PROASSURANCE CORP
Form 10-K
February 23, 2016
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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]
for the fiscal year ended December 31, 2015,
or
¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]
for the transition period from to .
Commission file number: 001-16533
ProAssurance Corporation
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation or organization)	63-1261433 (I.R.S. Employer Identification No.)
100 Brookwood Place, Birmingham, AL (Address of principal executive offices)	35209 (Zip Code)

(205) 877-4400
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
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	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2015 was $2,449,774,306.

As of February 19, 2016, the registrant had outstanding approximately 53,081,080 shares of its common stock.

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Documents incorporated by reference in this Form 10-K

(i) The definitive proxy statement for the 2016 Annual Meeting of the Stockholders of ProAssurance Corporation (File No. 001-16533) is incorporated by reference into Part III of this report.

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Glossary of Terms and Acronyms

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

Term	Meaning
ACA	The Affordable Care Act
ALAE	Allocated loss adjustment expense
AOCI	Accumulated other comprehensive income (loss)
Board	Board of Directors of ProAssurance Corporation
BOLI	Business owned life insurance
CIMA	Cayman Islands Monetary Authority
Council of Lloyd's	The governing body for Lloyd's of London
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DDR	Death, disability and retirement
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act
DPAC	Deferred policy acquisition costs
Eastern Re	Eastern Re, LTD, S.P.C.
EBUB	Earned, but unbilled premium
ERM	Enterprise Risk Management
FAL	Funds at Lloyd's
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank
FIO	Federal Insurance Office
GAAP	Generally accepted accounting principles in the United States of America
HCPL	Healthcare professional liability
IBNR	Incurred but not reported
IRS	Internal Revenue Service
LAE	Loss adjustment expense
LLC	Limited liability company
Lloyd's	Lloyd's of London market
LOC	Letter of Credit
LP	Limited partnership
Medical Technology Liability	Medical technology and life sciences products liability
Model Holding Co. Law	Model Insurance and Holding Company System Regulatory Act and Regulation
NAIC	National Association of Insurance Commissioners
NAV	Net asset value
NOPA	Notice of proposed adjustment
NRSRO	Nationally recognized statistical rating organization
NYSE	New York Stock Exchange
OCI	Other comprehensive income (loss)
ORSA	Risk Management and Own Risk and Solvency Assessment Model Act
OTTI	Other-than-temporary impairment
PCAOB	Public Company Accounting Oversight Board
ProAssurance Plan	Non-qualified deferred compensation plan
ProAssurance Savings Plan	Defined contribution savings and retirement plan
Revolving Credit Agreement	ProAssurance's $250 million revolving credit agreement
ROE	Return on equity
SAP	Statutory accounting principles

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Term	Meaning
SEC	Securities and Exchange Commission
SPC	Segregated portfolio cell
Specialty P&C	Specialty Property and Casualty
Syndicate 1729	Lloyd's of London Syndicate 1729
Syndicate Credit Agreement	Unconditional revolving credit agreement with the Premium Trust Fund of Syndicate 1729
TIPS	Treasury Inflation Protected Securities
TRIA	Federal Terrorism Risk Insurance Act
U.K.	United Kingdom of Great Britain and Northern Ireland
ULAE	Unallocated loss adjustment expense
VIE	Variable interest entity
VOBA	Value of business acquired

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General Information

Throughout this report, references to ProAssurance, “we,” “us,” “our” or "the Company" refer to ProAssurance Corporation and its consolidated subsidiaries. Because ProAssurance is an insurance holding company and certain terms and phrases common to the insurance industry are used in this report that carry special and specific meanings, we encourage you to read the Glossary of Selected Insurance and Related Financial Terms posted on the Supplemental Information page of our website (www.ProAssurance.com/InvestorRelations/supplemental.aspx).

Caution Regarding Forward-Looking Statements

Any statements in this Form 10-K 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," "likely," "may," "optimistic," "possible," "potential," "preliminary," "project," "should," "will" and other analogous expressions. There are numerous factors that could cause our actual results to differ materially from those in the forward-looking statements. Thus, sentences and phrases that we use to convey our view of future events and trends are expressly designated as forward-looking statements as are sections of this Form 10-K that are identified as giving our outlook on future business.

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

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

- changes in general economic conditions, including the impact of inflation or deflation and unemployment;
- our ability to maintain our dividend payments;
- regulatory, legislative and judicial actions or decisions that could affect our business plans or operations;
- the enactment or repeal of tort reforms;
- formation or dissolution of state-sponsored insurance entities providing coverages now offered by ProAssurance which could remove or add sizable numbers of insureds from or to the private insurance market;
- changes in the interest rate environment;
- changes in U.S. laws or government regulations regarding financial markets or market activity that may affect the U.S. economy and our business;
- changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business;
- performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;
- changes in requirements or accounting policies and practices that may be adopted by our regulatory agencies, the FASB, the SEC, the PCAOB, or the NYSE that may affect our business;
- changes in laws or government regulations affecting the financial services industry, the property and casualty insurance industry or particular insurance lines underwritten by our subsidiaries;
- the effect on our insureds, particularly the insurance needs of our insureds, and our loss costs, of changes in the healthcare delivery system, including changes attributable to the Patient Protection and Affordable Care Act;
- consolidation of our insureds into or under larger entities which may be insured by competitors, or may not have a risk profile that meets our underwriting criteria or which may not use external providers for insuring or otherwise managing substantial portions of their liability risk;

uncertainties inherent in the estimate of our loss and loss adjustment expense reserve and reinsurance recoverable;
changes in the availability, cost, quality, or collectability of insurance/reinsurance;
the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;
effects on our claims costs from mass tort litigation that are different from that anticipated by us;
allegations of bad faith which may arise from our handling of any particular claim, including failure to settle;

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

Additional risks that could arise from our membership in the Lloyd's of London market and our participation in Syndicate 1729 include, but are not limited to, the following:

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

Our results may differ materially from those we expect and discuss in any forward-looking statements. The principal risk factors that may cause these differences are described in “Item 1A, Risk Factors” in this report.

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

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PART I

ITEM 1. BUSINESS

Overview

ProAssurance Corporation is a holding company for property and casualty insurance companies. For the year ended December 31, 2015, our net premiums written totaled $709 million, and at December 31, 2015 we had total assets of $4.9 billion and $2.0 billion of shareholders' equity. Our mission is to be the best in the world at understanding and providing solutions for the risks our customers encounter as healers, innovators, employers, and professionals. Through an integrated family of specialty companies, products and services, we will be a trusted partner enabling those we serve to focus on their vital work. As the employer of choice, we embrace every day as a singular opportunity to reach for extraordinary outcomes, build and deepen superior relationships, and accomplish our mission with infectious enthusiasm and unbending integrity. Our wholly owned insurance subsidiaries provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys, liability insurance for medical technology and life sciences risks, workers' compensation insurance, and we are the majority capital provider for Lloyd's of London Syndicate 1729, which writes a range of property and casualty insurance and reinsurance lines.

Our executive offices are located at 100 Brookwood Place, Birmingham, Alabama 35209 and our telephone number is (205) 877-4400. Our stock trades on the NYSE under the symbol “PRA.” Our website is www.ProAssurance.com and we maintain a dedicated Investor Relations section on that website (Investor.ProAssurance.com) to provide specialized resources for investors and others seeking to learn more about us.

As part of our disclosure through the Investor Relations section of our website, we publish our annual report on Form 10-K, our quarterly reports on Form 10-Q, and our current reports on Form 8-K and all other public SEC filings as soon as reasonably practical after filing with the SEC on its EDGAR system. These SEC filings can be found on our website at investor.proassurance.com/Docs. This section also includes information regarding stock trading by corporate insiders by providing access to SEC Forms 3, 4 and 5 when they are filed with the SEC. In addition to federal filings on our website, we make available other documents that provide important additional information about our financial condition and operations. Documents available on our website include the financial statements we file with state regulators (compiled under SAP as required by regulation), news releases that we issue, a listing of our investment holdings, and certain investor presentations. The Governance section of our website provides copies of the charters for our governing committees and many of our governing policies. Printed copies of these documents may be obtained from Frank O’Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

Our History

We were incorporated in Delaware in 2001 as the successor to Medical Assurance, Inc. in conjunction with its merger with Professionals Group, Inc. ProAssurance has a history of growth through acquisitions. Acquisitions completed in the most recent five years include:

- Independent Nevada Doctors Insurance Exchange, acquired November 30, 2012,
- Medmarc Mutual Insurance Company and subsidiaries, acquired January 1, 2013, and
- Eastern Insurance Holdings, Inc., acquired January 1, 2014.

We provided the majority of the capital for Syndicate 1729 in November 2013, and Syndicate 1729 began active operations effective January 1, 2014.

Our Strategy

Our business objectives are to generate attractive returns on equity and book value per share growth for our shareholders. The basic components of our strategy for achieving these objectives are as follows:

- Serve a broad spectrum of the healthcare market, providing specialized expertise to meet evolving demands. In addition to providing traditional products to healthcare providers in a number of professions, we are also leveraging our reach, expertise and financial strength to provide innovative and customized products to meet the risk management needs of larger organizations or groups.
- Effectively manage capital. We carefully monitor use of our capital and consider various options for capital deployment, such as business expansion by our existing subsidiaries, opportunities that arise for mergers or

acquisitions, share repurchases and payment of dividends.

- Pursue profitable underwriting opportunities. We emphasize profitability, not market share. Key elements of our approach are prudent risk selection using established underwriting guidelines, appropriate pricing and adjusting our business mix as appropriate to effectively utilize capital and achieve market synergies.

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- Emphasize risk management. We seek to reduce risk at the corporate level by actively managing our enterprise risk and by maintaining strong internal controls. We also emphasize the importance of risk management to our insureds and offer training in the use of risk reduction tools and techniques.
- Manage claims effectively. Our experienced claims teams have industry and insurance expertise that, with our extensive local knowledge, allows us to resolve claims in an effective manner, considering the circumstances of each claim. When practical, we utilize formalized claims management processes and protocols as a means of reducing claim costs.
- Provide superior customer service. Our mission statement, We Exist to Protect Others, goes hand-in-hand with our corporate motto, "Treated Fairly." Our employees demonstrate our core values of integrity, relationships, leadership and enthusiasm every day and are focused on meeting the needs of our customers.
- Maintain a conservative investment strategy. We believe that we follow a conservative investment strategy designed to emphasize the preservation of our capital and provide adequate liquidity for the prompt payment of claims. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration.
- Maintain financial stability. We are committed to maintaining claims paying ratings of "A" or better.

Organization and Segment Information

We operate through multiple insurance organizations and report our operating results in four segments, as follows:

- Specialty Property and Casualty Segment - This segment includes our professional liability business and our medical technology and life sciences business.
- Workers' Compensation Segment - This segment includes our workers' compensation business which we provide for employers, groups and associations.
- Lloyd's Syndicate Segment - This segment includes operating results from our participation in Lloyd's Syndicate 1729.
- Corporate Segment - This segment includes our investing operations managed at the corporate level, non-premium revenues generated outside of our insurance entities, and corporate expenses, including interest and U.S. income taxes.

Gross Premiums Written

Gross premiums written for the years ended December 31, 2015, 2014 and 2013 were comprised as follows:

	Year Ended December 31								
($ in thousands)	2015			2014			2013		
Specialty P&C (1)	$526,296	65	%	$532,608	69	%	$567,547	100	%
Workers' compensation (2)	243,608	30	%	225,363	29	%	—	—	%
Syndicate 1729 (3)	56,929	7	%	33,731	4	%	—	—	%
Inter-segment revenues (3)	(14,615)	(2	%)	(12,093)	(2	%)	—	—	%
Total	$812,218	100	%	$779,609	100	%	$567,547	100	%

(1) Primarily comprised of one-year term policies, but includes premium related to policies with a two-year term of $29.7 million in 2015, $19.9 million in 2014 and $25.6 million in 2013.

(2) Prior to the acquisition of Eastern on January 1, 2014 we did not write significant amounts of workers' compensation premium.

(3) Our written premium includes our 58% share of premiums written by Syndicate 1729, including casualty premium assumed by Syndicate 1729 from our Specialty P&C segment. We eliminate this inter-segment revenue.

Additional detailed information regarding premium by individual product type within each of our insurance segments is provided in Item 7, Management's Discussion and Analysis, Results of Operations, under the heading "Premiums Written."

Our insurance exposures are primarily within the United States. As a result of our participation in Syndicate 1729, we had net written premium of $4.7 million in 2015 and $1.9 million in 2014 associated with insurance exposures outside of the United States. In 2013, our non-United States exposure was nominal.

Specialty Property and Casualty Segment

Professional Liability Insurance

Our professional liability business is primarily focused on providing professional liability insurance to healthcare providers. We target the full spectrum of the HCPL market, covering multiple categories of healthcare professionals and healthcare entities, including hospitals and other healthcare facilities. While most of our business is written in the standard market, we also offer professional liability insurance on an excess and surplus lines basis, and we offer alternative risk and self-insurance products on a custom basis.

We utilize independent agencies and brokers as well as an internal sales force to write our HCPL business. For the year ended December 31, 2015 approximately 63% of our HCPL gross premiums written were produced through independent insurance agencies or brokers. The agencies and brokers we use typically sell through professional liability insurance specialists who are able to convey the factors that differentiate our professional liability insurance products. In 2015, our ten largest agencies, brokers or brokerage agencies produced approximately 26% of our healthcare related professional liability premium; individually, no one agency produced more than 10% of our healthcare related professional liability premium.

In marketing our professional liability products we emphasize our financial strength, product flexibility, excellent claims and underwriting services, and risk resource services. We market our insurance products through our direct sales force and through our agents, as well as direct mailings, and advertising in industry-related publications. We also are involved in professional societies and related organizations and support legislation that will have a positive effect on healthcare and legal liability issues. We maintain regional underwriting centers which permit us to consistently provide a high level of customer service to both small and large accounts.

We maintain claim processing centers where our internal claims personnel investigate and monitor the processing of our professional liability claims. We engage experienced, independent litigation attorneys in each venue to assist with the claims process as we believe this practice aids us in providing a defense that is aggressive, effective and cost-efficient. We evaluate the merit of each claim and determine the appropriate strategy for resolution of the claim, either seeking a reasonable good faith settlement appropriate for the circumstances of the claim or aggressively defending the claim. As part of the evaluation and preparation process for HCPL claims, we meet regularly with medical advisory committees in our key markets to examine claims, attempt to identify potentially troubling practice patterns and make recommendations to our staff.

We also provide professional liability coverage to attorneys, but this is a less significant portion of our business, accounting for approximately 3% of our 2015 gross premiums written. We are licensed to do business in every state.

Medical Technology and Life Sciences Insurance

Our Medical Technology and Life Sciences business offers medical technology liability insurance for medical technology and life sciences companies that manufacture or distribute products that are almost all regulated by the United States Food and Drug Administration or similar regulatory authorities in foreign jurisdictions. Products insured include imaging and non-invasive diagnostic medical devices, orthopedic implants, pharmaceuticals, clinical lab instruments, medical instruments, dental products, and animal pharmaceuticals and medical devices. We also provide coverage for clinical trials and contract manufacturers.

Underwriting decisions for our medical technology liability coverages consider the type of risk, the amount of coverage being sought, the expertise and experience of the applicant, and the expected volume of product sales. Close to 100% of our medical technology liability business is written through independent brokers. In 2015, our top ten brokers generated approximately 44% of our medical technology and life sciences gross written premium, with no one agent representing more than 13%. We do not appoint agents for our medical technology liability business.

Our medical technology liability claims are centrally processed in Chantilly, Virginia. We strongly defend these claims, with a negotiated settlement being the most frequent means of resolution.

Workers' Compensation Segment

Effective January 1, 2014, ProAssurance acquired Eastern, which offers workers' compensation products in the Mid-Atlantic, Southeast, Midwest, and Gulf South regions of the continental United States. Our workers' compensation business consists of two major business activities:

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Traditional workers' compensation insurance coverages provided to employers, generally those with 1,000 employees or less. Types of policies offered include guaranteed cost policies, policyholder dividend policies, retrospectively-rated policies, and deductible policies.

- Alternative market workers’ compensation solutions provided to individual companies, groups and associations whereby the premium written is 100% ceded to Eastern Re or an unaffiliated captive insurer. Of our total alternative market premiums written, approximately 89% in both 2015 and 2014 was ceded to SPCs operated

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through Eastern Re, our subsidiary domiciled in the Cayman Islands. Each SPC is owned, fully or in part, by an agency, group or association, hereafter referred to as cell participants. The SPC is operated solely for the benefit of cell participants of that particular cell, and the pool of assets of one segregated portfolio cell are statutorily protected from the creditors of any other SPC. The underwriting results and investment income of the segregated portfolio cells are shared with the cell participants in accordance with the terms of the cell agreements. We are a partial owner in selected SPCs and receive a share of the earnings of these SPCs. We generally hold a 50% participation, but we have ownership interests as low as 25% and as high as 82.5%.

All of our workers' compensation products are distributed through a group of appointed independent agents.

We utilize an individual account underwriting strategy for our workers' compensation business that is focused on selecting quality accounts. The goal of our workers’ compensation underwriters is to select a diverse book of business with respect to risk classification, hazard level and geographic location. We target accounts with strong return to work and safety programs in low to middle hazard levels such as clerical office, light manufacturing, healthcare, auto dealers and service industries and maintain a strong risk management unit in order to better serve our customers' needs.

We actively seek to reduce our workers' compensation loss costs by placing a concentrated focus on returning injured workers to work as quickly as possible. We emphasize early intervention and aggressive disability management, utilizing in-house and third-party specialists for case management, including medical cost management. Strategic vendor relationships have been established to reduce medical claim costs and include preferred provider, physical therapy, prescription drug, and catastrophic medical services.

Lloyd's Syndicate Segment

We are the majority (58%) capital provider to Syndicate 1729, which began writing business as of January 1, 2014. The remaining capital for Syndicate 1729 is provided by unrelated third parties, including private names and other corporate members. We have a total capital commitment to support Syndicate 1729 through 2019 of up to $200 million. For the 2016 underwriting year, we satisfied our capital commitment with investment securities deposited with Lloyd's which at December 31, 2015 had a fair value of approximately $95.8 million. Syndicate 1729 covers a range of property and casualty insurance and reinsurance lines, primarily for risks within the United States, and has a maximum underwriting capacity of £90.0 million (approximately $132.6 million at December 31, 2015) for the 2016 underwriting year, of which £51.8 million (approximately $76.3 million at December 31, 2015) is our allocated underwriting capacity as a corporate member.

Corporate Segment

We manage our investments at the corporate level and we apply a consistent management strategy to the entire portfolio. Accordingly, we report our investment results and net realized investment gains and losses within our corporate segment. Our corporate segment also includes non-premium revenues generated outside of our insurance entities, and corporate expenses, including interest expense and U.S. income taxes. Our overall investment strategy is to maximize current income from our investment portfolio while maintaining safety, liquidity, duration targets and portfolio diversification. The portfolio is generally managed by professional third party asset managers whose results we monitor and evaluate. The asset managers typically have the authority to make investment decisions within the asset classes they are responsible for managing, subject to our investment policy and oversight, including a requirement that securities in a loss position cannot be sold without specific authorization from us. See Note 4 of the Notes to Consolidated Financial Statements for more information on our investments.

Competition

The marketplace for all our lines of business is very competitive. Within the U.S. our competitors are primarily domestic and range from large national insurers whose financial strength and resources may be greater than ours to smaller insurance entities that concentrate on a single state and as a result have an extensive knowledge of the local markets. Additionally, there are many providers, domestic and international, of alternative risk management solutions. Syndicate 1729, which is based in the U.K., faces significant competition from other Lloyd's syndicates as well as other international and domestic insurance firms operating in the country of the insured. Competitive distinctions include pricing, size, name recognition, service quality, market commitment, market conditions, breadth and flexibility of coverage, method of sale, financial stability, ratings assigned by rating agencies and regulatory conditions.

The changing healthcare environment within the U.S. during the past few years is providing both increased competitive challenges and opportunities for our largest segment, the Specialty P& C segment. Many physicians now practice as employees of larger healthcare entities. Further, healthcare services are increasingly being provided by professionals other than physicians and outside of a traditional hospital or clinic setting. Such trends are widely expected to continue. Larger healthcare entities have differing customer service and risk management needs than the traditional solo or small physician groups. Larger entities are more likely to combine risks such as workers' compensation and professional liability when purchasing insurance and are also more likely to manage all or a part of their risk through alternative insurance mechanisms. We have addressed these issues

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by enhancing our existing hospital/physician insurance programs, expanding our coverage of healthcare providers other than physician or hospitals, expanding our coverages to include workers' compensation and product liability, and by enhancing our customer service capabilities, particularly with regard to the needs of larger accounts. We have also increased our focus on offering unique, joint or cooperative insurance programs that are attractive to larger healthcare entities.

