

The spread between ProAssurance's Baa3 senior debt rating and the A3 insurance financial strength ratings of its subsidiaries is three notches, which is consistent with Moody's typical notching practices for US insurance holding company structures.

Recent Results

For 2010, ProAssurance reported net income of \$232 million as compared with \$222 million for 2009. The company's combined ratio was 68.0% for 2010, down from 69.1% for 2009, due to higher favorable reserve development, partially countered by expenses related to the acquisitions of Podiatry Insurance Company of America (PICA) in April, 2009 and American Physician Services Group (APS) in November,

2010. The company repurchased \$106 million of its shares during 2010, and shareholders' equity amounted to \$1.9 billion as of December 31, 2010.

DETAILED RATING CONSIDERATIONS

Moody's rates ProAssurance Indemnity Company and its principal affiliates A3 for insurance financial strength, which is in line with the adjusted rating indicated by the Moody's insurance financial strength rating scorecard.

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are as follows:

Factor 1 - Market Position, Brand and Distribution: Baa

ProAssurance ranks among the five leading insurers of medical professional liability (MPL) insurance in the USA, with a market share of approximately 6.5%, based on 2009 net premiums written. Its principal competitors include both physician owned insurers, as well as diversified national commercial insurers for whom MPL tends to be a relatively small component of their total operations. The company distributes its products primarily through specialty independent agents (approximately 64%), but also on a direct basis (36%) in certain states and to podiatrists through its Podiatry Insurance Company of America (PICA) subsidiary. The MPL segment is relatively fragmented, with the top ten insurers having an average market share of approximately 6% and none with a commanding market presence. The group's underwriting expense profile, in the low-to-mid 20% range is competitive for the segment, and reflective of its established underwriting franchise. Given the relatively small scale of medical liability insurance in the overall property-casualty insurance sector, we view the group's market position as being in line with the overall Baa indication of the scorecard.

Factor 2 - Product Risk and Diversification: Ba

Moody's considers ProAssurance's product risk profile to be high, given that MPL has historically been one of the most volatile segments of the property-casualty insurance sector, and subject to very significant swings in underwriting profitability, reserve adequacy and claims frequency and severity, largely reflecting litigation trends and state-specific considerations. Although the group does underwrite a limited amount of lawyers professional liability (about 10% of premiums), it lacks any meaningful product diversification. We note that whereas many of the group's national competitors focus on MPL coverages for institutional healthcare providers, ProAssurance and other specialist insurers tend to focus on the individual physicians and other professionals, and therefore have a more granular risk profile. The group underwrites in 49 states and the District of Columbia, although its five largest states - Alabama, Ohio, Indiana, Wisconsin, Florida and Michigan account for almost half of its total premium volume. It is the leading MPL underwriter in several states with market shares in excess of 30% (including Alabama, where it had a 60% market share in 2009), and ranks among the top four underwriters in more than a dozen other states. Looking forward, these positions will likely improve further as a result of ProAssurance's recently-completed acquisition of APS, with that insurer particularly strong presence in Texas. ProAssurance's knowledge of local/state-specific territories is a key factor to controlling its product risk and claims and underwriting performance, given the very different medical/legal liability climate in each state. Notwithstanding the company's operational strengths, we view ProAssurance's product risk and diversification as being suggestive of a Ba-level credit.

Factor 3 - Asset Quality: Aa

ProAssurance's asset quality is excellent overall with a predominant percentage of its investment portfolio in well-diversified, high-quality and liquid fixed income investments. Fixed income and short-term securities account for approximately 95% of the investment portfolio, which is approximately 97% investment grade with a weighted average credit quality of Aa3. The portfolio is comprised of state and municipal holdings (35%), corporate (37%), asset-backed (20%) and government and agency debt (8%). The company's municipal bond portfolio is a geographically diversified mix of revenue and general obligation bonds with an average credit quality of Aa2. Higher risk categories such as sub-prime, below-investment grade and late-vintage CMBS are moderate, amounting to less than 10% of capital. ProAssurance uses reinsurance as an important component of its risk management process, but it maintains a high overall retention level (about 95% of gross premiums) and reinsurance recoverable leverage is therefore modest at about 16% of shareholders' equity at 12/31/2010. The group has maintained a relatively stable panel of quality international reinsurers. Goodwill and other intangibles also remain modest relative to capital, given the company's focus on smaller acquisitions, its good internal capital generation, and the use of portfolio transfer/renewal rights transactions in some of its business acquisitions. Moody's views the company's overall asset quality indication as being more consistent with expectations for Aa-rated insurers, given some degree of credit and market risk in ProAssurance's investment portfolio, as well as some dependence on reinsurance in managing its severity exposures in its property and liability insurance segments.