The workers’ compensation industry is highly competitive in the geographic markets in which we operate. Price competition, including the leveraging of workers’ compensation business by multi-line insurers, has adversely impacted our renewal retention rate during 2015, and we expect the price competition to continue in 2016. We believe our product offerings allow us to provide flexibility in offering workers’ compensation solutions to our customers at a competitive price. In addition, we believe that our claims handling and risk management services provide us with a competitive advantage that is attractive to our customers even when our pricing is higher than our competitors.

We recognize the importance of providing our products at competitive rates, but we do not underwrite at rates that will not permit us to meet our profit targets. We base our rates on current loss projections, maintaining a long-term focus even when this approach reduces our top line growth. We believe that our size, reputation for effective claims management, unique customer service focus, multi-state presence, and broad spectrum of coverages offered provides us with competitive advantages, even as the needs of our insureds change.

Rating Agencies

Our claims paying ability is regularly evaluated and rated by three major rating agencies: A.M. Best, Fitch and Moody’s. In developing their claims paying ratings, these agencies make an independent evaluation of an insurer’s ability to meet its obligations to policyholders. See "Risk Factors" for a table presenting the claims paying ratings of our principal insurance operations.

Three rating agencies evaluate and rate our ability to service current debt and potential debt. These financial strength ratings reflect each agency’s independent evaluation of our ability to meet our obligation to holders of our debt, if any. While financial strength ratings may be of greater interest to investors than our claims paying ratings, these ratings are not evaluations of our equity securities nor a recommendation to buy, hold or sell our equity securities.

Insurance Regulatory Matters

We are subject to regulation under the insurance and insurance holding company statutes of various jurisdictions, including the domiciliary states of our insurance subsidiaries and other states in which our insurance subsidiaries do business. Our insurance subsidiaries are primarily domiciled in the United States. Our states of domicile include Alabama, Illinois, Michigan, Pennsylvania, and Vermont. We have reinsurance operations based in the Cayman Islands, a territory of the U.K., and, through our participation in Syndicate 1729, U.K. based insurance and reinsurance operations.

United States

Our insurance subsidiaries are required to file detailed annual statements in their states of domicile and with the state insurance regulators in each of the states in which they do business. The laws of the various states establish agencies with broad authority to regulate, among other things, licenses to transact business, premium rates for certain types of coverage, trade practices, agent licensing, policy forms, underwriting and claims practices, reserve adequacy, transactions with affiliates, and insurer solvency. Such regulations may hamper our ability to meet operating or profitability goals, including preventing us from establishing premium rates for some classes of insureds that adequately reflects the level of risk assumed for those classes. Many states also regulate investment activities on the basis of quality, distribution and other quantitative criteria. States have also enacted legislation, typically based in whole or in part on NAIC model laws, which regulates insurance holding company systems, including acquisitions, the payment of dividends, the terms of affiliate transactions, enterprise risk and solvency management, and other related matters.

Applicable state insurance laws, rather than federal bankruptcy laws, apply to the liquidation or reorganization of insurance companies.

Insurance companies are also subject to state and federal legislative and regulatory measures and judicial decisions. These could include new or updated definitions of risk exposure and limitations on business practices.

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Insurance Regulation Concerning Change or Acquisition of Control

The insurance regulatory codes in each of the domiciliary states of our operating subsidiaries contain provisions (subject to certain variations) to the effect that the acquisition of “control” of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. In general, a presumption of “control” arises from the direct or indirect ownership, control or possession with the power to vote or possession of proxies with respect to 10% (5% in Alabama) or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. Because of these regulatory requirements, any party seeking to acquire control of ProAssurance or any other domestic insurance company, whether directly or indirectly, would usually be required to obtain such approvals.

In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control of a non-domestic insurance company admitted in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic admitted insurers doing business in the state if certain conditions exist, such as undue market concentration.

Statutory Accounting and Reporting

Insurance companies are required to file detailed quarterly and annual reports with state insurance regulators in their state of domicile and each of the states in which they do business; and their business and accounts are subject to examination by such regulators at any time. The financial information in these reports is prepared in accordance with SAP. Insurance regulators periodically examine each insurer’s adherence to SAP, financial condition, and compliance with insurance department rules and regulations.

Regulation of Dividends and Other Payments from Our Operating Subsidiaries

Our operating subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends or distributions an insurance company may pay to its shareholders, including our insurance holding company, without prior regulatory approval. Generally, dividends may be paid only out of unassigned earned surplus. In every case, surplus subsequent to the payment of any dividends must be reasonable in relation to an insurance company’s outstanding liabilities and must be adequate to meet its financial needs.

State insurance holding company regulations generally require domestic insurers to obtain prior approval of extraordinary dividends. Insurance holding company regulations that govern our principal operating subsidiaries deem a dividend as extraordinary if the combined dividends and distributions to the parent holding company in any twelve-month period exceed prescribed thresholds. Such thresholds are statutorily prescribed by the state of domicile and currently are based on either net income for the prior fiscal year (reduced by realized capital gains in certain domiciliary states) or a percentage of unassigned surplus at the end of the prior fiscal year, depending upon the wording of the statute.

If insurance regulators determine that payment of a dividend or any other payments within a holding company group, (such as payments under a tax-sharing agreement or payments for employee or other services) would, because of the financial condition of the paying insurance company or otherwise, be a detriment to such insurance company’s policyholders, the regulators may prohibit such payments that would otherwise be permitted.

Risk-Based Capital and Risk Assessment

In order to enhance the regulation of insurer solvency, the NAIC specifies risk-based capital requirements for property and casualty insurance companies. At December 31, 2015, all of ProAssurance’s insurance subsidiaries substantially exceeded the minimum required risk-based capital levels.

In late 2010, the NAIC adopted the Model Holding Co. Law. The Model Holding Co. Law, as compared to previous NAIC guidance, increases regulatory oversight of and reporting by insurance holding companies, including reporting related to non-insurance entities, and requires reporting of risks affecting the holding company group. Additionally, in 2012 the NAIC adopted ORSA, which requires insurers to maintain a framework for identifying, assessing, monitoring, managing and reporting on the “material and relevant risks” associated with the insurer's (or insurance group's) current and future business plans. ORSA requires larger insurers, generally those with annual written premium volume greater than $1.0 billion as a group or $500 million as an individual insurer, to file an internal assessment of solvency with insurance regulators annually beginning in 2015. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such standard will be developed over time. The Model Holding Co. Law and ORSA will be binding only if adopted by state legislatures and/or state insurance regulatory authorities and actual regulations adopted by any state may differ from that adopted by the NAIC. As of December 31, 2015, the Model Holding Co. Law and ORSA have been adopted by 34 states. ProAssurance did not meet ORSA filing criteria in 2015.

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Also, the NAIC subsequently revised the Model Holding Co. Law to include provisions which allow regulatory supervision of the holding company group through supervisory colleges and which require reporting of risk and solvency assessments for the group. Certain states in which the Company operates adopted these revisions early and the Company began filing its risk and solvency assessment in 2014.

Investment Regulation

Our operating subsidiaries are subject to state laws and regulations that require diversification of investment portfolios and that limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations may cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture of investments. We monitor the practices used by our operating subsidiaries for compliance with applicable state investment regulations and take corrective measures when deficiencies are identified.

Guaranty Funds

Admitted insurance companies are required to be members of guaranty associations which administer state guaranty funds. To fund the payment of claims (up to prescribed limits) against insurance companies that become insolvent, these associations levy assessments on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year generally vary between 1% and 2% of annual premiums written by a member in that state, although state regulations may permit larger assessments if insolvency losses reach specified levels. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process. In recent years, participation in guaranty funds has not had a material effect on our results of operations.

Shared Markets

State insurance regulations may force us to participate in mandatory property and casualty shared market mechanisms or pooling arrangements that provide certain insurance coverage to individuals or other entities that are otherwise unable to purchase such coverage in the commercial insurance marketplace. Our operating subsidiaries' participation in such shared markets or pooling mechanisms is not material to our business at this time.

Federal Regulation

Tort reform proposals are considered from time to time at the Federal level. Passage of a Federal tort reform package would likely be subject to judicial challenge and we cannot be certain that it would be upheld by the courts.

The Dodd-Frank Act was enacted in July 2010 and established additional regulatory oversight of financial institutions. To-date, the Dodd-Frank Act has not materially affected our business. However, development of regulations is not complete, and there could yet be changes in the regulatory environment that affect the way we conduct our operations or the cost of compliance, or both.

One of the federal government bodies created by the Dodd-Frank Act was the FIO which, in December 2013, released a proposal on insurance modernization and improvement of the system of insurance regulation in the United States. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited power to preempt certain types of state insurance laws. The recent proposal advocates significantly greater federal involvement in insurance regulation and identifies necessary reforms by the states to preclude further consideration of direct federal regulation. While the proposal does not necessarily imply that the federal government will displace state regulation completely, it does recommend more of a hybrid approach to insurance regulation. In response to the FIO proposal, the NAIC and a number of state legislatures have considered or adopted legislative proposals that alter and, in many cases, increase the authority of state agencies to regulate insurance companies and insurance holding company systems. We cannot predict whether the proposals will be adopted or what impact, if any, subsequently enacted laws might have on our business, financial condition or results of operations.

Terrorism Risk Insurance Act

TRIA, initially enacted in 2002 and reauthorized in 2007 and 2015, ensures the availability of insurance coverage for certain acts of terrorism, as defined in the legislation. The 2015 reauthorization extended the program through 2020. TRIA currently provides that during 2016 a loss event must exceed $120 million to trigger coverage and that Federal government will reimburse 84% of an insurer’s losses in excess of the insurer’s deductible, up to the maximum annual Federal liability of $100 billion. The event trigger will gradually increase to $200 million by 2020 and the reimbursement percentage will gradually decline to 80% by 2020. TRIA requires that we offer terrorism coverage to our commercial policyholders in our workers'

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compensation line of business, for which we may, when warranted, charge an additional premium. The policyholders may or may not accept such coverage.

International

Cayman Islands

Our segregated portfolio cell business operates through our subsidiary, Eastern Re, which is organized and licensed as a Cayman Islands unrestricted Class B insurance company. Eastern Re is subject to regulation by CIMA. Applicable laws and regulations govern the types of policies that Eastern Re can insure or reinsure, the amount of capital that it must maintain and the way it can be invested, and the payment of dividends without approval by the CIMA. Eastern Re is required to maintain minimum capital of approximately $100,000 and must receive approval from the CIMA before it can pay any dividends.

Lloyd's Syndicate 1729

Syndicate 1729 is regulated in the U.K. by the Prudential Regulation Authority and the Financial Conduct Authority. All Lloyd's syndicates must also comply with the bylaws and regulations established by the Council of Lloyd's including submission and approval of an annual business plan and maintenance of stipulated capital levels. Also, the Council of Lloyd's may call or assess a percentage of a member's underwriting capacity (currently a maximum of 3%) as a contribution to Lloyd's Central Fund, which, similar to state guaranty funds in the United States, meets policyholder obligations if a Lloyd's member is otherwise unable to do so.

The European Union's executive body, the European Commission, has implemented new capital adequacy and risk management regulations called Solvency II that applies to businesses within the European Union. Solvency II became effective January 1, 2016. Syndicate 1729 follows the Solvency II compliance guidelines set out by the Council of Lloyd's.

Enterprise Risk Management

As a large property and casualty insurance provider, we are exposed to many risks, stemming from both our insurance operations and the environments in which we operate. Since certain risks can be correlated with other risks, an event or a series of events can impact multiple areas of the Company simultaneously and have a material effect on the Company's results of operations, financial position and/or liquidity. In response to these exposures we have implemented an ERM program. Our ERM program consists of numerous processes and controls that have been designed by our senior management, with oversight by our Board of Directors, and have been implemented across our organization. We utilize ERM to identify potential risks from all aspects of our operations and to evaluate these risks in a manner that is both prudent and balanced. Our primary objective is to develop a risk appetite that creates and preserves value for all of our stakeholders.

Employees

At December 31, 2015, we had 938 employees, none of whom were represented by a labor union. We consider our employee relations to be good.

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ITEM 1A. RISK FACTORS.

There are a number of factors, many beyond our control, which may cause results to differ significantly from our expectations. Some of these factors are described below. Any factor described in this report could by itself, or together with one or more other factors, have a negative effect on our business, results of operations and/or financial condition. There may be factors not described in this report that could also cause results to differ from our expectations.

Insurance market conditions may alter the effectiveness of our current business strategy and impact our revenues.

The property and casualty insurance business is highly competitive. We compete in a fragmented market comprised of many insurers, ranging from smaller single state mono-line insurers who have an extensive knowledge of local markets to large national insurers who offer multiple product lines and whose financial strength and resources may be greater than ours. In many instances, coverage we offer is also available through mutual entities whose ROE objectives may be lower than ours. Also, there are many opportunities for self-insurance and for participation in an alternative risk transfer mechanism, such as a captive insurer or a risk retention group.

Competition in the property and casualty insurance business is based on many factors, including premiums charged and other terms and conditions of coverage, services provided, financial ratings assigned by independent rating agencies, claims services, reputation, geographic scope, local presence, agent and client relationships, financial strength and the experience of the insurance company in the line of insurance to be written. Actions of competitors could adversely affect our ability to attract and retain business at current premium levels, impact our market share and reduce the profits that would otherwise arise from operations.

Because we are a property and casualty insurer, our business may suffer as a result of unforeseen catastrophe losses.

As a property and casualty insurer we are exposed to claims arising out of catastrophes, primarily through our workers' compensation and Syndicate 1729 operations. Catastrophes can be caused by various events, including hurricanes, tsunamis, tornadoes, windstorms, earthquakes, hailstorms, explosions, flooding, severe winter weather and fires and may include man-made events, such as terrorist attacks or a wide-spread financial crisis. The incidence, frequency and severity of catastrophes are inherently unpredictable. While we use historical data and modeling tools to assess our potential exposure to catastrophic losses under various conditions and probability scenarios, such assessments do not necessarily accurately predict future losses or accurately measure our potential exposure. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Our loss exposure for a terrorist act meeting the TRIA definition is mitigated by our coverage provided by this program as described in Part I under the caption Insurance Regulatory Matters. Congress has the ability to alter or repeal the provisions of TRIA at its discretion, and if altered or repealed our exposure could increase and result in premium increases for those types of coverages. Workers' compensation coverages cannot exclude damages related to an act of terrorism and if TRIA were repealed or the benefits were substantially reduced, this might affect our ability to offer these coverages at a reasonable rate.

Insurance companies are not permitted to reserve for a catastrophe until it has occurred. Although we purchase reinsurance protection for risks we believe bear a significant level of catastrophe exposure, actual losses resulting from a catastrophic event or events may exceed our reinsurance protection. It is therefore possible that a catastrophic event or multiple catastrophic events could have a material adverse effect on our financial position, results of operations and liquidity.

Our results of operations and financial condition may be affected if actual insured losses differ from our loss reserves or if actual amounts recoverable under reinsurance agreements differ from our estimated recoverables.

We establish reserves as balance sheet liabilities representing our estimates of amounts needed to resolve reported and unreported losses and pay related loss adjustment expenses. Our largest liability is our reserve for loss and loss adjustment expenses. Due to the size of our reserve for loss and loss adjustment expenses, even a small percentage adjustment to our reserve can have a material effect on our results of operations for the period in which the change is made.

The process of estimating loss reserves is complex. Significant periods of time may elapse between the occurrence of an insured loss, the reporting of the loss by the insured and payment of that loss. Ultimate 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, including whether or not the claim is an individual or a mass tort 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 claims involving bodily injury, the trend of healthcare costs. Consequently, the loss cost estimation process requires actuarial skill and the application of judgment, and such estimates require periodic revision. As part of the reserving process, we review the known facts surrounding reported claims as well as historical claims data and consider the impact of various factors such as:

- for reported claims, the nature of the claim and the jurisdiction in which the claim occurred;

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- trends in paid and incurred loss development;
- trends in claim frequency and severity;
- emerging economic and social trends;
- trend of healthcare costs for claims involving bodily injury;
- inflation and levels of employment; and
- changes in the regulatory, legal and political environment.

This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate, but not necessarily accurate, basis for predicting future events. There is no precise method for evaluating the impact of any specific factor on the adequacy of reserves, and actual results are likely to differ from original estimates. We evaluate our reserves each period and increase or decrease reserves as necessary based on our estimate of future claims payments. An increase to reserves has a negative effect on our results of operations in the period of increase; a reduction to reserves has a positive effect on our results of operations in the period of reduction.

Our loss reserves also may be affected by court decisions that expand liability of our policies after they have been issued. In addition, a significant jury award or series of awards against one or more of our insureds could require us to pay large sums of money in excess of our reserved amounts. Due to uncertainties inherent in the jury system, any case that is litigated to a jury verdict has the potential to incur a loss that has a material adverse effect on our results of operations.

We purchase reinsurance to mitigate the effect of large losses. 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 and conditions of our reinsurance agreements. 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. Due to the size of our reinsurance balances, changes to our estimate of the amount of reinsurance that is due to us could have a material effect on our results of operations in the period for which the change is made.

We are exposed to and may face adverse developments involving mass tort claims arising from coverages provided to our insureds.

Establishing claim and claim adjustment expense reserves for mass tort claims is subject to uncertainties due to many factors, including expanded theories of liability, geographical location and jurisdiction of the lawsuits. Moreover, it is difficult to estimate our ultimate liability for such claims due to evolving judicial interpretations of various tort theories of liability and defense theories, such as federal preemption and joint and several liability, as well as the application of insurance coverage to these claims.

If market conditions cause reinsurance to be more costly or unavailable, we may be required to bear increased risk or reduce the level of our underwriting commitments.

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of risk underwritten by our insurance company subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance. We may be unable to maintain current reinsurance coverage or to obtain other reinsurance coverage in adequate amounts and at favorable rates. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to bear an increase in net risk exposures, we would need to reduce the amount of our underwritten risk.

We cannot guarantee that our reinsurers will pay in a timely fashion or at all, and, as a result, we could experience losses.

We transfer part of our risks to reinsurance companies in exchange for part of the premium we receive in connection with the risk. Although our reinsurance agreements make the reinsurer liable to us to the extent the risk is transferred, our liability to our policyholders remains our responsibility. Reinsurers may periodically dispute our demand for reimbursement from them based upon their interpretation of the terms of our agreements or may fail to pay us for financial or other reasons. If reinsurers refuse or fail to pay us or fail to pay on a timely basis, our financial results and/or cash flows would be adversely affected and could have a material effect on our results of operations in the period in which uncollectible amounts are identified.

At December 31, 2015 our Receivable from reinsurers on unpaid losses is $249.4 million and our Receivable from reinsurers on paid losses is $9.2 million. As of December 31, 2015 no reinsurer, on an individual basis, had an estimated net amount due which exceeded $25 million.

Our claims handling could result in a bad faith claim against us.

We have been, from time to time, sued for allegedly acting in bad faith during our handling of a claim. The damages claimed in actions for bad faith may include amounts owed by the insured in excess of the policy limits as well as consequential and punitive damages. Awards above policy limits are possible whenever a case is taken to trial. These actions have the potential to have a material adverse effect on our financial condition and results of operations.

Changes in healthcare policy could have a material effect on our operations.

The ACA was enacted in March 2010, and many but not all of its provisions have become effective. To date, we do not believe that the primary provisions of ACA have directly affected our business. However, regulations to implement the law may be revised and the effect of currently enacted provisions may evolve over time. Thus, the ACA may yet have unanticipated or indirect effects on our business or alter the risk and cost environments in which we and our insureds operate. These risks include: further increases in the number of physicians choosing to practice as a part of a larger healthcare organization that utilizes a self insurance or alternative risk management solution for its HCPL needs; use of electronic medical records may lead to additional medical malpractice litigation or increase the cost of litigation; patient dissatisfaction may increase due to greater strain on the patient-physician relationship; there may be an overall increase in healthcare costs which would increase loss costs for claims involving bodily injury; and additional health conditions may be identified as work-related which could increase the number of workers' compensation claims. Conversely, it is anticipated that there will be growth in the number of ancillary healthcare providers that will become customers for HCPL products. We are unable to predict with any certainty the effect that ACA or future related legislation will have on our insureds or our business.

Changes due to financial reform legislation could have a material effect on our operations.

The Dodd-Frank Act, enacted in July 2010 established additional regulatory oversight of financial institutions. While regulations are still in development for various portions of the Dodd-Frank Act, to date the Act has not materially affected our business. As detailed regulations are developed to implement the provisions of the Dodd-Frank Act, there may be changes in the regulatory environment that affect the way we conduct our operations or the cost of regulatory compliance, or both. We are unable to predict with any certainty the effect that the Dodd-Frank Act will have on our business.

One of the federal government bodies created by the Dodd-Frank Act was the FIO which, in December 2013, released a proposal on insurance modernization and improvement of the system of insurance regulation in the United States. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited powered to preempt certain types of state insurance laws. The recent proposal advocates significantly greater federal involvement in insurance regulation and identifies necessary reforms by the states to preclude further consideration of direct federal regulation. While the proposal does not necessarily imply that the federal government will displace state regulation completely, it does recommend more of a hybrid approach to insurance regulation. We cannot predict whether the proposals will be adopted or what impact, if any, enacted laws may have on our business, financial condition or results of operations.

The passage of tort reform or other legislation, and the subsequent review of such laws by the courts could have a material impact on our operations.

Tort reforms generally restrict the ability of a plaintiff to recover damages by, among other limitations, eliminating certain claims that may be heard in a court, limiting the amount or types of damages, changing statutes of limitation or the period of time to make a claim, and limiting venue or court selection. A number of states in which we do business previously enacted tort reform legislation in an effort to reduce escalating loss trends.

Challenges to tort reform have been undertaken in most states where tort reforms have been enacted, and in some states the reforms have been fully or partially overturned. Additional challenges to tort reform may be undertaken. We cannot predict with any certainty how state appellate courts will rule on these laws. While the effects of tort reform have been generally beneficial to our business in states where these laws have been enacted, there can be no assurance that such reforms will be ultimately upheld by the courts. Further, if tort reforms are effective, the business of providing professional liability insurance may become more attractive, thereby causing an increase in competition. In addition, the enactment of tort reforms could be accompanied by legislation or regulatory actions that may be detrimental to our business because of expected benefits which may or may not be realized. These expectations could result in regulatory or legislative action limiting the ability of professional liability insurers to maintain rates at adequate levels.

Coverage mandates or other expanded insurance requirements could also be imposed. States may also consider state-sponsored insurance entities that could remove our potential insureds from the private insurance market. We continue to monitor developments on a state-by-state basis, and make business decisions accordingly.

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Our performance is dependent on the business, economic, regulatory and legislative conditions of states where we have a significant amount of business.

Our top five states, Pennsylvania, Alabama, Indiana, Michigan and Texas, represented 43% of our direct premiums written for the year ended December 31, 2015. Moreover, on a combined basis, Pennsylvania, Alabama and Indiana accounted for 32%, 31%, and 19% of our direct premiums written for the years ended December 31, 2015, 2014 and 2013, respectively. As Eastern has only been a part of our consolidated numbers since January 1, 2014, direct premiums written for our workers' compensation business are only included in the 2015 and 2014 by state information. Unfavorable business, economic or regulatory conditions in any of these states could have a disproportionately greater effect on us than they would if we were less geographically concentrated.

We may be unable to identify future strategic acquisitions or expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected.

Our corporate strategy anticipates growth through the acquisition of other companies or books of business. However, such expansion is opportunistic and sporadic, and there is no guarantee that we will be able to identify strategic acquisition targets in the future. Additionally, if we are able to identify a strategic target for acquisition, state insurance regulation concerning change or acquisition of control could delay or prevent us from completing the acquisition. State insurance regulatory codes provide that the acquisition of “control” of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. There is no assurance that we will receive such approval from the respective insurance regulator or that such approvals will not be conditioned in a manner that materially and adversely affects the aggregate economic value and business benefits expected to be obtained and cause us to not complete the acquisition. The Company performs thorough due diligence before agreeing to a merger or acquisition, however there is no guarantee that the procedures we perform will adequately identify all potential weaknesses or liabilities of the target company or potential risks to the consolidated entity.

There is also no guarantee that businesses acquired in the future will be successfully integrated. Ineffective integration of our businesses and processes may result in substantial costs or delays and adversely affect our ability to compete. The process of integrating an acquired company or business can be complex and costly, and may create unforeseen operating difficulties and expenditures. Potential problems that may arise include, but are not limited to, business disruption, loss of customers and employees, the ineffective integration of underwriting, claims handling and actuarial practices, the increase in the inherent uncertainty of reserve estimates for a period of time until stable trends reestablish themselves within the combined organization, diversion of management time and resources to acquisition integration challenges, the cultural challenges associated with integrating employees, increased operating costs, assumption of greater than expected liabilities, or inability to achieve cost savings. Furthermore, claims may be asserted by either the policyholders or shareholders of any acquired entity related to payments or other issues associated with the acquisition and merger into the consolidated entity. Such claims may prove costly or difficult to resolve or may have unanticipated consequences.

If we are unable to maintain favorable financial strength ratings, it may be more difficult for us to write new business or renew our existing business.

Independent rating agencies assess and rate the claims-paying ability and the financial strength of insurers based upon criteria established by the agencies. Periodically the rating agencies evaluate us to confirm that we continue to meet the criteria of previously assigned ratings. The financial strength ratings assigned by rating agencies to insurance companies represent independent opinions of financial strength and ability to meet policyholder and debt obligations and are not directed toward the protection of equity investors.

Our principal operating subsidiaries hold favorable claims paying ratings with A.M. Best, Fitch and Moody’s. Claims paying ratings are used by agents and customers as an important means of assessing the financial strength and quality of insurers. If our financial position deteriorates or the rating agencies significantly change the rating criteria that are used to determine ratings, we may not maintain our favorable financial strength ratings from the rating agencies. A downgrade or involuntary withdrawal of any such rating could limit or prevent us from writing desirable business.

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The following table presents the claims paying ratings of our core insurance subsidiaries as of February 19, 2016.

	Rating Agency [1]		
	A.M. Best (www.ambest.com)	Fitch (www.fitchratings.com)	Moody's (www.moodys.com)
ProAssurance Indemnity Company, Inc.	A+ (Superior)	A (Strong)	A2
ProAssurance Casualty Company	A+ (Superior)	A (Strong)	A2
ProAssurance Specialty Insurance Company, Inc.	A+ (Superior)	A (Strong)	NR
Podiatry Insurance Company of America	A (Excellent)	A (Strong)	A2
PACO Assurance Company, Inc.	A- (Excellent)	A (Strong)	NR
Noetic Specialty Insurance Company	A (Excellent)	A (Strong)	NR
Medmarc Casualty Insurance Company	A (Excellent)	A (Strong)	NR
Lloyd's Syndicate 1729 [2]	A (Excellent)	AA- (Strong)	NR
Eastern Alliance Insurance Company	A (Excellent)	A (Strong)	A3
Allied Eastern Indemnity Company	A (Excellent)	A (Strong)	A3
Eastern Advantage Assurance Company	A (Excellent)	A (Strong)	NR
Eastern Re Ltd., SPC	A (Excellent)	NR	NR

[1] NR indicates that the subsidiary has not been rated by the listed rating agency.
[2] Rating provided is the rating applicable to all Lloyd's syndicates.

Three rating agencies evaluate and rate our ability to service current debt and potential debt. These financial strength ratings reflect each agency's independent evaluation of our ability to meet our obligation to holders of our debt, if any. While these ratings may be of greater interest to investors than our claims paying ratings, these are not ratings of our equity securities nor a recommendation to buy, hold or sell our equity securities.

Our business could be adversely affected by the loss or consolidation of independent agents, agencies, or brokers or brokerage firms.

We heavily depend on the services of independent agents and brokers in the marketing of our insurance products. We face competition from other insurance companies for their services and allegiance. These agents and brokers may choose to direct business to competing insurance companies.

Our success is dependent upon our ability to effectively design and execute our business strategy and to adequately and appropriately serve our customers.

The Company depends upon the skill and work product of our officers and employees in executing our business strategy. While management and the Board monitor the strategic direction of the Company, strategic changes could be made that are not supportable by our capital base. In addition, our business could potentially be impacted if we are unable to align our strategy with the expectations of our stakeholders. The operations of the Company are also heavily dependent upon the delivery of superior customer service across a broad customer base, by which negative feedback from agents, insureds or internal staff could result in a loss of revenue for the Company.

Our business could be affected by the loss of one or more of our senior executives.

We are heavily dependent upon our senior management, and the loss of services of our senior executives could adversely affect our business. Our success has been, and will continue to be, dependent on our ability to retain the services of existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of key employees or senior managers, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of our business operations.

Our Board regularly reviews succession planning relating to our Chief Executive Officer as well as other senior officers. Mr. Starnes, our Chief Executive Officer and President, executed a new employment agreement effective June 1, 2015 which extends his service 5 years from the date of the agreement.

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Provisions in our charter documents, Delaware law and state insurance law may impede attempts to replace or remove management or may impede a takeover, which could adversely affect the value of our common stock.

Our certificate of incorporation, bylaws and Delaware law contain provisions that may have the effect of inhibiting a non-negotiated merger or other business combination. We currently have no preferred stock outstanding, and no present intention to issue any shares of preferred stock. In addition, our Corporate Governance Principles provide that the Board, subject to its fiduciary duties, will not issue any series of preferred stock for any defense or anti-takeover purpose, for the purpose of implementing any stockholders rights plan, or with features intended to make any acquisition more difficult or costly without obtaining stockholder approval. However, because the rights and preferences of any series of preferred stock may be set by the Board in its sole discretion, the rights and preferences of any such preferred stock may be superior to those of our common stock and thus may adversely affect the rights of the holders of common stock.

The voting structure of common stock and other provisions of our certificate of incorporation are intended to encourage a person interested in acquiring us to negotiate with, and to obtain the approval of, the Board in connection with a transaction. However, certain of these provisions may discourage our future acquisition, including an acquisition in which stockholders might otherwise receive a premium for their shares. As a result, stockholders who might desire to participate in such a transaction may not have the opportunity to do so.

In addition, state insurance laws provide that no person or entity may directly or indirectly acquire control of an insurance company unless that person or entity has received approval from the insurance regulator. An acquisition of control of ProAssurance would be presumed if any person or entity acquires 10% (5% in Alabama) or more of our outstanding common stock, unless the applicable insurance regulator determines otherwise. These provisions apply even if the offer may be considered beneficial by stockholders.

We are a holding company and are dependent on dividends and other payments from our operating subsidiaries, which are subject to dividend restrictions.

We are a holding company whose principal source of funds is cash dividends and other permitted payments from operating subsidiaries. If our subsidiaries are unable to make payments to us, or are able to pay only limited amounts, we may be unable to make payments on our indebtedness, meet other holding company financial obligations, or pay dividends to shareholders. The payment of dividends by these operating subsidiaries is subject to restrictions set forth in the insurance laws and regulations of their respective states of domicile, as discussed under the caption "Insurance Regulatory Matters."

Regulatory requirements or changes to regulatory requirements could have a material effect on our operations.

Our insurance businesses are subject to extensive regulation by state insurance authorities in each state in which they operate. Regulation is intended for the benefit of policyholders rather than shareholders. In addition to the amount of dividends and other payments that can be made to a holding company by insurance subsidiaries, these regulatory authorities have broad administrative and supervisory power relating to:

- licensing requirements;
- trade practices;
- capital and surplus requirements;
- investment practices; and
- rates charged to insurance customers.

These regulations may impede or impose burdensome conditions on rate changes or other actions that we may desire to take in order to enhance our results of operations. In addition, we may incur significant costs in the course of complying with regulatory requirements. Most states also regulate insurance holding companies like us in a variety of matters such as acquisitions, solvency and risk assessment, changes of control and the terms of affiliated transactions. Also, certain states sponsor insurance entities which affect the amount and type of liability coverages purchased in the sponsoring state. Changes to the number of state sponsored entities of this type could result in a large number of insureds changing the amount and type of coverage purchased from private insurance entities such as ProAssurance.

We own a subsidiary domiciled in the Cayman Islands and subject to the laws of the Cayman Islands and regulations promulgated by the CIMA. Failure to comply with these laws, regulations and requirements could result in consequences ranging from a regulatory examination to a regulatory takeover of our Cayman subsidiary, which could potentially impact profitability of alternative market solutions offered through this subsidiary.

Syndicate 1729 is regulated in the U.K. by the Prudential Regulation Authority and the Financial Conduct Authority. All Lloyd's syndicates must also comply with the bylaws and regulations established by the Council of Lloyd's. Failure to comply with bylaws and regulations could affect our ability to underwrite as a Lloyd's Syndicate in the future and therefore affect our profitability. Changes in bylaws and regulations could also affect the profitability of the operations.

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The European Union's executive body, the European Commission, has implemented new capital adequacy and risk management regulations called Solvency II that applies to businesses within the European Union. Solvency II became effective January 1, 2016. Syndicate 1729 follows the Solvency II compliance guidelines set out by the Council of Lloyd's.

As a member of the Lloyd's market and a capital provider to Lloyd's Syndicate 1729 we are subject to certain risks which could materially and adversely affect us.

As a member of the Lloyd's market we are obligated to contribute to the Lloyd's Central Fund and to pay levies to Lloyd's and also have our ongoing exposure to levies and charges in order to underwrite at Lloyd's. Whenever a member of Lloyd's is unable to pay its policyholder obligations, such obligations may be payable by the Lloyd's Central Fund. If Lloyd's determines that the Central Fund needs to be increased, it has the power to assess premium levies on current Lloyd's members up to 3% of a member's underwriting capacity in any one year. We do not believe that any assessment is likely in the foreseeable future and have not provided an allowance for such an assessment. However, based on our 2016 estimated underwriting capacity at Lloyd's of £51.8 million ($76.3 million based on the December 31, 2015 exchange rate), the December 31, 2015 exchange rate of $1.47 dollars per GBP and assuming the maximum 3% assessment, we could be assessed up to $2.3 million for the 2016 underwriting year.

As a participant in Lloyd's of London, Syndicate 1729 is subject to certain risks and uncertainties, including the following:

- its reliance on insurance and reinsurance brokers and distribution channels to distribute and market its products;
- its obligation to pay levies to Lloyd's;
- its obligations to maintain funds to support its underwriting activities in that its risk-based capital requirements are assessed periodically by Lloyd's and subject to variation;
- its ability to maintain liquidity to fund claims payments, when due;
- its ability to obtain reinsurance and retrocessional coverage to protect against adverse loss activity;
- its reliance on ongoing approvals from Lloyd's and various regulators to conduct its business, including a requirement that its Annual Business Plan be approved by Lloyd's before the start of underwriting for each account year;
- its financial strength rating is derived from the rating assigned to Lloyd's, although it has limited ability to directly affect the overall Lloyd's rating; and
- its reliance on Lloyd's trading licenses in order to underwrite business outside the U.K.

The guaranty fund assessments that we are required to pay to state guaranty associations may increase or our participation in mandatory risk retention pools could be expanded and our results of operations and financial condition could suffer as a result.

Each state in which we operate has separate insurance guaranty fund laws requiring admitted property and casualty insurance companies doing business within their respective jurisdictions to be members of their guaranty associations. These associations are organized to pay covered claims (as defined and limited by the various guaranty association statutes) under insurance policies issued by insurance companies that have become insolvent. Most guaranty association laws enable the associations to make assessments against member insurers to obtain funds to pay covered claims after a member insurer becomes insolvent. These associations levy assessments (up to prescribed limits) on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments generally vary between 1% and 2% of annual premiums written by a member in that state. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process. We had no significant guaranty fund recoupments or assessments in 2015, 2014 or 2013. Our practice is to accrue for insurance insolvencies when notified of assessments. We are not able to reasonably estimate assessments or develop a meaningful range of possible assessments prior to notice because the guaranty funds do not provide sufficient information for development of such estimates or ranges.

Certain states have established risk pooling mechanisms that offer insurance coverage to individuals or entities who are otherwise unable to purchase coverage from private insurers. Authorized property and casualty insurers in these states are generally required to share in the underwriting results of these pooled risks, which are typically adverse. Should our mandatory participation in such pools be increased or if the assessments from such pools increased, our results of operations and financial condition would be negatively affected, although that was not the case in 2015, 2014 or 2013.

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Our investment results will fluctuate as interest rates change.

Our investment portfolio is primarily comprised of interest-earning assets, marked to market each period. Thus, prevailing economic conditions, particularly changes in market interest rates, may significantly affect our results of operations. Significant movements in interest rates potentially expose us to lower yields or lower asset values. Changes in market interest rate levels generally affect our net income to the extent that reinvestment yields are different than the yields on maturing securities. Changes in interest rates also can affect the value of our interest-earning assets, which are principally comprised of fixed and adjustable-rate investment securities. Generally, the values of fixed-rate investment securities fluctuate inversely with changes in interest rates. Interest rate fluctuations could adversely affect our stockholders' equity, income and/or cash flows.

Our investments are subject to credit, prepayment and other risks.

A significant portion of our total assets ($3.7 billion or 74%) at December 31, 2015 are financial instruments whose value can be significantly affected by economic and market factors beyond our control including, among others, the unemployment rate, the strength of the domestic housing market, the price of oil, changes in interest rates and spreads, consumer confidence, investor confidence regarding the economic prospects of the entities in which we invest, corrective or remedial actions taken by the entities in which we invest, including mergers, spin-offs and bankruptcy filings, the actions of the U.S. government, and global perceptions regarding the stability of the U.S. economy. Adverse economic and market conditions could cause investment losses or other-than-temporary impairments of our securities, which could affect our financial condition, results of operations, or cash flows.

At December 31, 2015 approximately 10% of our investment portfolio was invested in mortgage and asset-backed securities. We utilize ratings determined by NRSROs (Moody's, Standard & Poor's, and Fitch) as an element of our evaluation of the credit worthiness of our securities. The ratings are subject to error by the agencies; therefore, we may be subject to additional credit exposure should the rating be misstated.

Our asset-backed securities are also subject to prepayment risk. A prepayment is the unscheduled return of principal. When rates decline, the propensity for refinancing may increase and the period of time we hold our asset-backed securities may shorten due to prepayments. Prepayments may cause us to reinvest cash proceeds at lower yields than the retired security. Conversely, as rates increase, and motivations for prepayments lessen, the period of time over which our asset-backed securities are repaid may lengthen, causing us to not reinvest cash flows at the higher available yields.

At December 31, 2015 the fair value of our state/municipal portfolio was $0.9 billion (amortized cost basis of $0.9 billion). While our state/municipal portfolio had a high credit rating (AA on average), which indicates a strong ability to pay, there is no assurance that there will not be a credit related event which would cause fair values to decline. An economic downturn could lessen tax receipts and other revenues in many states and their municipalities and the frequency of credit downgrades of these entities has increased.

Our tax credit partnership interests are subject to risks related to the potential forfeiture of the tax credits and all or a portion of the previously claimed tax credits. Loss of all or a portion of the tax credits might occur if the property owner fails to meet the specified requirements of planning and constructing or, in the case of the qualified affordable housing project tax credits, fails to operate the property as required or below expected capacity. At December 31, 2015 the carrying value of our tax credit partnership interests was approximately $129.9 million.

In a period of market illiquidity and instability, the fair values of our investments are more difficult to assess and our assessments may prove to be greater or less than amounts received in actual transactions.

In accordance with applicable GAAP, we value 93% of our investments at fair value and the remaining 7% at cost, equity, or cash surrender value. See Notes 1, 3 and 4 of the Notes to Consolidated Financial Statements for additional information.

We determine the fair value of our investments using quoted exchange or over-the-counter prices, when available. At December 31, 2015, we valued approximately 11% of our investments in this manner. When exchange or over-the-counter quotes are not available, we estimate fair values based on broker dealer quotes and various other valuation methodologies, which may require us to choose among various input assumptions and which requires us to utilize judgment. At December 31, 2015 approximately 78% of our investments were valued in this manner. When markets exhibit significant volatility, there is more risk that we may utilize a quoted market price, broker dealer quote, valuation technique or input assumption that results in a fair value estimate that is either over or understated as compared to actual amounts that would be received upon disposition or maturity of the security. At December 31, 2015 approximately 4% of our investments are investment funds which measure fund assets at fair value on a recurring basis and provide us with a NAV for our interest. As a practical expedient, we consider the NAV provided to approximate the fair value of the interest. NAV is provided by the asset managers and in some cases estimates are used for valuation and are subject to variations depending on those estimates.

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Our Board may decide that our financial condition does not allow the continued payment of a quarterly cash dividend, or requires that we reduce the amount of our quarterly cash dividend.

Our Board approved a cash dividend policy in September 2011, and most recently paid a $1.31 per share dividend for the three months ended December 31, 2015, which included a $1.00 special dividend. However, any decision to pay future cash dividends is subject to the Board's final determination after a comprehensive review of the Company's financial performance, future expectations and other factors deemed relevant by the Board.