Factor 4 - Capital Adequacy: A

ProAssurance's strong capital adequacy is reflected in its modest gross underwriting leverage profile (1.6x at year-end 2010), which in turn reflects the group's strong earnings generation and retention, as well as its modest premium and reinsurance leverage. Moody's considers the group's capital adequacy profile to be considerably stronger (more conservative) than average for U.S. commercial and specialty lines insurers. However, in light of the enterprise's high product risk profile and its lack of diversification, we see this conservative posture as an important component of the group's core credit profile supporting its rating, and therefore consider capital adequacy to be in line with expectations for A-rated insurers.

Factor 5 - Profitability: A

With a five-year average return on total capital at almost 15%, and combined ratios in the 65-70% range for the last three years, ProAssurance has a strong and consistent profitability profile, with negligible dependence on investment gains. Contributing to underwriting profitability have been significant reserve releases on business written in recent years, given a generally favorable claims environment in MPL. Moody's expects that pricing pressures, together with falling interest rates on debt securities and a likely tapering of reserve margins will exert downward pressure on operating margins in the coming years. However, we also believe that ProAssurance's discipline with respect to underwriting, actuarial and claims settlement functions, together with its improved geographic spread of risk, should continue to provide it with flexibility to focus its underwriting on states and regions with better pricing, underwriting and claims environments, and to de-emphasize those with more difficult operating environments.

Factor 6 - Reserve Adequacy: A

Moody's considers ProAssurance's reserve position to be strong overall. The group's reserve strength has translated to significantly better-than-peer-average underwriting performance in the past down-cycle. ProAssurance has continued to experience significant favorable reserve development in recent years, including \$234 million and \$207 million of favorable development in 2010 and 2009, respectively. The overall high recurring levels of favorable prior year loss development arising from business written in recent years, largely drives the scorecard indication of Aaa for this metric. However, Moody's considers the company's exposure to long-tail liabilities - and therefore to volatility associated with claim litigation and inflation trends. Consequently, we continue to view the company's longer-term reserve adequacy profile to be more consistent with expectations for A-rated insurers.

Factor 7 - Financial Flexibility: A

ProAssurance's use of debt in its capital structure has historically been very low, and Moody's expects that adjusted leverage will remain below 15%, a level that we consider to be appropriate for a monoline insurer in a potentially high-volatility segment such as MPL. At 3.4% at year-end 2010, the company's adjusted financial leverage is well below this threshold. Coverage metrics - both earnings and cash-flow-based - have likewise been exceptionally strong, and are expected to remain above expectations for the company's rating level. As a publicly traded holding company, ProAssurance has demonstrated access to the capital markets, which we view positively.

For 2011, ProAssurance has full-year dividend capacity from subsidiaries of approximately \$248 million, based on state-specific regulatory guidelines. ProAssurance, like other insurance holding companies, has an active share repurchase program, repurchasing \$106 million worth of its shares during 2010. We expect that future repurchase activity will be executed such as not to materially weaken the group's fundamentally strong capital position and financial flexibility. Given the historic volatility in underwriting results and liability claim trends for the medical liability line, and given the resultant potential for strain on financial flexibility if adverse trends were to materialize, we view the company's financial flexibility to be more in line with expectations for A-rated insurers than with the Aaa metric indicated by the un-adjusted scorecard result.

Rating Factors

ProAssurance Corporation[1]

Financial Strength Rating Scorecard	Aaa	Aa	A	Baa	Ba	B	Caa	Score	[2]Adjusted Score
Business Profile								Baa	Baa
Market Position, Brand and Distribution (25%)								Ba	Baa
Relative Market Share Ratio					X				
Underwriting Expense Ratio % Net Premiums Written			X						
Product Risk and Diversification (10%)								A	Ba
Product Risk			X						
P&C Insurance Product Diversification			X						
Geographic Diversification		X							
Financial Profile								Aaa	A
Asset Quality (10%)								Aaa	Aa
High Risk Assets % Shareholders' Equity	14.1%								
Reinsurance Recoverables % Shareholders' Equity	15.8%								
Goodwill & Intangibles % Shareholders' Equity	12.6%								
Capital Adequacy (15%)								Aaa	A
Gross Underwriting Leverage	1.6x								
Profitability (15%)								Aa	A
Return on Capital (5 yr. avg)	14.5%								
Sharpe Ratio of ROC (5 yr. avg)	380.5%								
Reserve Adequacy (10%)								Aaa	A
Adv./((Fav.) Loss Dev. % Beg. Reserves (5 yr. avg.)	-8.6%								
Financial Flexibility (15%)								Aaa	A
Adjusted Financial Leverage	3.4%								
Total Leverage	3.7%								
Earnings Coverage (5 yr. avg.)	44.64x								
Cashflow Coverage (5 yr. avg.)	38.74x								
Operating Environment (0%)								Aaa - A	Aaa - A
Aggregate Profile								Aa3	A3

[1] Information based on GAAP financial statements [2] The Scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis

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