Our ability to issue additional debt or letters of credit or other types of indebtedness on terms consistent with current debt is subject to market conditions, economic conditions at the time of proposed issuance, and the results of ratings reviews. Also, our current credit agreement requires that our debt to capital ratio be 0.35 to 1.0 or less, and the issuance of debt by one of our insurance subsidiaries requires regulatory approval, both of which may limit or prohibit the issuance of additional debt.

During 2013 we issued $250 million of unsecured Senior Notes Payable due in 2023 at a 5.3% interest rate. There is no guarantee that additional debt could be issued on similar terms in the future as rates available to us may change due to changes in the economic climate or shifts in the yield curve may occur or an increase in our level of debt may result in rating agencies lowering our debt rating. Also, our insurance subsidiaries must obtain regulatory approval before incurring additional debt. A further restriction is that our credit facility agreement requires that our consolidated debt to capital ratio (0.18 to 1.0 at December 31, 2015) be 0.35 to 1.0 or less.

Resolution of uncertain tax matters and changes in tax laws or taxing authority interpretations of tax laws could result in actual tax benefits or deductions that are different than we have estimated, both with regard to amounts recognized and the timing of recognition. Such differences could affect our results of operations or cash flows.

Our provision for income taxes, our recorded tax liabilities and net deferred tax assets, including any valuation allowances, are recorded based on estimates. These estimates require us to make significant judgments regarding a number of factors, including, among others, the applicability of various federal and state laws, the interpretations given to those tax laws by taxing authorities, courts and the Company, the timing of future income and deductions, and our expected levels and sources of future taxable income. We believe our tax positions are supportable under tax laws and that our estimates are prepared in accordance with GAAP. Additionally, from time to time there are changes to tax laws and interpretations of tax laws which could change our estimates of the amount of tax benefits or deductions expected to be available to us in future periods. In either case, changes to our prior estimates would be reflected in the period changed and could have a material effect on our effective tax rate, financial position, results of operations and cash flow. The reinsurance portion of our workers' compensation business is domiciled in the Cayman Islands. Changes in Cayman Island tax laws could result in the loss of profitability of that business.

We are subject to U.S. federal and various state income taxes. We are periodically under routine examination by various federal, state and local authorities regarding income tax matters and our tax positions could be successfully challenged; the costs of defending our tax positions could be considerable. Our estimate of our potential liability for known uncertain tax positions is reflected in our financial statements. As of December 31, 2015 we had a federal income tax receivable of approximately $16.4 million. We also had a liability for unrecognized current tax benefits of $8.2 million, and we had a net deferred tax liability of approximately $15.1 million.

New or changes in existing accounting standards, practices and/or policies, as well as subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results or our ability to maintain investor confidence and shareholder value.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, estimation of losses, determination of fair value, asset impairment (particularly investment securities and goodwill) and tax matters, are highly complex and involve many subjective assumptions, estimates and judgments. Changes in these rules or their interpretation or changes in underlying assumptions, estimates, or judgments could significantly change our reported or expected financial performance or financial condition. See Note 1 of the Notes to Consolidated Financial Statements for a description of our significant accounting policies.

ProAssurance is primarily a holding company of insurance subsidiaries which are required to comply with SAP. SAP and its components are subject to review by the NAIC and state insurance departments. The NAIC Accounting

Practices and Procedures Manual provides that a state insurance department may allow insurance companies that are domiciled in that state to depart from SAP by granting them permitted non-SAP accounting practices. This permission may permit a competitor or competitors to use a more favorable accounting policy.

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It is uncertain whether or how SAP might be revised or whether any revisions will have a positive or negative effect. It is also uncertain whether any changes to SAP or its components or any permitted non-SAP accounting practices granted to our competitors will negatively affect our financial results or operations. See the Insurance Regulatory Matters section in Item 1 for the full discussion on regulatory matters.

Our interpretation, integration and/or compliance with new or changes to existing pronouncements by GAAP or SAP could materially impact us as a publicly traded company as it relates to investor confidence and shareholder value.

We are subject to numerous NYSE and SEC regulations including insider trading regulations, Regulation FD, and regulations requiring timely and accurate reporting of our operating results as well as certain events and transactions. Non-compliance with these regulations could subject us to enforcement actions by the NYSE or the SEC, and could affect the value of our shares and our ability to raise additional capital.

The Company carefully adheres to NYSE and SEC requirements as the loss of trading privileges on the NYSE or an SEC enforcement action could have a significant financial impact on the Company. Failure to comply with various SEC reporting and record keeping requirements could result in a decline in the value of our stock or a decline in investor confidence which could directly impact our ability to efficiently raise capital. Failure to adhere to NYSE requirements could result in fines, trading restriction or delisting.

The operations of the Company are heavily reliant upon the Company's reputation as an ethical business organization providing needed services to its customers.

The Company's positive reputation is critical to its role as an insurance provider and as a publicly traded company. The Board adopted a Code of Ethics and Conduct and management is heavily focused on the integrity of our employees and third party suppliers, agents or brokers. Illegal, unethical or fraudulent activities perpetrated by an employee or one of our third party agencies or brokers for personal gain could expose the Company to a potential financial loss.

A natural disaster or pandemic event, or closely related series of events, could cause loss of lives or a substantial loss of property or operational ability at one or more of the Company's facilities.

The Company's disaster preparedness encompasses our Business Continuity Plan, Disaster Recovery Plan, Operations Plan, and Pandemic Response Plan. Our disaster preparedness is focused on maintaining the continuity of the Company's data processing and telephone capabilities as well as the use of alternate and temporary facilities in the event of a natural disaster or medical event. The Company's plans are reviewed during the insurance department examinations of the statutory insurance companies. While the Company has plans in place to respond to both short- and long-term disaster scenarios, the loss of certain key operating facilities or data processing capabilities could have a significant impact on Company operations.

The operations of the Company are dependent upon the availability, integrity and security of our internal technology infrastructure and that of certain third parties. Any significant disruption of these infrastructures could result in unauthorized access to Company data or reduce our ability to conduct business effectively, or both.

The Company is dependent upon its technology infrastructure and that of certain third parties to operate and report financial and other Company information accurately and timely. The Company has focused resources on securing and preserving the integrity of our data processing systems and related data. Additionally, the Company evaluates the integrity and security of the technology infrastructure of third parties that process or store data that the Company considers to be significant. However, there is no guarantee that measures taken to date will completely prevent possible disruption, damage or destruction by intentional or unintentional acts or events such as cyber-attacks, viruses, sabotage, human error, system failure or the occurrence of numerous other human or natural events. Disruption, damage or destruction of any of our systems or data could cause our normal operations to be disrupted or unauthorized internal or external knowledge or misuse of confidential Company data could occur, all of which could be harmful to the Company from both a financial and reputational perspective.

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ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We own four office properties, all of which are unencumbered:

Property Location	Square Footage of Properties		
	Occupied by ProAssurance	Leased or Available for Lease	Total
Birmingham, AL*	104,000	61,000	165,000
Franklin, TN	52,000	51,000	103,000
Okemos, MI	53,000	—	53,000
Madison, WI	38,000	—	38,000

* Corporate Headquarters

ITEM 3. LEGAL PROCEEDINGS.

Our insurance subsidiaries are involved in various legal actions, a substantial number of which arise from claims made under insurance policies. While the outcome of all legal actions is not presently determinable, management and its legal counsel are of the opinion that these actions will not have a material adverse effect on our financial position or results of operations. See Note 9 of the Notes to Consolidated Financial Statements included herein.

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EXECUTIVE OFFICERS OF PROASSURANCE CORPORATION

The executive officers of ProAssurance Corporation serve at the pleasure of the Board. We have a knowledgeable and experienced management team with established track records in building and managing successful insurance operations. Following is a brief description of each executive officer of ProAssurance, including their principal occupation, and relevant background with ProAssurance and former employers.

W. Stancil Starnes	Mr. Starnes was appointed as Chief Executive Officer in 2007 and has served as the Chairman of the Board since 2008. In 2012 he was appointed President of ProAssurance. Mr. Starnes previously served as President, Corporate Planning and Administration of Brasfield & Gorrie, Inc., a large national commercial contractor. Prior to 2006, Mr. Starnes served as the Senior and Managing Partner of the law firm of Starnes & Atchison, LLP, where he was extensively involved with ProAssurance and its predecessors in the defense of healthcare professional liability claims for over 25 years. Mr. Starnes currently serves as a director of Infinity Property and Casualty Corporation, a public insurance holding company, where he serves on the Audit and Investment Committees. He is also on the Board of Directors of National Commerce Corporation, located in Birmingham, Alabama, where he serves as Chairman of the Nominating and Corporate Governance Committee, Chairman of the Pricing Committee and is a member of the Compensation Committee. (Age 67)
Howard H. Friedman	Mr. Friedman was appointed as President of our Healthcare Professional Liability Group in 2014, and is also our Chief Underwriting Officer and Chief Actuary. Mr. Friedman has previously served as a Co-President of our Professional Liability Group, Chief Financial Officer, Corporate Secretary, and as the Senior Vice President of Corporate Development. Mr. Friedman joined our predecessor in 1996. Mr. Friedman is an Associate of the Casualty Actuarial Society and a member of the American Academy of Actuaries. (Age 57)
Jeffrey P. Lisenby	Mr. Lisenby was appointed as an Executive Vice President in 2014 and is also our General Counsel, Corporate Secretary and head of the corporate Legal Department. Mr. Lisenby has previously served as Senior Vice President. Prior to joining ProAssurance, Mr. Lisenby practiced law privately in Birmingham, Alabama. Mr. Lisenby is a member of the Alabama State Bar and the United States Supreme Court Bar and is a Chartered Property Casualty Underwriter. (Age 47)
Edward L. Rand, Jr.	Mr. Rand was appointed as an Executive Vice President in 2014 and is also our Chief Financial Officer. Mr. Rand previously served as our Senior Vice President of Finance upon joining ProAssurance in 2004. Prior to joining ProAssurance, Mr. Rand was the Chief Accounting Officer and Head of Corporate Finance for PartnerRe Ltd. Prior to that time Mr. Rand served as the Chief Financial Officer of Atlantic American Corporation. (Age 49)
Frank B. O’Neil	Mr. O’Neil was appointed as our Senior Vice President and Chief Communications Officer in 2001. Mr. O’Neil has previously served as our Senior Vice President of Corporate Communications, having joined our predecessor in 1987. (Age 62)
Michael L. Boguski	Mr. Boguski is President of our Eastern subsidiary. Prior to the acquisition of Eastern, Mr. Boguski served as President and Chief Executive Officer of Eastern, and first joined Eastern in 1997. (Age 53)

Mary Todd Peterson	Ms. Peterson is President of our Medmarc subsidiary. Prior to the acquisition of Medmarc, Ms. Peterson served as Medmarc's President and Chief Executive Officer. She previously served as Medmarc's Senior Vice President and Chief Operating Officer as well as its Senior Vice President, Chief Financial Officer and Treasurer. Ms. Peterson serves on the Board of Governors for the Property Casualty Insurance Association of America where she serves on the Investment and Finance Committees. Ms. Peterson also serves on the Board of Directors of The Community Financial Corporation where she chairs the Audit Committee. (Age 61)
Ross E. Taubman	Dr. Taubman is President and Chief Medical Officer of our PICA subsidiary. Prior to joining PICA, Dr. Taubman practiced podiatry for 26 years. During that time, Dr. Taubman served as Treasurer, Vice-President and President of the Maryland Podiatric Medical Association. Dr. Taubman is a diplomate in the American Board of Podiatric Surgery. (Age 58)
Kelly B. Brewer	Ms. Brewer was appointed as our Chief Accounting Officer in 2014 and has served as our Vice President of Finance since joining ProAssurance in 2008. Prior to joining ProAssurance, Ms. Brewer was a Senior Manager for PricewaterhouseCoopers for four years. Prior to that time Ms. Brewer served financial services clients in audit and forensic accounting engagements for five years. Ms. Brewer is a Certified Public Accountant. (Age 40)

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We have adopted a Code of Ethics and Conduct that applies to our directors and executive officers, including but not limited to our principal executive officers, principal financial officer, and principal accounting officer. We also have share ownership guidelines in place to ensure that management maintains a significant portion of their personal investments in the stock of ProAssurance. Both our Code of Ethics and Conduct and our Share Ownership Guidelines are available on the Governance section of our website. Printed copies of these documents may be obtained from Frank O'Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

At February 19, 2016, ProAssurance Corporation had 2,772 stockholders of record and 53,081,080 shares of common stock outstanding. ProAssurance's common stock currently trades on the NYSE under the symbol "PRA."

	2015		2014	
Quarter	High	Low	High	Low
First	$46.56	$44.33	$48.11	$42.90
Second	46.93	43.73	45.79	43.71
Third	50.24	47.10	46.58	43.63
Fourth	53.42	48.24	48.08	43.78

	Dividends Declared		Dividends Paid	
Quarter	2015	2014	2015	2014
First	$0.31	$0.30	$2.96	$0.30
Second	0.31	0.30	0.31	0.30
Third	0.31	0.30	0.31	0.30
Fourth*	1.31	2.96	0.31	0.30

* Includes a special dividend of $1.00 per common share in 2015 and $2.65 per common share in 2014.

The Board declared a quarterly dividend in each quarter of 2015 and 2014. The dividends were paid in the month after the quarter ended. The Board also declared special dividends of $1.00 and $2.65 per common share in the fourth quarters of 2015 and 2014, respectively, both of which were paid in January of the following year. Any decision to pay regular or special cash dividends in the future is subject to the Board's final determination after a comprehensive review of financial performance, future expectations and other factors deemed relevant by the Board.

ProAssurance's insurance subsidiaries are subject to restrictions on the payment of dividends to the parent. Information regarding restrictions on the ability of the insurance subsidiaries to pay dividends is incorporated herein by reference from the paragraphs under the caption "Insurance Regulatory Matters–Regulation of Dividends and Other Payments from Our Operating Subsidiaries" in Item 1 of this 10-K.

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Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information regarding ProAssurance's equity compensation plans as of December 31, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)		(c)
Equity compensation plans approved by security holders	743,003	$25.02	*	2,400,000
Equity compensation plans not approved by security holders	—	—		—

* Applicable only to approximately 2,000 outstanding options. Other outstanding share units have no exercise price.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs * (in thousands)
October 1 – 31, 2015	47,600	$48.88	47,600	$114,036
November 1 – 30, 2015	—	N/A	—	$114,036
December 1 – 31, 2015	47,100	$48.55	47,100	$111,749
Total	94,700	$48.72	94,700	

* Under its current plan begun in November 2010, the ProAssurance Board of Directors has authorized $600 million for the repurchase of common shares or the retirement of outstanding debt, including $100 million authorized in May 2015. This is ProAssurance's only plan for the repurchase of common shares, and the plan has no expiration date.

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ITEM 6. SELECTED FINANCIAL DATA.

	Year Ended December 31				
(In thousands except per share data)	2015	2014	2013	2012	2011
Selected Financial Data (1)					
Gross premiums written	$812,218	$779,609	$567,547	$536,431	$565,895
Net premiums earned	694,149	699,731	527,919	550,664	565,415
Net investment income	108,660	125,557	129,265	136,094	140,956
Equity in earnings (loss) of unconsolidated subsidiaries	3,682	3,986	7,539	(6,873)	(9,147)
Net realized investment gains (losses)	(41,639)	14,654	67,904	28,863	5,994
Other revenues	7,227	8,398	7,551	7,106	13,566
Total revenues	772,079	852,326	740,178	715,854	716,784
Net losses and loss adjustment expenses	410,711	363,084	224,761	179,913	162,287
Net income (2)	$116,197	$196,565	$297,523	$275,470	$287,096
Net income per share (3):					
Basic	$2.12	$3.32	$4.82	$4.49	$4.70
Diluted	$2.11	$3.30	$4.80	$4.46	$4.65
Weighted average shares outstanding (3):					
Basic	54,795	59,285	61,761	61,342	61,140
Diluted	55,017	59,525	62,020	61,833	61,684
Balance Sheet Data, as of December 31					
Total investments	$3,650,130	$4,009,707	$3,941,045	$3,926,902	$4,090,541
Total assets	4,908,163	5,169,160	5,150,099	4,876,578	4,998,878
Reserve for losses and loss adjustment expenses	2,005,326	2,058,266	2,072,822	2,054,994	2,247,772
Debt	350,000	250,000	250,000	125,000	49,687
Total liabilities	2,949,809	3,011,216	2,755,685	2,605,998	2,834,425
Total capital	$1,958,354	$2,157,944	$2,394,414	$2,270,580	$2,164,453
Total capital per share of common stock outstanding (3)	$36.88	$38.17	$39.13	$36.85	$35.42
Common stock outstanding, period end (3)	53,101	56,534	61,197	61,624	61,107

(1) Includes acquired entities since date of acquisition only.

(2) Includes a gain on acquisition of $32.3 million for the year ended December 31, 2013 and a loss on extinguishment of debt of $2.2 million for the year ended December 31, 2012.

(3) For all periods presented, share and per share amounts reflect the effect of the two-for-one stock split effected in the form of a stock dividend that was effective December 27, 2012.

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

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

ProAssurance Overview

We are an insurance holding company and our operating results are primarily derived from the operations of our insurance subsidiaries, which provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys, liability insurance for medical technology and life sciences risks and workers' compensation insurance. We are also a 58% capital provider to Syndicate 1729, which began insuring and reinsuring a range of property and casualty insurance lines effective January 1, 2014.

We report our results in four distinct segments, based on the operational focus of the segment. Our Specialty P&C segment includes our professional liability business and our medical technology and life sciences business. Our Workers' Compensation segment includes the business acquired through our January 1, 2014 purchase of Eastern and includes workers' compensation insurance for employers, groups and associations. Our Lloyd's Syndicate segment reflects operating results from our participation in Lloyd's Syndicate 1729, which began operations January 1, 2014. Information regarding Lloyd's operations derived from U.K. based entities is reported on a quarter delay, although investment results associated with our FAL investments are reported concurrently as those results are available on an earlier time frame. Our Corporate segment includes our U.S. investment operations which are managed at the corporate level, non-premium revenues generated outside of our insurance entities, corporate expenses, interest and U.S. income taxes. Additional information regarding our segments is included in Note 15 of the Notes to Consolidated Financial Statements and in Part I.

Growth Opportunities and Outlook

We expect our long-term growth to come through controlled expansion of our existing operations and through the acquisition of other specialty insurance companies or books of business. Growth through acquisition is often opportunistic and cannot be predicted.

We operate in very competitive markets and face strong competition from other insurance companies for all of our insurance products. HCPL insurance represents a significant portion of our gross premiums written (55% in 2015, excluding tail) and the healthcare market has been trending toward the formation of larger medical practice groups, and the employment of physicians by hospitals. Large medical groups and facilities frequently manage their healthcare professional liability exposure outside of the traditional insurance marketplace using self-insured mechanisms and other risk sharing arrangements. In response to these trends, we offer products designed to provide greater risk sharing options to hospitals and large physician groups.

We expanded our lines of business in new directions by acquiring Eastern, a provider of workers' compensation insurance, on January 1, 2014. We have also been a consistent acquirer of other physician insurers, completing four acquisitions between 2009 and 2013 as well as acquiring an agency largely focused on the professional liability needs of allied healthcare providers and an insurer focused on the legal professional liability market. We continue to see new opportunities from each of the acquisitions and believe each will provide organic growth through expansion in their existing markets and relationships.

Late in 2013, we completed the process of becoming a corporate member of Lloyd's of London, an internationally recognized specialist insurance market. We are the majority (58%) capital provider to Syndicate 1729, which began insuring and reinsuring business as of January 1, 2014. Syndicate 1729 covers a range of property and casualty insurance and reinsurance lines, and has a maximum underwriting capacity of £90 million ($132.6 million at December 31, 2015) for the 2016 underwriting year, of which £51.8 million ($76.3 million at December 31, 2015) is our allocated underwriting capacity as a corporate member.

We believe our emphasis on fair treatment of our insureds and other important stakeholders through our commitment to “Treated Fairly” has enhanced our market position and differentiated us from other insurers. We will continue to practice the values of “Treated Fairly” in all of our activities, and we believe that as we reach more customers with this message we will continue to improve retention and add new insureds.

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Key Performance Measures

We have sustained our financial stability during difficult market conditions through responsible underwriting, pricing and loss reserving practices and through conservative investment practices. We are committed to maintaining prudent operating and financial leverage and to conservatively investing our assets. We recognize the importance that our customers and producers place on the financial strength of our insurance subsidiaries and we manage our business to protect our financial security.

We consider a number of performance measures, including the following:

- The net loss ratio is calculated as net losses incurred divided by net premiums earned and is a component of underwriting profitability.
- The underwriting expense ratio is calculated as underwriting, policy acquisition and operating expenses incurred divided by net premiums earned and is a component of underwriting profitability.
- The combined ratio is the sum of the net loss ratio and the underwriting expense ratio and measures underwriting profitability.
- The investment income ratio is calculated as net investment income divided by net premiums earned and measures the contribution investment earnings provides to our overall profitability.
- The operating ratio is the combined ratio, less the investment income ratio. This ratio provides the combined effect of underwriting profitability and investment income.
- The tax ratio is calculated as total income tax expense divided by income (loss) before income taxes and measures our effective tax rate.
- ROE is calculated as net income for the period divided by the average of beginning and ending shareholders' equity. This ratio measures our overall after-tax profitability and shows how efficiently capital is being used.
- Growth in book value. Book value per share is calculated as total shareholders' equity at the balance sheet date divided by the total number of common shares outstanding. This ratio measures the net worth of the company to shareholders on a per-share basis. The declaration of dividends decreases book value per share. Growth in book value per share, adjusted for dividends declared, is an indicator of overall profitability.

We particularly focus on our combined ratio and investment returns, both of which directly affect our ROE and growth in our book value. Historically we have targeted a long-term average ROE of 12% to 14%. Due to the current prevailing economic conditions in which we operate, including the persistent low interest rate environment, the soft pricing environment for our products, and over-capitalization within the insurance market, we were unable to achieve this target in either 2014 or 2015. To the extent that these economic impediments persist, we believe that realization of this long-term ROE target will continue to prove difficult.

Our emphasis on rate adequacy, selective underwriting, effective claims management and prudent investments is a key factor in our ability to achieve our ROE target. We closely monitor premium revenues, losses and loss adjustment costs, and underwriting and policy acquisition expenses. Our overall investment strategy is to focus on maximizing current income from our investment portfolio while maintaining safety, liquidity, duration and portfolio diversification. While we engage in activities that generate other income, such activities, principally insurance agency services, do not constitute a significant use of our resources or a significant source of revenues or profits.

Critical Accounting Estimates

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

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

Reserve for Losses and Loss Adjustment Expenses

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

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As of December 31, 2015 our reserve is almost entirely comprised of long-tail exposures. The estimation of long-tailed losses is inherently difficult and is subject to significant judgment on the part of management. Due to the nature of our claims, our loss costs, even for claims with similar characteristics, can vary significantly depending upon many factors, including but not limited to the specific characteristics of the claim and the manner in which the claim is resolved. Long-tailed insurance is characterized by the extended period of time typically required to assess the viability of a claim, potential damages, if any, and to then reach a resolution of the claim. It is not unusual for the claims resolution process to extend more than five years. The combination of continually changing conditions and the extended time required for claim resolution results in a loss cost estimation process that requires actuarial skill and the application of significant judgment, and such estimates require periodic modification.

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

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

Our reserving process can be broadly grouped into three areas: the establishment of the initial reserve for risks assumed in business combinations (the acquired reserve), the establishment of the reserve for the current accident year (the initial reserve) and the re-estimation of the reserve for prior accident years (development of prior accident years). A summary of the activity in our net reserve for losses during 2015, 2014 and 2013 is provided in the Liquidity and Capital Resources and Financial Condition section that follows under the heading "Losses."

Acquired Reserve

The acquisition of Eastern, which specializes in workers' compensation insurance and reinsurance, on January 1, 2014 increased our loss reserve by $153.2 million which represented the fair value of Eastern's loss reserve at the time of the acquisition. The fair value of the reserve for losses and loss adjustment expenses and related reinsurance recoverables was based on an actuarial estimate of the expected future net cash flows, a reduction of those cash flows for the time value of money determined utilizing the U.S. Treasury Yield Curve, and a risk adjustment to reflect the net present value of profit that an investor would demand in return for the assumption of the associated risks. Expected net cash flows were derived from the expected loss payment patterns included in an actuarial analysis of Eastern's reserve performed as of December 31, 2013. The fair value of the reserve, including the risk margin discussed above, exceeded the undiscounted loss reserve previously established by Eastern by $9.3 million; this fair value adjustment is being amortized over the average expected life of the reserve of 6 years. The balance of the acquired reserve as of December 31, 2015 was $6.2 million.

Current Accident Year - Initial Reserve

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

Specialty P&C Segment. Professional and medical technology liability loss costs are impacted by many factors, including but not limited to, the nature of the claim, including whether or not the claim is an individual or a mass tort claim, the personal situation of the claimant or the claimant's family, the outcome of jury trials, the legislative and judicial climate where any potential litigation may occur, general economic conditions and, for claims involving bodily injury, the trend of healthcare costs. Within our Specialty P&C segment, for our HCPL business (79% of our consolidated gross reserve for losses and loss adjustment expenses for the year ended December 31, 2015), we set an initial reserve using the average loss ratio used in our pricing, plus an additional provision in consideration of the historical loss volatility we and others in the industry have experienced. For our HCPL business our target loss ratio during recent accident years has approximated 75% and the provision

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for loss volatility has ranged from 8 to 10 percentage points, producing an overall average initial loss ratio for our HCPL business of approximately 85%. We believe use of a provision for volatility appropriately considers the inherent risks and limitations of our rate development process and the historic volatility of professional liability losses (the industry has experienced accident year loss ratios as high as 163% and as low as 53% over the past 30 years) and produces a reasonable best estimate of the reserve required to cover actual ultimate unpaid losses. A similar practice is followed for our legal professional liability business (5% of our consolidated gross reserve for losses and loss adjustment expenses for the year ended December 31, 2015).

The risks insured in our medical technology liability business (6% of our consolidated gross reserve for losses and loss adjustment expenses for the year ended December 31, 2015) are more varied, and policies are individually priced based on the risk characteristics of the policy. These policies often have significant deductibles or self-insured retentions and the insured risks range from startup operations to large, multinational entities. Premiums are established using our most recently developed actuarial estimates of losses expected to be incurred based on factors which include: results from prior analysis of similar business, industry indications, observed trends and judgment. Claims in this line of business primarily involve bodily injury to individuals and are affected by factors similar to those of our HCPL line of business. For the medical technology liability business, we also establish an initial reserve using a loss ratio approach, including a provision in consideration of historical loss volatility that this line of business has exhibited.

Workers' Compensation Segment. Many factors affect the ultimate losses incurred for our workers' compensation coverages (9% of our consolidated gross reserve for losses and loss adjustment expenses for the year ended December 31, 2015), including, but not limited to, the type and severity of the injury, the age and occupation of the injured worker, the estimated length of disability, medical treatment and related costs, and the jurisdiction and workers' compensation laws of the injury occurrence. We use various actuarial methodologies, described below, in developing our workers' compensation reserve, combined with a review of the exposure base generally based upon payroll. For the current accident year, given the lack of seasoned information, the different actuarial methodologies produce results with significant variability; therefore, more emphasis is placed on supplementing results from the actuarial methodologies with trends in exposure base, medical expense inflation, general inflation, severity, and claim counts, among other things, to select an expected loss ratio.

Development of Prior Accident Years

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

The foundation of our reserve re-estimation process is an actuarial analysis that is performed by both our internal and consulting actuaries. This very detailed analysis projects ultimate losses on a line of business, geographic, coverage layer and accident year basis. The procedure uses the most representative data for each partition, capturing its unique patterns of development and trends. In all there are over 180 different partitions of our business for purposes of this analysis. We believe that the use of consulting actuaries provides an independent view of our loss data as well as a broader perspective on industry loss trends.

For both the Specialty P&C and Workers' Compensation segments the analysis performed by the consulting actuaries analyzes each partition of our business in a variety of ways and uses multiple actuarial methodologies in performing these analyses, including:

- Bornhuetter-Ferguson (Paid and Reported) Method
- Paid Development Method
- Reported Development Method
- Average Paid Value Method
- Average Reported Value Method
- Backward Recursive Development Method
- The Adjusted Reported and the Adjusted Paid Methods

A brief description of each method follows.

Bornhuetter-Ferguson Method. We use both the Paid and the Reported Bornhuetter-Ferguson methods. The Paid method assigns partial weight to initial expected losses for each accident year (initial expected losses being the first established case and IBNR reserves for a specific accident year) and partial weight to paid to-date losses. The Reported method assigns partial weight to the initial expected losses and partial weight to current expected losses. The weights assigned to the initial expected losses decrease as the accident year matures.

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Paid Development and Reported Development Method. These methods use historical, cumulative losses (paid losses for the Paid Development Method, reported losses for the Reported Development Method) by accident year and develop those actual losses to estimated ultimate losses based upon the assumption that each accident year will develop to estimated ultimate cost in a manner that is analogous to prior years, adjusted as deemed appropriate for the expected effects of known changes in the claim payment environment (and case reserving environment for the Reported Development Method), and, to the extent necessary, supplemented by analyses of the development of broader industry data.

Average Paid Value and Average Reported Value Methods. In these methods, average claim cost data (paid claim cost for the Average Paid Value Method and reported claim cost for the Reported Value Method) is developed to an ultimate average cost level by report year based on historical data. Claim counts are similarly developed to an ultimate count level. The average claim cost (after rounding and adjustment, if necessary, to accommodate report year data that is not considered to be predictive) is then multiplied by the ultimate claim counts by report year to derive ultimate loss and ALAE.

Backward Recursive Development Method. This method is an extrapolation of the movements in case reserve adequacy in order to estimate unpaid loss costs. Historical data showing incremental changes to case reserves over progressive time periods is used to derive factors that represent the ratio of case reserve values at successive maturities. Historical claims payment data showing the additional payments in progressive time periods is used to derive factors that represent the portion of a case reserve paid in the following period. Starting from the most mature period, after which all of the case reserve is paid and the case reserve is exhausted, the next prior ultimate development factor for the prior case reserve can be calculated as the case factor times the established ultimate development factor plus the paid factor. For each successive prior maturity, the ultimate development factor is calculated similarly. The result of multiplying the ultimate development factor times the case reserve is the total indicated unpaid amount.

The Adjusted Reported and the Adjusted Paid Methods. These methods are based on the premise that the relative change in a given accident year's adjusted reported loss estimates (Adjusted Reported Method) or adjusted paid losses (Adjusted Paid Method) from one evaluation point to the next is similar to changes observed for earlier accident years at the same evaluation points. In the Adjusted Reported Method reported loss estimates are adjusted to reflect a common case reserve adequacy basis. In the Adjusted Paid Method, the historical paid loss experience is adjusted to reflect a common claim settlement rate basis. We principally use these methods to evaluate reserves for our legal liability coverages.

Generally, methods such as the Bornhuetter-Ferguson method are used on more recent accident years where we have less data on which to base our analysis. As time progresses and we have an increased amount of data for a given accident year, we begin to give more confidence to the development and average methods, as these methods typically rely more heavily on our own historical data. These methods emphasize different aspects of loss reserve estimation and provide a variety of perspectives for our decisions.

Certain of the methodologies utilized to estimate the ultimate losses for each partition of our reserves consider the actual amounts paid. Paid data is particularly influential when a large portion of known claims have been closed, as is the case for older accident years. In selecting a point estimate for each partition, management considers the extent to which trends are emerging consistently for all partitions and known industry trends. Thus, actual, rather than estimated severity trends are given more consideration. If actual severity trends are lower than those estimated at the time that reserves were previously established, the recognition of favorable development is indicated. This is particularly true for older accident years where our actuarial methodologies give more weight to actual loss costs (severity).

The various actuarial methods discussed above are applied in a consistent manner from period to period. In addition, we perform statistical reviews of claims data such as claim counts, average settlement costs and severity trends when establishing our reserves.

We utilize the selected point estimates of ultimate losses to develop estimates of ultimate losses recoverable from reinsurers, based on the terms and conditions of our reinsurance agreements. An overall estimate of the amount receivable from reinsurers is determined by combining the individual estimates. Our net reserve estimate is the gross reserve point estimate less the estimated reinsurance recovery.

For our Workers' Compensation segment we utilize the various actuarial methodologies discussed above, with particular reliance on incurred development, paid loss development and Bornhuetter-Ferguson, to develop our reserve for each accident year. The actuarial review includes the stratification of claims data (lost time claims, medical only claims) using different variations that allow us to identify trends that may not be readily identifiable if the data was evaluated only in the aggregate. Incurred and paid loss development factors are key assumptions in the reserve estimation process and are based on our historical incurred and paid loss development patterns. As accident years mature, the various actuarial methodologies produce more consistent loss estimates.

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Use of Judgment

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

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

HCPL. Over the past several years the most influential factor affecting the analysis of our HCPL reserves and the related development recognized has been the change, or lack thereof, in the severity of claims. The severity trend is an explicit component of our pricing models, whereas in our reserving process the severity trend's impact is implicit. Our estimate of this trend and our expectations about changes in this trend impact a variety of factors, from the selection of expected loss ratios to the ultimate point estimates established by management.

Because of the implicit and wide-ranging nature of severity trend assumptions on the loss reserving process it is not practical to specifically isolate the impact of changing severity trends. However, because severity is an explicit component of our HCPL pricing process we can better isolate the impact that changing severity can have on our loss costs and loss ratios as regards our pricing models for this business component. Our current HCPL pricing models assume a severity trend of 2% to 3% in most states and products. If the severity trend were to be higher by 1 percentage point, the impact would be an increase in our expected loss ratio for this business of 3.2 percentage points, based on current claim disposition patterns. An increase in the severity trend of 3 percentage points would result in a 10.1 percentage point increase in our expected loss ratio. Due to the long tailed nature of our claims and the previously discussed historical volatility of loss costs, selection of a severity trend assumption is a subjective process that is inherently likely to prove inaccurate over time. Given the long-tail and volatility, we are generally cautious in making changes to the severity assumptions within our pricing models. Also of note is that all open claims and accident years are generally impacted by a change in the severity trend, which compounds the effect of such a change.

For the 2004 to 2009 accident years, both our internal and consulting actuaries observed an unprecedented reduction in the frequency of HCPL claims (or number of claims per exposure unit) that cannot be attributed to any single factor. Since 2009, claim frequency has been relatively constant, at a lower level than had historically existed. For a number of years, we believed that much of the reduction in claim frequency was the result of a decline in the filing of non-meritorious lawsuits that had historically been dismissed or otherwise resulted in no payment of indemnity on behalf of our insureds. With fewer non-meritorious claims being filed we expected that the claims that were filed had the potential for greater average losses, or greater severity. To-date, however, this effect has not materialized to the extent we anticipated. The uncertainty as to the impact this decline in frequency might ultimately have on the average cost of claims complicated the selection of an appropriate severity trend for our pricing model for these lines. It also made it more challenging to factor severity into the various actuarial methodologies we use to evaluate our reserve. Based on the weighted average of payments, typically 91% of our HCPL claims are resolved after eight years for a given accident year.

Although we remain uncertain regarding the ultimate severity trend to project into the future due to the long-tailed nature of our business, we have given consideration to observed loss costs in setting our rates. For our HCPL business this practice has resulted in rate reductions in recent years. For example, on average, excluding our podiatry business acquired in 2009, we have gradually reduced the premium rates we charge on our standard physician renewal business (our largest HCPL line) by approximately 17% from the beginning of 2006 to December 31, 2015. Loss ratios for the current accident years have thus remained fairly constant because expected loss reductions have been reflected in our rates.

Workers' Compensation. The projection of changes in claim severity trend has not historically been an influential factor affecting our workers' compensation analysis of reserves, as claims are typically resolved more quickly than the industry norm. As previously mentioned, the determination and calculation of loss development factors requires considerable judgment. In particular the selection of tail factors, used to extend the projection of losses beyond historical data, requires considerable judgment. These factors are determined in the absence of direct loss development history and thus require reliance upon industry data which may not be representative of the Company’s data and experience.

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Loss Development

We recognized net favorable reserve development of $161 million for the year ended December 31, 2015, of which $159 million related to our Specialty P&C segment and $2 million related to our Workers' Compensation segment. The development recognized within the Specialty P&C segment was primarily attributable to the favorable resolution of HCPL claims during the period and an evaluation of established case reserves and paid claims data that indicated that the actual severity trend associated with the remaining HCPL claims is less than we had previously estimated. The Specialty P&C segment also reflects, to a lesser degree, favorable development attributable to the medical technology and life sciences line of business. Favorable reserve development recognized within the Workers' Compensation segment for 2015 includes $1.6 million in favorable reserve development related to the amortization of the purchase accounting fair value adjustment within the traditional business and favorable reserve development of $0.6 million recognized by our SPCs, which are evaluated at the cell level. Because a relatively small number of claims are open per cell, the closing of claims can affect the actuarial projections for the remaining open claims in the cell to an extent that indicates development should be recognized for the cell.

Specialty P&C Segment

Professional Liability

Our professional liability line of business includes both our HCPL and legal professional lines, with our HCPL line representing the largest component of our reserve. In support of our concern that the decline in frequency will result in a higher severity trend for our HCPL claims, we saw our closed-with-indemnity-payment ratio (i.e., the number of claims closed with an indemnity or loss payment as compared to the total number of closed claims) for our claims increase from 10% in 2005 to 15% in 2015, although the average severity of the claims has not exceeded our expectations.

While this trend has been in keeping with our expectations, the anticipated increase in severity incorporated into our loss assumptions has not occurred. Rather, we have experienced lower than expected severity which has been the primary driver of the favorable development recognized in recent years.

The following table presents additional information about the loss development for our professional liability line of business:

($ in thousands)		2015		2014		2013	
Accident Years	Estimated Ultimate Losses, Net of Reinsurance at December 31, 2015	Reserve Development (favorable) unfavorable	% of Known Claims Closed	Reserve Development (favorable) unfavorable	% of Known Claims Closed	Reserve Development (favorable) unfavorable	% of Known Claims Closed
2015	$394,612	N/A	18.0%	N/A	N/A	N/A	N/A
2014	396,613	$1,546	51.7%	N/A	19.8%	N/A	N/A
2013	425,951	(9,564)	72.8%	$14	53.4%	N/A	18.7%
2012	444,523	(21,199)	85.1%	(7,528)	73.2%	$5,905	46.6%
2011	425,977	(24,147)	90.6%	(37,246)	84.5%	(11,022)	69.5%
2010	416,492	(17,966)	95.7%	(34,399)	91.8%	(26,032)	82.4%
2009	369,709	(25,851)	97.1%	(24,995)	94.9%	(44,086)	89.0%
2008	354,161	(16,758)	98.3%	(14,598)	97.5%	(38,233)	94.6%
2007	344,338	(10,938)	99.1%	(11,476)	98.7%	(34,199)	97.2%
2006	332,833	(4,525)	99.5%	(4,673)	99.2%	(19,680)	98.5%
Prior to 2006	6,233,156	(17,886)		(33,954)		(41,652)	

An extended period of time is required to get a clear estimate of the loss cost for a given accident year. As an example, looking at the 2010 accident year for our professional liability reserves, we had resolved 82.4% of the known claims by the end of 2013, 91.8% of the known claims by the end of 2014, and 95.7% of the known claims by the end of 2015. These statistics are based on the number of reported claims; since many non-meritorious claims are resolved early, percentages of ultimate loss payments known at the same points in time are considerably lower. A similar pattern can be seen in each open accident year as demonstrated in the above table.

Historically we have resolved more than 85% of our physician and hospital professional liability claims with no indemnity payment and generally these claims are the first to be resolved. As an accident year matures, the number of claims resolved with indemnity payments progressively increases. In a similar fashion, we typically expend more in loss adjustment expenses (legal fees) as claims mature.

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Based upon the additional claims closed during 2015, 2014 and 2013, as shown above, and better than expected severity trends, management reduced its expected ultimate losses in each of these years resulting in the recognition of corresponding amounts of favorable development in the income statements of those periods. At December 31, 2015, 2014 and 2013 management reserve estimates for the three most recent prior accident years (which have closed claim percentages at or below 85%) were influenced by the initial reserve estimate set for these years, moderated to reflect consideration of better than anticipated claims experience observed during the periods. Estimates for older accident years with higher percentages of closed claims were more heavily influenced by the more moderate severity trend, particularly with regard to claims closed during the periods.

This can be seen in looking at both the absolute amount of favorable reserve development recognized for the less developed accident years as well as the size of such development when compared to established ultimates for those same accident years at the end of the preceding calendar year. The following table provides this information for years ended December 31, 2015, 2014 and 2013 with respect to the three then most recent prior accident years:

($ in millions)	2015	2014	2013
Prior accident years	2012-2014	2011-2013	2010-2012
Net favorable development recognized for the specified years	$29.2	$44.8	$31.1
Development as a % of established ultimates, prior calendar year end	2.3%	3.2%	2.1%

Medical Technology and Life Sciences Products Liability

Our medical technology and life sciences line of business has not experienced the change in claim frequency previously described for HCPL. However, the nature of the risks insured and volatility of the loss experience in this line of business has produced more variable loss development, as presented in the following table:

($ in thousands)		2015		2014		2013	
Accident Years	Estimated Ultimate Losses, Net of Reinsurance, December 31, 2015	Reserve Development (favorable) unfavorable	% of Known Claims Closed	Reserve Development (favorable) unfavorable	% of Known Claims Closed	Reserve Development (favorable) unfavorable	% of Known Claims Closed
2015	$14,537	N/A	38.3%	N/A	N/A	N/A	N/A
2014	14,529	$608	72.6%	N/A	48.6%	N/A	N/A
2013	11,861	(171)	86.5%	($2)	74.1%	N/A	36.1%
2012	12,359	(1,097)	93.3%	1,891	84.8%	($1,521)	66.7%
2011	16,381	(2,315)	77.4%	(3,635)	75.8%	(1,330)	63.6%
2010	25,066	(2,104)	94.2%	(4,997)	94.9%	(371)	65.1%
2009	24,189	(1,551)	95.1%	(4,693)	95.4%	(3,264)	92.4%
2008	43,304	(3,341)	99.7%	2,997	99.7%	(3,645)	98.3%
Prior to 2008	497,245	(1,726)		(3,492)		(3,619)	

Approximately $10.4 million of the total net favorable development recognized in 2015 of $11.7 million related to the 2008 to 2012 accident years. The development for the 2008 to 2012 accident years represents an 7.9% reduction to the ultimates established for those reserves at December 31, 2014. Approximately $10.3 million of the total net favorable development recognized in 2014 of $11.9 million related to the 2008 to 2011 accident years. The development for the 2008 to 2011 accident years represents a 8.0% reduction to the ultimates established for those reserves at December 31, 2013. Approximately $10.1 million of the total net favorable development recognized in 2013 of $13.8 million related to the 2008 to 2012 accident years. The development for the 2008 to 2012 accident years represents a 6.8% reduction to the ultimates established for those reserves at January 1, 2013, the date the reserves were acquired. In 2015, 2014, and 2013 the development was largely attributable to favorable results from claims closed during the year. As time has elapsed we have recognized that actual loss experience has on average been better than what we estimated. We have been cautious in recognizing the improvement, but as claims have matured and claims are closed or have become more certain for the remaining open claims, we have revised reserve estimates. We believe the need for a cautious approach is required as outcomes are uncertain and results can be significantly affected by outcomes for a small number of cases, as evidenced by the unfavorable experience shown for specific accident years in the table above.

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Workers' Compensation Segment

Claims in our workers' compensation line of business have historically closed at a faster rate than in our HCPL or medical technology and life sciences lines of business. This faster disposition rate, along with a lower net retention after the application of reinsurance, has resulted in less volatility in loss estimates on a net basis. However, a change in the number of individually-severe claims can create volatility in a given accident year. The following table presents additional information about the loss development for our workers' compensation line of business:

($ in thousands)		2015		2014	
Accident Years	Estimated Ultimate Losses, Net of Reinsurance, December 31, 2015	Reserve Development (favorable) unfavorable	% of Known Claims Closed	Reserve Development (favorable) unfavorable	% of Known Claims Closed
2015	$142,780	N/A	45.7%	N/A	N/A
2014	127,510	($85)	83.1%	N/A	41.4%
2013	119,127	1,520	93.0%	$1,519	82.9%
2012	101,342	(739)	96.5%	(463)	93.6%
2011	95,023	(263)	98.8%	854	97.4%
2010	76,639	605	99.1%	(288)	98.8%
2009	66,506	423	99.4%	(412)	99.1%
Prior to 2009	356,040	(2,108)		(955)	

We recognized $2.2 million of net favorable development in 2015 which included $0.6 million of net favorable development at our SPCs primarily related to claims activity prior to the 2009 accident year and $1.6 million of net favorable development related to the amortization of the purchase accounting fair value adjustment for our traditional business. In 2014, we recognized $1.3 million of net favorable development which included $0.3 million of net unfavorable development at our SPCs primarily reflecting medical severity-related claims activity in the 2013 accident year, which was more than offset by $1.6 million of net favorable development in our traditional business related to the amortization of the purchase accounting fair value adjustment for 2014.

Variability of Loss Reserves

As previously noted, the number of data points and variables considered and the subjective process followed in establishing our loss reserve makes it impractical to isolate individual variables and demonstrate their impact on our estimate of loss reserves. However, to provide a better understanding of the potential variability in our reserves, we have modeled implied reserve ranges around our single point net reserve estimates for our various lines of business assuming different confidence levels. The ranges have been developed by aggregating the expected volatility of losses across partitions of our business to obtain a consolidated distribution of potential reserve outcomes. The aggregation of this data takes into consideration correlations among our geographic and specialty mix of business. The result of the correlation approach to aggregation is that the ranges are narrower than the sum of the ranges determined for each partition.

We have used this modeled statistical distribution to calculate an 80% and 60% confidence interval for the potential outcome of our consolidated net reserve for losses. The high and low end points of the distributions are as follows:

	Low End Point	Carried Net Reserve	High End Point
80% Confidence Level	$1.385 billion	$1.756 billion	$2.177 billion
60% Confidence Level	$1.487 billion	$1.756 billion	$2.005 billion

Any change in our estimate of net ultimate losses for prior years is reflected in net income in the period in which such changes are made.

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

Reinsurance

We use insurance and reinsurance (collectively, “reinsurance”) to provide capacity to write larger limits of liability, to provide reimbursement for losses incurred under the higher limit coverages we offer, to provide protection against losses in excess of policy limits, and, in the case of risk sharing arrangements, to provide custom insurance solutions for large customer groups. 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 make a determination of the amount of insurance risk we choose to retain based upon numerous factors, including our risk tolerance and the capital we have to support it, the price and availability of reinsurance, volume of business, level of experience with a particular set of claims and our analysis of the potential underwriting results. We purchase reinsurance from a number of companies to mitigate concentrations of credit risk. We utilize a reinsurance broker to assist us in the placement of our reinsurance programs and in the analysis of the credit quality of our reinsurers. The determination of which reinsurers we choose to do business with is based upon an evaluation of their then-current financial strength, rating and stability.

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 December 31, 2015, all ceded contracts were 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 and conditions 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.

Given the uncertainty inherent in our estimates of losses and related amounts recoverable from reinsurers, these estimates may vary significantly from the ultimate outcome.

Under the terms of certain of our reinsurance agreements, the amount of premium that we cede to our reinsurers is based in part on the losses we recover under the agreements. Therefore we make an estimate of premiums ceded under these reinsurance agreements subject to certain maximums and minimums. Any adjustments to our estimates of losses recoverable under our reinsurance agreements or the premiums owed under our agreements 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.

The financial strength of our reinsurers and their 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 as of December 31, 2015; however, reinsurers may periodically dispute our demand for reimbursement from them based upon their interpretation of the terms of our agreements. 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 the majority of our investments at fair value as shown in the table below. At December 31, 2015 the distribution of our investments based on GAAP fair value hierarchies (levels) was as follows:

	Distribution by GAAP Fair Value Hierarchy				
	Level 1	Level 2	Level 3	Not Categorized	Total Investments
Investments recorded at:					
Fair value	11%	77%	1%	4%	93%
Other valuations					7%

Total Investments	100%

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. All of our fixed maturity and equity security 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 of developing accurate fair values, we utilize multiple independent pricing services to assist us in establishing the fair value of individual securities. The pricing services provide fair

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values based on exchange traded prices, if available. If an exchange traded price is not available, the pricing services, if possible, provide a fair value that is based on multiple broker/dealer quotes or that has been developed using pricing models. Pricing models vary by asset class and utilize currently available market data for securities comparable to ours to estimate a fair value for our 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 a 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 value versus market yields observed in the market place. We also compare yields indicated by the provided values to appropriate benchmark yields and review for values that are unchanged or that reflect an unanticipated variation as compared to prior period values. We utilize a primary pricing service for each security type and compare provided information for consistency with alternate pricing services, known market data and information from our own trades, considering both values and valuation trends. We also review weekly trades versus the prices supplied by the services. If a supplied value appears unreasonable, we discuss the valuation in question with the pricing service and make adjustments if deemed necessary. To date, our review has not resulted in any changes to the values supplied by the pricing services. The pricing services do not provide a fair value unless an exchange traded price or multiple observable inputs are available. As a result, the pricing services may provide a fair value for a security in some periods but not others, depending upon the level of recent market activity for the security or comparable securities.

Level 1 Investments

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

Level 2 Investments

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

Level 3 Investments

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

Fair Values Not Categorized

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

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Investments - Other Valuation Methodologies

Certain of our investments, in accordance with GAAP for the type of investment, are measured using methodologies other than fair value. At December 31, 2015 these investments represented approximately 7% of total investments, and are detailed in the following table. Additional information about these investments is provided in Notes 3 and 4 of the Notes to Consolidated Financial Statements.

(In millions)	Carrying Value	GAAP Measurement Method
Other investments:		
Investments in LPs	$45.0	Cost
Other, principally FHLB capital stock	3.6	Cost
	48.6	
Investment in unconsolidated subsidiaries:		
Investments in tax credit partnerships	129.9	Equity
Equity method LPs/LLCs	19.4	Equity
	149.3	
BOLI	57.2	Cash surrender value
Total investments - Other valuation methodologies	$255.1	

Investment Impairments

We evaluate our investments on at least a quarterly basis for declines in fair value that represent OTTI. We consider an impairment to be an OTTI 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, as discussed below.

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:

- third party research and credit rating reports;
- the current credit standing of the issuer, including credit rating downgrades;
- the extent to which the decline in fair value is attributable to credit risk specifically associated with the security or its issuer;
- our internal assessments and those of our external portfolio managers regarding specific circumstances surrounding a security, which can cause us to believe the security is more or less likely to recover its value than other securities with a similar structure;
- for asset-backed securities, the origination date of the underlying loans, the remaining average life, the probability that credit performance of the underlying loans will deteriorate in the future, and our assessment of the quality of the collateral underlying the loan;
- failure of the issuer of the security to make scheduled interest or principal payments;
- any changes to the rating of the security by a rating agency; and
- recoveries or additional declines in fair value subsequent to the balance sheet date.

In assessing whether we expect to recover the cost basis of debt securities, particularly asset-backed securities, we must make a number of assumptions regarding the cash flows that we expect to receive from the security in future periods. These judgments are subjective in nature and may subsequently be proved to be inaccurate.

We evaluate our cost method interests in LPs/LLCs for OTTI by considering whether there has been a decline in fair value below the recorded value, which involves assumptions and estimates. We receive a report from each of the LPs/LLCs at least quarterly which provides us a NAV for our interest. The NAV is based on the fair values of securities held by the LP/LLC as determined by the LP/LLC manager. We consider the most recent NAV provided, the performance of the LP/LLC relative to the market, the stated objectives of the LP/LLC, the cash flows expected from the LP/LLC and audited financial statements of the entity, if available, in considering whether an OTTI exists.

Our investments in tax credit partnerships are evaluated for OTTI by considering both qualitative and quantitative factors which include: whether cash flows, primarily tax benefits, currently expected from the investment equal or exceed the carrying

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value of the investment, whether currently expected cash flows are less than those expected at the time the investment was acquired, and our ability and intent to hold the investment until the recovery of its carrying value.
We also evaluate our holdings of FHLB securities for impairment. We consider the current capital status of the FHLB, whether the FHLB is in compliance with regulatory minimum capital requirements, and the FHLB’s most recently reported operating results.

Deferred Policy Acquisition Costs
Policy acquisition costs (primarily commissions, premium taxes and underwriting salaries) which are directly related to the successful acquisition of new and renewal premiums are capitalized as DPAC and charged to expense, net of ceding commissions earned, as the related premium revenue is recognized. We evaluate the recoverability of our DPAC at the segment level each reporting period, and any amounts estimated to be unrecoverable are charged to expense in the current period. As of December 31, 2015 we have not determined that any amounts are unrecoverable.
Deferred Taxes
Deferred federal income taxes arise from the recognition of temporary differences between the bases of assets and liabilities determined for financial reporting purposes and the bases determined for income tax purposes. Our temporary differences principally relate to our loss reserve, unearned premiums, DPAC, unrealized investment gains (losses), and basis differences on investment assets. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such benefits are realized. We review our deferred tax assets quarterly for impairment. If we determine that it is more likely than not that some or all of a deferred tax asset will not be realized, a valuation allowance is recorded to reduce the carrying value of the asset. In assessing the need for a valuation allowance, management is required to make certain judgments and assumptions about our future operations based on historical experience and information as of the measurement period regarding reversal of existing temporary differences, carryback capacity, future taxable income (including its capital and operating characteristics) and tax planning strategies. We did not have any significant valuation allowances as of December 31, 2015.
Unrecognized Tax Benefits
We evaluate tax positions taken on tax returns and recognize positions in our financial statements when it is more likely than not that we will sustain the position upon resolution with a taxing authority. If recognized, the benefit is measured as the largest amount of benefit that has a greater than 50% probability of being realized. We review uncertain tax positions each period, considering changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law, and make adjustments as we consider necessary. Adjustments to our unrecognized tax benefits may affect our income tax expense, and settlement of uncertain tax positions may require the use of cash. No such adjustments were considered necessary during 2015 or 2013. During 2014, we reversed a previously held tax position of $4.8 million due to the favorable resolution of an IRS exam. At December 31, 2015, our liability for unrecognized tax benefits approximated $8.2 million.
Goodwill
We review goodwill for impairment annually on October 1 and whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. Goodwill is tested for impairment at the reporting unit level. Our reporting units are consistent with the reportable segments identified in Note 15 of the Notes to Consolidated Financial Statements. Of the four reporting units, two have goodwill - Specialty P&C and Workers' Compensation. As of October 1, 2015, we performed a two-step quantitative goodwill impairment test for both the Specialty P&C and Workers' Compensation units.
In the first step of the goodwill impairment test, we compare the fair value of each reporting unit to its carrying amount. We estimate the fair value of our reporting units using an equal weighting of fair values derived from the income approach and the market approach. Under the income approach, we estimate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on the weighted average cost of capital adjusted for the relevant risk associated with business specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. Under the market approach, we estimate the fair value based on market multiples of revenue and earnings derived

from comparable publicly traded companies with operating and investment characteristics similar to the reporting unit. We weigh the fair values derived from the market approach depending on the level of comparability of these publicly traded companies to the reporting unit.

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Estimating the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk adjusted discount rates, future economic and market conditions and the determination of appropriate comparable publicly traded companies. In addition, we make certain judgments and assumptions in allocating shared assets and liabilities to individual reporting units to determine the carrying amount of each reporting unit.

If the fair value of a reporting unit exceeds the carrying amount of the net assets assigned to that reporting unit, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than its carrying amount, then the second step of the goodwill impairment test is performed which measures the amount of impairment loss, if any. In the second step, the reporting unit's assets, including any unrecognized intangible assets, liabilities and non-controlling interests are measured at fair value in a hypothetical analysis to calculate the implied fair value of goodwill for the reporting unit in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying amount, the difference is recorded as an impairment loss.

At the valuation date, both the Specialty P&C and Workers' Compensation reporting units fair values exceeded the carrying amounts. No goodwill impairment was recorded in 2015 or 2014.

Intangible Assets

Intangible assets with definite lives are amortized over the estimated useful life of the asset. Amortizable intangible assets primarily consist of agency and policyholder relationships, renewal rights and trade names. Intangible assets with an indefinite life, primarily state licenses, are not amortized. Intangible assets are evaluated for impairment on an annual basis. Additional information regarding intangible assets is included in Note 1 of the Notes to Consolidated Financial Statements.

Audit Premium

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

Accounting Changes

We did not adopt any accounting changes during 2015 that had a material effect on our results of operations nor are we aware of any accounting changes not yet adopted as of December 31, 2015 that would have a material effect on our results of operations or financial position. Note 1 of the Notes to Consolidated Financial Statements provides additional detail regarding accounting changes.

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Liquidity and Capital Resources and Financial Condition

Overview

ProAssurance Corporation is a holding company and is a legal entity separate and distinct from its subsidiaries. Dividends from its operating subsidiaries represent a significant source of funds for holding company obligations, including debt service and shareholder dividends. At December 31, 2015, we held cash and liquid investments of approximately $261.5 million outside our insurance subsidiaries that were available for use by the holding company without regulatory or other restriction, of which $69.4 million was used to pay shareholder dividends in January 2016. Our holding company also has an additional $100 million in permitted borrowings under its Revolving Credit Agreement, and an accordion feature, which if subscribed successfully, would allow another $50 million in available funds as discussed in this section under the heading "Debt."

During 2015, our insurance subsidiaries paid dividends to us of $310.7 million, including extraordinary dividends of $161.9 million. Our insurance subsidiaries, in aggregate, are permitted to pay dividends of approximately $165 million over the course of 2016 without the prior approval of state insurance regulators. The payment of any dividend requires prior notice to the insurance regulator in the state of domicile, and the regulator may prevent the dividend if, in its judgment, payment of the dividend would have an adverse effect on the surplus of the insurance subsidiary.

Operating Activities and Related Cash Flows

The principal components of our operating cash flows are the excess of premiums collected and net investment income over losses paid and operating costs, including income taxes. Timing delays exist between the collection of premiums and the payment of losses associated with the premiums. Premiums are generally collected within the twelve-month period after the policy is written, while our claim payments are generally paid over a more extended period of time. Likewise, timing delays exist between the payment of claims and the collection of any associated reinsurance recoveries.

Operating cash flows for the years ended December 31, 2015, 2014 and 2013 were as follows:

	Operating Cash Flow Year Ended December 31		
(In millions)	2015	2014	2013
Cash provided by operating activities	$112.0	$96.0	$38.6

Change in Operating Cash Flows	2015 vs 2014	2014 vs 2013	2013 vs 2012
Cash provided by operating activities, prior year	$96.0	$38.6	$91.3
Increase (decrease) in operating cash flows attributable to:			
Premium receipts	10.2	(30.3)	(33.3)
Payments to reinsurers	8.3	(21.8)	2.5
Losses paid, net of reinsurance recoveries	34.5	(3.0)	(3.0)
Deposit contracts	(3.6)	0.2	(3.7)
Cash received from investments	(24.3)	(10.3)	(8.9)
Cash paid for other expenses	(9.1)	3.5	6.4
Cash paid for interest on debt	(0.6)	(12.5)	1.5
Federal and state income tax payments	(18.9)	95.3	(3.0)
Operations acquired or begun	2.2	34.4	(10.9)
Cash flows produced by Lloyd's Syndicate operations	18.3	(0.9)	—
Other amounts not individually significant, net	(1.0)	2.8	(0.3)
Cash provided by operating activities, current year	$112.0	$96.0	$38.6

Premium receipts. The increase in premium receipts for 2015 was attributable to higher premium volume for our Workers' Compensation segment, the effect of which was offset by the effect of lower premium volume for our Specialty P&C segment. The reductions in premium receipts for 2014 and 2013 reflected lower premium volume within our Specialty P&C segment as compared to the prior year. The decline for 2013 was also affected by timing changes on several large policies as well as a single $8 million tail policy written and fully collected in 2012; there was no similar tail policy in 2013.

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Payments to reinsurers. Reinsurance contracts are generally for premiums written in a specific annual period, but, absent a commutation agreement, remain in effect until all claims under the contract have been resolved. Some contracts require annual settlements while others require settlement only after a number of years have elapsed, thus the amounts paid can vary widely from period to period.

Payments to reinsurers (increased) decreased as compared to the prior period as shown below:

(In millions)	Year Ended December 31 2015 vs 2014	2014 vs 2013	2013 vs 2012
Change in payments to reinsurers, exclusive of Syndicate 1729	$10.5	$(6.5)	$2.5
Change in reinsurance paid to Syndicate 1729	(2.2)	(15.3)	na
	$8.3	$(21.8)	$2.5

Exclusive of the effect of our quota share reinsurance agreement with Syndicate 1729, premium settlements on our excess of loss reinsurance arrangements were aggregately lower in 2015 than in 2014. The increase in 2014 when compared to 2013 was primarily attributable to expansion of our shared risks arrangements. Payments to Syndicate 1729 increased in 2015 due to an additional quarter of activity as compared to 2014 and increased in 2014 as compared to 2013 because 2014 was the initial year of the reinsurance program. Net operating cash flows of our Syndicate 1729 operations reflected the receipt of these payments, but are reported pro rata (58%) and on a one quarter delay.

Losses paid, net of reinsurance recoveries. The timing of our net loss payments varies from period to period because the process for resolving claims is complex and occurs at an uneven pace depending upon the circumstances of the individual claim. The decrease in cash paid for losses, net of reinsurance, during 2015 was a result a number of factors, including lower average indemnity payments in 2015 as compared to 2014 and fewer HCPL claim and LAE payments due to an overall decline in HCPL reserve balances over the past few years.

Deposit contracts. We are party to certain contracts that involve claims handling but do not transfer insurance risk. These contracts do not constitute a significant business activity for us, but did affect comparative cash flows in 2015 and 2013.

Cash received from investments. Receipts from fixed income securities have declined due to both lower yields and a smaller fixed income portfolio. Also, the timing of dividend receipts and income distributions from our investment LPs/LLCs is uneven.

Cash paid for other expenses. Cash paid for other expenses increased due to increases in commissions paid due to both higher premiums for our Workers' Compensation segment and an increase in the commission rate for our products line of business. In addition, the increase reflected an increase in compensation payments primarily due to timing.

Federal and state income tax payments. Net tax payments (increased) decreased as compared to the prior period as shown below:

(In millions)	Year Ended December 31 2015 vs 2014	2014 vs 2013	2013 vs 2012
The effect of refunds received from the favorable resolution of an IRS examination in 2014 as compared to a protective tax payment made related to the exam in 2013	$(30.5)	$51.1	$(20.6)
Change in amount of tax payments made for the prior tax year	(3.0)	29.6	8.3
Change in amount of estimated tax payments for the current tax year	13.0	17.0	3.4
Change in other tax payments	1.6	(2.4)	5.9
	$(18.9)	$95.3	$(3.0)

Operations acquired or begun. Expansion of our business operations has affected our operating cash flows. Cash payments were comparatively lower in 2015 due to transaction costs paid in 2014 that were associated with the acquisition of Eastern and the formation of Syndicate 1729. Operating cash flows were higher in 2014 as compared to 2013 because Eastern operations acquired in 2014 contributed positive operating cash flows during 2014. Operating cash flows were reduced in 2013 as compared to 2012 because entities acquired in 2013 (primarily Medmarc) experienced negative operating cash flows during 2013 as a result of large loss payments related to prior accident years, and normal expense payments for which the timing of the payment differed from the recognition of the expense.

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Cash flows produced by Lloyd's Syndicate operations. The increase in cash flows from our Lloyd's Syndicate operations was primarily attributable to an increase in premium receipts in 2015 due to an additional quarter of activity as well as an increase in premium volume as compared to 2014. This was somewhat offset by an increase in losses paid and departmental expenses in 2015 due to the growth of Syndicate 1729 operations during 2015.

Losses

The following table, known as the Analysis of Reserve Development, presents information over the preceding ten years regarding the payment of our losses as well as changes to (the development of) our estimates of losses during that time period. As noted in the table, ProAssurance has completed various acquisitions over the ten year period which have affected original and re-estimated gross and net reserve balances as well as loss payments.

The table includes losses on both a direct and an assumed basis and is net of anticipated reinsurance recoverables. The gross liability for losses before reinsurance, as shown on the balance sheet, and the reconciliation of that gross liability to amounts net of reinsurance are reflected below the table. We do not discount our reserve for losses to present value. Information presented in the table is cumulative and, accordingly, each amount includes the effects of all changes in amounts for prior years. The table presents the development of our balance sheet reserve for losses; it does not present accident year or policy year development data. Conditions and trends that have affected the development of liabilities in the past may not necessarily occur in the future. Accordingly, it is not appropriate to extrapolate future redundancies or deficiencies based on this table.

The following may be helpful in understanding the Analysis of Reserve Development:

- The line entitled “Reserve for losses, undiscounted and net of reinsurance recoverables” reflects our reserve for losses and loss adjustment expense, less the receivables from reinsurers, each as reported in our consolidated financial statements at the end of each year (the Balance Sheet Reserves).
- The section entitled “Cumulative net paid, as of” reflects the cumulative amounts paid as of the end of each succeeding year with respect to the previously recorded Balance Sheet Reserves.
- The section entitled “Re-estimated net liability as of” reflects the re-estimated amount of the liability previously recorded as Balance Sheet Reserves that includes the cumulative amounts paid and an estimate of the remaining net liability based upon claims experience as of the end of each succeeding year (the Net Re-estimated Liability).
- The line entitled “Net cumulative redundancy (deficiency)” reflects the difference between the previously recorded Balance Sheet Reserve for each applicable year and the Net Re-estimated Liability relating thereto as of the end of the most recent fiscal year.

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Analysis of Reserve Development
(in thousands)

December 31,	2005	2006	2007	2008	2009	2010	2011	2012	201
Reserve for losses, undiscounted and net of reinsurance recoverables	$1,896,743	$2,236,385	$2,232,596	$2,111,112	$2,159,571	$2,136,664	$2,000,114	$1,860,076	$1,8
Cumulative net paid, as of:									
One Year Later	242,608	331,295	312,348	278,655	291,654	264,597	300,703	311,835	343.
Two Years Later	503,271	600,500	550,042	468,277	476,682	491,657	526,903	563,805	571.
Three Years Later	697,349	787,347	694,113	584,410	614,369	639,220	682,576	704,795	
Four Years Later	825,139	897,814	777,114	666,105	706,091	737,253	763,703		
Five Years Later	901,644	955,728	833,471	724,377	761,659	789,965			
Six Years Later	937,984	995,921	874,479	758,863	793,528				
Seven Years Later	959,870	1,022,273	898,646	778,795					
Eight Years Later	980,665	1,038,821	911,961						
Nine Years Later	996,393	1,048,095							
Ten Years Later	1,003,159								
Re-estimated net liability as of:									
End of Year	1,896,743	2,236,385	2,232,596	2,111,112	2,159,571	2,136,664	2,000,114	1,860,076	1,82
One Year Later	1,860,451	2,131,400	2,047,344	1,903,812	1,925,581	1,810,799	1,728,076	1,644,203	1,64
Two Years Later	1,764,076	1,955,903	1,829,140	1,665,832	1,615,603	1,543,650	1,498,158	1,472,259	1,48
Three Years Later	1,615,125	1,747,459	1,596,508	1,383,189	1,362,538	1,324,906	1,342,996	1,331,828	
Four Years Later	1,450,275	1,548,605	1,357,126	1,154,552	1,172,091	1,205,737	1,224,597		
Five Years Later	1,330,039	1,366,793	1,185,051	1,019,407	1,086,027	1,111,591			
Six Years Later	1,225,114	1,249,234	1,084,422	961,808	1,012,597				

Seven Years Later	1,148,102	1,180,804	1,041,623	915,935					
Eight Years Later	1,104,687	1,147,096	1,011,674						
Nine Years Later	1,084,527	1,126,380							
Ten Years Later	1,075,246								
Net cumulative redundancy (deficiency)	$821,497	$1,110,005	$1,220,922	$1,195,177	$1,146,974	$1,025,073	$775,517	$528,248	$34
Original gross liability - end of year	$2,224,436	$2,607,148	$2,559,707	$2,379,468	$2,422,230	$2,414,100	$2,247,772	$2,051,428	$2,
Less: reinsurance recoverables	(327,693)	(370,763)	(327,111)	(268,356)	(262,659)	(277,436)	(247,658)	(191,352)	(247
Original net liability - end of year	$1,896,743	$2,236,385	$2,232,596	$2,111,112	$2,159,571	$2,136,664	$2,000,114	$1,860,076	$1,8
Gross re-estimated liability - latest	$1,391,263	$1,480,425	$1,248,818	$1,063,590	$1,139,622	$1,244,967	$1,362,539	$1,470,541	$1,6
Re-estimated reinsurance recoverables	(316,017)	(354,045)	(237,144)	(147,655)	(127,025)	(133,376)	(137,942)	(138,713)	(198
Net re-estimated liability - latest	$1,075,246	$1,126,380	$1,011,674	$915,935	$1,012,597	$1,111,591	$1,224,597	$1,331,828	$1,4
Gross cumulative redundancy (deficiency)	$833,173	$1,126,723	$1,310,889	$1,315,878	$1,282,608	$1,169,133	$885,233	$580,887	$39

* See table notes on following page.

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Table Notes

- Reserves for 2005 and thereafter include gross and net reserves acquired in 2005 business combinations of $183.2 million and $139.7 million, respectively.
- Reserves for 2006 and thereafter include gross and net reserves acquired in 2006 business combinations of $228.4 million and $171.2 million, respectively.
- Reserves for 2009 and thereafter include gross and net reserves acquired in 2009 business combinations of $169.4 million and $163.9 million, respectively.
- Reserves for 2010 and thereafter include gross and net reserves acquired in 2010 business combinations of $88.1 million and $82.2 million, respectively.
- Reserves for 2012 and thereafter include gross and net reserves acquired in 2012 business combinations of $21.8 million and $19.2 million, respectively, which considers reductions of $3.6 million and $3.3 million, respectively, recorded in 2013 due to the re-estimation of the fair value of the acquired reserves.
- Reserves for 2013 include gross and net reserves acquired in 2013 business combinations of $201.1 million and $126.0 million, respectively.
- Reserves for 2014 include gross and net reserves acquired in 2014 business combinations of $153.2 million and $139.5 million, respectively.

In each year reflected in the table, we have estimated our reserve for losses utilizing the management and actuarial processes discussed in Critical Accounting Estimates. Factors that have contributed to the variation in loss development are primarily related to the extended period of time required to resolve professional liability claims and include the following:

- The HCPL legal environment deteriorated in the late 1990's and severity began to increase at a greater pace than anticipated in our rates and reserve estimates. We addressed the adverse severity trends through increased rates, stricter underwriting and modifications to claims handling procedures, and reflected this adverse severity trend when we established our initial reserves for subsequent years.
- These adverse severity trends later moderated with that moderation becoming more pronounced beginning in 2009. We have been cautious in giving full recognition to indications that the pace of severity increase had slowed, but have given measured recognition of the improved trend in our reserve estimates, as discussed more fully under "Critical Accounting Estimates—Reserve for Losses and Loss Adjustment Expenses (reserve for losses or reserve)." The favorable development was most pronounced for years 2004 to 2008, as the initial reserves for these accident years were established prior to substantial indication that severity trends were moderating. We have given stronger recognition to the lower severity trend as time has elapsed and a greater percentage of claims have closed.
- A general decline in claim frequency has also been a contributor to favorable loss development. A significant portion of our policies through 2003 were issued on an occurrence basis, and a smaller portion of our ongoing business results from the issuance of extended reporting endorsements which have occurrence-like exposure. As claim frequency declined, the number of reported claims related to these coverages was less than originally expected.

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Activity in our net reserve for losses during 2015, 2014 and 2013 is summarized below:

	Year Ended December 31		
(In thousands)	2015	2014	2013
Balance, beginning of year	$2,058,266	$2,072,822	$2,054,994
Less reinsurance recoverables on unpaid losses and loss adjustment expenses	237,966	247,518	191,645
Net balance, beginning of year	1,820,300	1,825,304	1,863,349
Reserves acquired from acquisitions (1)	—	139,549	126,007
Incurred related to:			
Current year	571,891	545,168	447,510
Favorable development of reserves established in prior years, net (2)	(161,180)	(182,084)	(222,749)
Total incurred	410,711	363,084	224,761
Paid related to:			
Current year	(84,186)	(93,737)	(43,616)
Prior years (3)	(390,849)	(413,900)	(345,197)
Total paid	(475,035)	(507,637)	(388,813)
Net balance, end of year	1,755,976	1,820,300	1,825,304
Plus reinsurance recoverables on unpaid losses and loss adjustment expenses	249,350	237,966	247,518
Balance, end of year	$2,005,326	$2,058,266	$2,072,822

(1) Includes a net reserve reduction of $3.3 million in 2013 due to the re-estimation of reserves acquired in a 2012 business combination.

(2) Includes net favorable development of $1.3 million in 2014 attributable to the reserves acquired in a business combination completed in 2014.

(3) Includes prior year paid losses of $70.7 million in 2014 and $33.4 million for 2013 attributable to reserves acquired in a business combination completed in 2014 and 2013, respectively.

At December 31, 2015 our gross reserve for losses included case reserves of approximately $1.1 billion and IBNR reserves of approximately $0.9 billion. Our consolidated gross reserve for losses on a GAAP basis exceeds the combined gross reserves of our insurance subsidiaries on a statutory basis by approximately $0.1 billion, which is principally due to the portion of the GAAP reserve for losses that is reflected for statutory accounting purposes as unearned premiums. These unearned premiums are applicable to extended reporting endorsements (“tail” coverage) issued without a premium charge upon death, disability or retirement of an insured who meets certain qualifications.

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Reinsurance

Within our Specialty P&C segment, we use insurance and reinsurance (collectively, “reinsurance”) to provide capacity to write larger limits of liability, to provide reimbursement for losses incurred under the higher limit coverages we offer and to provide protection against losses in excess of policy limits. We also use risk sharing reinsurance arrangements, which provide custom insurance solutions for large customer groups, and have a quota share arrangement with Lloyd's Syndicate 1729 established to provide an initial premium base for Syndicate 1729. Within our Workers' Compensation segment, we use reinsurance to reduce our net liability on individual risks, to mitigate the effect of significant loss occurrences (including catastrophic events), to stabilize underwriting results, and to increase underwriting capacity by decreasing leverage. In both the Specialty P&C and Workers' Compensations segments, we use reinsurance in risk sharing arrangements, to align our objectives with those of our strategic business partners and to provide custom insurance solutions for large customer groups. The purchase of reinsurance does not relieve us from the ultimate risk on our policies, but it does provide reimbursement for certain losses we pay. We pay our reinsurers a premium in exchange for reinsurance of the risk. For our excess of loss arrangements, the premium due to the reinsurer is determined by the loss experience of the business reinsured, subject to certain minimum and maximum amounts. Until all loss amounts are known, we estimate the premium due to the reinsurer. Changes to the estimate of premium owed under reinsurance agreements related to prior periods are recorded in the period in which the change in estimate occurs and can have a significant effect on net premiums earned.

We generally reinsure risks under treaties (our excess of loss reinsurance arrangements) pursuant to which the reinsurers agree to assume all or a portion of all risks that we insure above our individual risk retention levels, up to the maximum individual limits offered. These arrangements are negotiated and renewed annually. Renewal dates for our professional liability, medical technology liability and workers' compensation treaties are October 1, January 1 and May 1, respectively. As of October 1, 2015 our professional liability treaty renewed with more favorable terms and pricing than the previous agreement. Our workers' compensation and medical technology liability treaties also renewed at a more favorable rate than the previous agreements upon the latest renewal of each. The significant terms of our excess of loss reinsurance arrangements are detailed in the following table.

Excess of Loss Reinsurance Agreements

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

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

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

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

During 2015, we wrote workers' compensation policies in our alternative market business generating premium of approximately $62.9 million under custom programs whereby the policies written are fully reinsured under 100% quota share agreements to the SPCs of our wholly owned subsidiary, Eastern Re, domiciled in the Cayman Islands, net of a ceding commission. The remaining premium written in our alternative market business of $7.8 million in 2015 is 100% ceded to an unaffiliated captive insurer.

Each SPC has preferred shareholders and the underwriting profit or loss of each cell accrues fully to these preferred shareholders. We participate as a preferred shareholder in certain SPCs. Our ownership interest in the SPCs for which we participate is generally 50%, but we have ownership interests as low as 25% and as high as 82.5%.

Each SPC has in place its own reinsurance arrangements, which are illustrated in the table below.

Segregated Portfolio Cell Reinsurance

Per Occurrence Coverage	Aggregate Coverage

(1) ProAssurance assumes 100% of aggregate losses in excess of an aggregate attachment point with a maximum loss limit of $100K.

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

Each SPC maintains a loss fund initially equal to the difference between premium assumed by the cell and the ceding commission. The external owners of each cell provide a letter of credit to us that is equal to the difference between the loss fund of the SPC (amount of funds available to pay losses after deduction of ceding commission) and the aggregate attachment point of the reinsurance.

Within our Lloyd's Syndicate segment, Syndicate 1729 purchases reinsurance to limit its liability on individual risks and to protect against catastrophic loss. The level of reinsurance that the Syndicate purchases is dependent on a number of factors, including its underwriting risk appetite for catastrophic exposure, the specific risks inherent in each line or class of business written and the pricing, coverage and terms and conditions available from the reinsurance market. Both quota share reinsurance and excess of loss reinsurance are utilized to manage the net loss exposure. The Syndicate may still be exposed to loss that exceeds the level of reinsurance purchased, as well as to reinstatement premiums triggered by losses exceeding specified levels.

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For all of our segments, we make a determination of the amount of insurance risk we choose to retain based upon numerous factors, including our risk tolerance and the capital we have to support it, the price and availability of reinsurance, the volume of business, our level of experience with a particular set of claims and our analysis of the potential underwriting results. We purchase excess of loss reinsurance to limit the amount of risk we retain and we do so from a number of companies to mitigate concentrations of credit risk. We utilize reinsurance brokers to assist us in the placement of these reinsurance programs and in the analysis of the credit quality of our reinsurers. The determination of which reinsurers we choose to do business with is based upon an evaluation of their then-current financial strength, rating and stability. However, the financial strength of our reinsurers, and their corresponding ability to pay us, may change in the future due to forces or events we cannot control or anticipate. As of December 31, 2015, there is no reinsurer, on an individual basis, for which our recoverables for both paid and unpaid claims (net of amounts due to the reinsurer) and our prepaid balances are aggregately $25 million or more.

Litigation

We are involved in various legal actions related to insurance policies and claims handling including, but not limited to, claims asserted against us by policyholders. These types of legal actions arise in the ordinary course of business and, in accordance with GAAP for insurance entities, are generally considered as a part of our loss reserving process, which is described in detail in our Critical Accounting Estimates section under the heading "Reserve for Losses and Loss Adjustment Expenses." We also have other direct actions against the Company unrelated to our claims activity which we evaluate and account for as a part of our other liabilities. For these corporate legal actions, we evaluate each case separately and establish what we believe is an appropriate reserve based on GAAP guidance related to contingent liabilities. As of December 31, 2015 there were no material reserves established for corporate legal actions.

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Investing Activities and Related Cash Flows

Our investments at December 31, 2015 and December 31, 2014 are comprised as follows:

($ in thousands)	December 31, 2015 Carrying Value	% of Total Investment		December 31, 2014 Carrying Value	% of Total Investment	
Fixed Maturities, Available for Sale						
U.S. Treasury obligations	$123,892	3	%	$166,512	4	%
U.S. Government-sponsored enterprise obligations	26,334	1	%	39,563	1	%
State and municipal bonds	940,635	26	%	1,062,615	27	%
Corporate debt	1,291,686	35	%	1,417,101	35	%
Residential mortgage-backed securities	238,387	7	%	276,056	7	%
Commercial mortgage-backed securities	41,133	1	%	66,556	2	%
Other asset-backed securities	98,220	3	%	116,624	3	%
Total fixed maturities securities, available for sale	2,760,287	76	%	3,145,027	79	%
Equity securities, trading	322,353	9	%	314,482	8	%
Short-term investments	119,236	3	%	131,259	3	%
BOLI	57,213	2	%	56,381	1	%
Investment in unconsolidated subsidiaries	311,908	9	%	276,501	7	%
Other investments	79,133	1	%	86,057	2	%
Total Investments	$3,650,130	100	%	$4,009,707	100	%

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

($ in thousands) Rating	December 31, 2015 Carrying Value	% of Total Investment		December 31, 2014 Carrying Value	% of Total Investment	
AAA	$688,449	25	%	$853,721	27	%
AA+	224,956	8	%	260,682	8	%
AA	264,137	10	%	295,541	9	%
AA-	272,304	10	%	331,476	11	%
A+	270,140	10	%	295,612	9	%
A	320,424	12	%	324,432	10	%
A-	244,083	9	%	254,548	8	%
BBB+	133,778	5	%	124,585	4	%
BBB	115,902	4	%	148,435	5	%
BBB-	46,892	2	%	48,493	2	%
Below investment grade	156,928	4	%	181,853	6	%
Not rated	22,294	1	%	25,649	1	%
Total	$2,760,287	100	%	$3,145,027	100	%

A detailed listing of our investment holdings as of December 31, 2015 is located under the Financial Information header on the Investor Relations page of our website which can be reached directly at www.proassurance.com/investorrelations/supplemental.aspx, or through links from the Investor Relations section of our website, Investor.Proassurance.com.

We manage our investments to ensure that we will have sufficient liquidity to meet our obligations, taking into consideration the timing of cash flows from our investments, including interest payments, dividends and principal payments, as well as the expected cash flows to be generated by our operations. In addition to the interest and dividends we will receive, we anticipate that between $50 million and $110 million of our investments will mature (or be paid down) each quarter of the next year and become available, if needed, to meet our cash flow requirements. The primary outflow of cash at our insurance subsidiaries is related to paid losses and operating costs, including income taxes. The payment of individual claims cannot be

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predicted with certainty; therefore, we rely upon the history of paid claims in estimating the timing of future claims payments. To the extent that we may have an unanticipated shortfall in cash we may either liquidate securities or borrow funds under existing borrowing arrangements through our credit facility and the FHLB system. Currently, $150 million remains available for use through our credit facility, as discussed in this section under the heading "Debt." Given the duration of our investments, we do not foresee a shortfall that would require us to meet operating cash needs through additional borrowings. Additional information regarding the credit facility is detailed in Note 10 of the Notes to Consolidated Financial Statements.

As discussed under the heading "Business Combinations and Ventures" and in Note 4 of the Notes to Consolidated Financial Statements, our fixed maturity and short term investments include securities deposited with Lloyd's in order to meet our FAL requirement. At December 31, 2015 securities on deposit with Lloyd's included fixed maturities having a fair value of $95.4 million and short term investments with a fair value of $0.4 million.

Our investment portfolio continues to be primarily composed of high quality fixed income securities with approximately 95% of our fixed maturities being investment grade securities as determined by national rating agencies. The weighted average effective duration of our fixed maturity securities at December 31, 2015 was 3.50 years; the weighted average effective duration of our fixed maturity securities combined with our short-term securities was 3.35 years.

The carrying value and unfunded commitments for certain of our investments are the following:

	Carrying Value		2015	
($ in millions, except expected funding period)	2015	2014	Unfunded Commitment	Expected funding period in years
Qualified affordable housing project tax credit partnerships (1)	$ 121.6	$ 133.1	$ 1.6	6
Historic tax credit partnerships (2)	8.4	—	11.6	1
Investment fund LPs/LLCs (2)	227.0	196.6	96.8	3
Total	$ 357.0	$ 329.7	$ 110.0	

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

(2) The carrying value reflects our funded commitments less amortization.

Investment fund LPs/LLCs are by nature less liquid and may involve more risk than other investments. We manage our risk through diversification of asset class and geographic location. At December 31, 2015, we had investments in 19 separate investment funds with a total carrying value of $227.0 million (6% of our total investments). We review and monitor the performance of these investments on a quarterly basis.

Energy Sector Debt

Our debt securities at December 31, 2015 included investments of $145.3 million (4% of our total investments) where the issuer is within the energy sector. We believe those in the energy sector are most likely to suffer losses in the event of a continued and sustained decline in petroleum and petroleum product prices. At December 31, 2015, 100% of the securities were rated; the average rating was BBB+. We will continue to monitor developments within the energy sector and the credit risk associated with energy companies within our investment portfolio using publicly available financial and rating agency data.

Business Combinations and Ventures

We paid cash of approximately $205 million to acquire Eastern on January 1, 2014 and cash of $153.7 million to acquire Medmarc on January 1, 2013.

Late in 2013, we became a Lloyd's member and a primary (58%) capital provider to Syndicate 1729, which began active operations effective January 1, 2014. We are required to provide capital, referred to as FAL, to support Syndicate 1729. During 2013 we met the FAL requirement primarily through a LOC; funds which secured the LOC were classified as restricted cash at December 31, 2013. The cash was returned to us during 2014 when we began satisfying the FAL requirement by placing securities on deposit with Lloyd's (see "Investment Exposures").

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Financing Activities and Related Cash Flows

Treasury Shares

Treasury share activity for 2015, 2014 and 2013 was as follows:

(In thousands)	2015	2014	2013
Treasury shares at the beginning of the period	5,763	900	244
Shares reacquired, at cost of $170 million, $222 million and $32 million, respectively	3,680	4,909	681
Shares reissued, primarily those reissued pursuant to the ProAssurance 2011 Employee Stock Ownership Plan, fair value of $2.0 million, $2.1 million and $1.1 million, respectively	(40)	(46)	(25)
Treasury shares at the end of the period	9,403	5,763	900

During 2015 our Board increased its authorization for the repurchase of common shares or the retirement of outstanding debt by $100 million. From January 1, 2016 through February 19, 2016, through our 10b5-1 plan, we reacquired approximately 27,700 additional common shares at a cost of approximately $1.3 million. As of February 19, 2016 our remaining Board authorization was approximately $110.4 million.

Shareholder Dividends

Our Board of Directors declared cash dividends during 2015, 2014 and 2013 as follows:

Quarterly Cash Dividends Declared, per Share

	2015	2014	2013
First Quarter	$0.31	$0.30	$0.25
Second Quarter	0.31	0.30	0.25
Third Quarter	0.31	0.30	0.25
Fourth Quarter	0.31	0.31	0.30
Fourth Quarter - Special dividend	1.00	2.65	—

Each dividend was paid in the month following the quarter in which it was declared. Any decision to pay future cash dividends is subject to the Board’s final determination after a comprehensive review of financial performance, future expectations and other factors deemed relevant by the Board.

Debt

At December 31, 2015 our debt included $250 million of outstanding unsecured senior notes. The notes bear interest at 5.3% annually and are due in 2023 although they may be redeemed in whole or part prior to maturity. There are no financial covenants associated with these notes.

We have available a Revolving Credit Agreement which may be used for general corporate purposes, including, but not limited to, short-term working capital, share repurchases as authorized by the Board, and support for other activities we enter into in the normal course of business. On June 19, 2015 we executed an amendment to our Revolving Credit Agreement which extended the expiration to June 2020 and expanded the permitted borrowings from $200 million to $250 million by adding an accordion feature, which, if subscribed to successfully, would make another $50 million available for use. In addition, the amendment included other revisions related to pricing and financial covenants, which can be found in more detail in Note 10 of the Notes to Consolidated Financial Statements. At December 31, 2015 we had a fully secured outstanding borrowing of $100 million under the Revolving Credit Agreement, which can be repaid as early as April 2016, but can also be deferred until expiration of the Revolving Credit Agreement. We are in compliance with the financial covenants of the Revolving Credit Agreement.

Additional information regarding our debt is provided in Note 10 of the Notes to Consolidated Financial Statements.

We are a member of a number of FHLBs. Through membership, we have access to secured cash advances which can be used for liquidity purposes or other operational needs. To date, we have not established a FHLB line of credit or materially utilized our membership.

Off-Balance Sheet Arrangements/Guarantees

We have no significant off-balance sheet arrangements/guarantees.

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Contractual Obligations

A schedule of our non-cancellable contractual obligations at December 31, 2015 follows:

(In thousands)	Payments due by period Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Loss and loss adjustment expenses	$2,005,326	$552,042	$707,265	$368,119	$377,900
Debt obligations including interest	458,049	14,075	28,146	127,734	288,094
Revolving credit agreement fees	788	175	350	263	—
Operating lease obligations	19,469	5,010	6,666	4,351	3,442
Funding commitments primarily related to non-public investment entities	110,018	77,966	31,190	261	601
Total	$2,593,650	$649,268	$773,617	$500,728	$670,037

We believe that our operating cash flow and funds from our investment portfolio are adequate to meet our contractual obligations.

The above table presumes the current outstanding borrowing under our revolving credit agreement remains outstanding through expiration of the agreement and accrues interest at the current interest rate on December 31, 2015. For more information regarding these agreements see Note 10 of the Notes to Consolidated Financial Statements.

The anticipated payout of loss and loss adjustment expenses is based upon our historical payout patterns. Both the timing and amount of these payments may vary from the payments indicated. Our operating lease obligations are primarily for the rental of office space and office equipment.

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Results of Operations–Year Ended December 31, 2015 Compared to Year Ended December 31, 2014
Selected consolidated financial data for each period is summarized in the table below.

($ in thousands, except per share data)	Year Ended December 31 2015	2014	Change
Revenues:			
Net premiums written	$709,285	$701,849	$7,436
Net premiums earned	$694,149	$699,731	$(5,582)
Net investment result	112,342	129,543	(17,201)
Net realized investment gains (losses)	(41,639)	14,654	(56,293)
Other income	7,227	8,398	(1,171)
Total revenues	772,079	852,326	(80,247)
Expenses:			
Losses and loss adjustment expenses	456,862	379,232	77,630
Reinsurance recoveries	(46,151)	(16,148)	(30,003)
Net losses and loss adjustment expenses	410,711	363,084	47,627
Underwriting, policy acquisition and operating expenses	217,064	211,311	5,753
Segregated portfolio cells dividend expense (income)	853	1,842	(989)
Interest expense	14,596	14,084	512
Total expenses	643,224	590,321	52,903
Income before income taxes	128,855	262,005	(133,150)
Income taxes	12,658	65,440	(52,782)
Net income	$116,197	$196,565	$(80,368)
Operating income	$143,404	$186,367	$(42,963)
Earnings per share:			
Basic	$2.12	$3.32	$(1.20)
Diluted	$2.11	$3.30	$(1.19)
Operating earnings per share:			
Basic	$2.62	$3.14	$(0.52)
Diluted	$2.61	$3.13	$(0.52)
Net loss ratio	59.2%	51.9%	7.3
Underwriting expense ratio	31.3%	30.2%	1.1
Combined ratio	90.5%	82.1%	8.4
Operating ratio	74.8%	64.2%	10.6
Effective tax rate	9.8%	25.0%	(15.2)
Return on equity	5.6%	8.6%	(3.0)

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

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Revenues

Our consolidated and segment net premiums earned were as follows:

($ in thousands)	Year Ended December 31 2015	2014	Change	
Net Premiums Earned				
Specialty P&C	$443,313	$492,733	$(49,420)	(10.0 %)
Workers' Compensation	213,161	194,540	18,621	9.6 %
Lloyd's Syndicate	37,675	12,458	25,217	202.4 %
Consolidated total	$694,149	$699,731	$(5,582)	(0.8 %)

Our net investment result, which includes both net investment income and earnings from unconsolidated subsidiaries, decreased $17.2 million or 13.3% for the year ended December 31, 2015. The decrease was primarily attributable to reduced earnings from our fixed income portfolio, and reflected both a smaller portfolio, due to our sustained capital management activities, and lower yields.

We had net realized investment losses of $41.6 million for the year ended December 31, 2015 as compared to net realized investment gains of $14.7 million for the same respective period in 2014. Approximately $36.4 million of the 2015 decline was attributable to the performance of our equity trading securities. OTTI recognized in earnings were $15.3 million for the year ended December 31, 2015 and $1.2 million for the year ended December 31, 2014.

Expenses

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

($ in millions)	Year Ended December 31 2015	2014	Change
Current accident year net loss ratio			
Consolidated ratio	82.4 %	77.9 %	4.5
Specialty P&C	92.3 %	83.0 %	9.3
Workers' Compensation	67.1 %	65.7 %	1.4
Lloyd's Syndicate	66.8 %	67.7 %	(0.9)
Calendar year net loss ratio			
Consolidated ratio	59.2 %	51.9 %	7.3
Specialty P&C	56.4 %	46.3 %	10.1
Workers' Compensation	66.0 %	65.0 %	1.0
Lloyd's Syndicate	66.8 %	67.7 %	(0.9)
Favorable net loss development, prior accident years			
Consolidated	$161.2	$182.1	$(20.9)
Specialty P&C	159.0	180.8	(21.8)
Workers' Compensation	2.2	1.3	0.9
Lloyd's Syndicate	—	—	—

Our consolidated current accident year net loss ratio increased 4.5 percentage points for the year ended December 31, 2015 as compared to 2014 with the increase being almost entirely attributable to a higher net loss ratio for our Specialty P&C segment.

Our consolidated calendar year net loss ratio is lower than our consolidated current accident year net loss ratio due to the recognition of net favorable loss development in our Specialty P&C and Workers' Compensation segments as shown in the table above.

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Our consolidated and segment underwriting expense ratios were as follows:

	Year Ended December 31		
	2015	2014	Change
Underwriting Expense Ratio			
Consolidated	31.3 %	30.2 %	1.1
Specialty P&C	23.8 %	27.0 %	(3.2)
Workers' Compensation	29.9 %	31.0 %	(1.1)
Lloyd's Syndicate	49.2 %	76.5 %	(27.3)
Corporate*	3.5 %	1.3 %	2.2

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

The increase in our 2015 consolidated expense ratio is primarily attributable to certain costs being allocated to operating expense in 2015 and allocated to ULAE in 2014. Cost shifts between segments and between operating expense and ULAE were the primary reason that our Corporate segment expense ratio increased and our Specialty P&C segment expense ratio decreased in 2015. The Lloyd's Syndicate segment expense ratio decreased in 2015 as compared to 2014 reflecting growth in earned premium during 2015, as Syndicate 1729 did not begin operations until January 1, 2014. The 2015 decrease in the Workers' Compensation segment expense ratio reflects prudent expense management as well as a higher ratio during 2014 due to transaction-related expenses.

Taxes

Our effective tax rate was 9.8% for the year ended December 31, 2015, as compared to our 2014 effective tax rate of 25.0%. The reduction to the ratio for the year ended December 31, 2015, was primarily due to the combined effect of higher tax credits and lower pre-tax income.

Operating Ratio and Return on Equity

Our operating ratio (calculated as our combined ratio, less our investment income ratio) increased by 10.6 percentage points in the year ended December 31, 2015, reflecting a higher net loss ratio primarily for our Specialty P&C segment.

ROE was 5.6% for the year ended December 31, 2015 and was 8.6% for the year ended December 31, 2014.

Book Value per Share

Our book value per share at December 31, 2015 as compared to December 31, 2014 is shown in the following table.

	Book Value Per Share
Book Value Per Share at December 31, 2014	$38.17
Increase (decrease) to book value per share during the year ended December 31, 2015 attributable to:	
Dividends declared	(2.24)
Repurchase of shares	(0.64)
Total capital management	(2.88)
Net income	2.12
Decrease in AOCI	(0.63)
Other	0.10
Book Value Per Share at December 31, 2015	$36.88

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Non-GAAP Financial Measures

Operating income is a non-GAAP financial measure that is widely used to evaluate performance within the insurance sector. In calculating operating income, we have excluded the after-tax effects of net realized investment gains or losses, guaranty fund assessments or recoupments, and the effect of confidential settlements that do not reflect normal operating results. We believe operating income presents a useful view of the performance of our insurance operations, but should be considered in conjunction with net income computed in accordance with GAAP.

The following table is a reconciliation of Net income to Operating income:

	Year Ended December 31	
(In thousands, except per share data)	2015	2014
Net income	$116,197	$196,565
Items excluded in the calculation of operating income:		
Net realized investment (gains) losses	41,639	(14,654)
Guaranty fund assessments (recoupments)	218	(169)
Effect of confidential settlements, net	—	(866)
Pre-tax effect of exclusions	41,857	(15,689)
Tax effect, at 35%	(14,650)	5,491
Operating income	$143,404	$186,367
Per diluted common share:		
Net income	$2.11	$3.30
Effect of exclusions	0.50	(0.17)
Operating income per diluted common share	$2.61	$3.13

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Segment Operating Results - Specialty Property & Casualty

Our Specialty P&C segment focuses on professional liability insurance and medical technology liability insurance as discussed in Note 15 of the Notes to Consolidated Financial Statements. Specialty P&C segment operating results reflect pre-tax underwriting profit or loss from these insurance lines, exclusive of investment results, which are included in our Corporate segment. Segment operating results for the year ended December 31, 2015 were $92.1 million as compared to $137.2 million for the year ended December 31, 2014, and included the following:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Net premiums written	$442,126	$467,046	$(24,920)	(5.3%)
Net premiums earned	443,313	492,733	(49,420)	(10.0%)
Net losses and loss adjustment expenses	250,168	228,199	21,969	9.6%
Underwriting, policy acquisition and operating expenses	105,574	133,132	(27,558)	(20.7%)
Net loss ratio	56.4%	46.3%	10.1	
Underwriting expense ratio	23.8%	27.0%	(3.2)	

Premiums Written

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

Gross, ceded and net premiums written were as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Gross premiums written	$526,296	$532,608	$(6,312)	(1.2%)
Less: Ceded premiums written	84,170	65,562	18,608	28.4%
Net premiums written	$442,126	$467,046	$(24,920)	(5.3%)

Gross Premiums Written

Gross premiums written by component were as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Professional liability				
Physicians (1):				
Twelve month term	$345,363	$362,056	$(16,693)	(4.6%)
Twenty-four month term	29,707	19,949	9,758	48.9%
Total Physicians	375,070	382,005	(6,935)	(1.8%)
Healthcare facilities (2)	36,840	33,521	3,319	9.9%
Other healthcare providers (3)	32,503	33,589	(1,086)	(3.2%)
Legal professionals (4)	27,879	27,776	103	0.4%
Tail coverages (5)	19,520	18,745	775	4.1%
Total professional liability	491,812	495,636	(3,824)	(0.8%)
Medical technology liability (6)	33,237	35,265	(2,028)	(5.8%)
Other	1,247	1,707	(460)	(26.9%)
Total	$526,296	$532,608	$(6,312)	(1.2%)

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(1) Physician policies were our greatest source of premium revenues in both 2015 and 2014. The decline in twelve month term policies was primarily due to the loss of a few large policies in 2015 and the shifting of certain policies from a twelve month term to a twenty-four month term during 2015, partially offset by new business written. We offer twenty-four month term policies to our physician insureds in one selected jurisdiction. The increase in twenty-four month premium as compared to 2014, was primarily due to the normal cycle of renewals (policies subject to renewal in 2015 were previously written in 2013 rather than in 2014) and to the renewal of certain twelve month term policies as twenty-four month term as mentioned above.

(2) Our healthcare facilities premium (which includes hospitals, surgery centers and other facilities) increased during the 2015, principally due to new business written throughout the year.

(3) Our other healthcare providers are primarily dentists, chiropractors and allied health professionals. The decline in premiums for the year ended 2015 was primarily attributable to losses resulting from price competition.

(4) Our legal professionals policies are primarily individual and small group policies in select areas of practice.

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

(6) Our medical technology liability business is marketed throughout the United States; coverage is offered on a primary basis, within specified limits, to manufacturers and distributors of medical technology and life sciences products including entities conducting human clinical trials. In addition to the previously listed factors that affect our premium volume, our medical technology liability premium volume is impacted by the sales volume of insureds. The decline during the year ended 2015 primarily related to the loss of several large policies which together approximated $3.6 million. The non-renewal of these policies was largely attributable to certain insureds merging with larger entities who are not insured by us as well as price competition. The effect of the non-renewals was somewhat offset by new business written during the period.

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

	Year Ended December 31	
(In millions)	2015	2014
Physicians	$23.0	$17.1
Healthcare facilities	5.9	5.0
Other healthcare providers	2.3	2.8
Legal professionals	4.5	4.2
Medical technology liability	3.7	5.4
Total	$39.4	$34.5

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

Retention by component was as follows:

	Year Ended December 31	
	2015	2014
Physicians	89 %	89 %
Healthcare facilities	85 %	83 %
Other healthcare providers	85 %	81 %
Legal professionals	78 %	82 %
Medical technology liability*	81 %	85 %

* See Gross Premiums Written section above for further explanation of YTD retention decline in 2015.

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The pricing of our business includes the effects of filed rates, surcharges and discounts. We continue to base our pricing on expected losses, as indicated by our historical loss data and available industry loss data. We are committed to a rate structure that will allow us to fulfill our obligations to our insureds, while generating competitive returns for our shareholders.

Changes in renewal pricing by component were as follows:

	Year Ended December 31	
	2015	
Physicians	1	%
Healthcare facilities	—	%
Other healthcare providers	3	%
Legal professionals	3	%
Medical technology liability	—	%

Ceded Premiums Written

Ceded premiums represent the amounts owed to our reinsurers for their assumption of a portion of our losses. Through our current excess of loss reinsurance arrangements we retain the first $1 million in risk insured by us and cede coverages in excess of this amount. For our medical technology liability coverages, we also retain 20% of the next $9 million of risk for coverages in excess of $1 million. We pay our reinsurers a ceding premium in exchange for their accepting the risk, the ultimate amount of which is determined by the loss experience of the business ceded, subject to certain minimum and maximum amounts.

Ceded premiums written for the years ended December 31, 2015 and 2014 were comprised as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Excess of loss reinsurance arrangements	$28,385	$31,031	(2,646)	(8.5%)
Premium ceded to Syndicate 1729 (1)	24,718	20,899	3,819	18.3%
Other shared risk arrangements (2)	24,401	20,642	3,759	18.2%
Other ceded premiums written	7,784	8,705	(921)	(10.6%)
Reduction in premiums owed under reinsurance agreements, prior accident years, net (3)	(1,118)	(15,715)	14,597	92.9%
Total ceded premiums written	$84,170	$65,562	$18,608	28.4%

(1) As previously discussed, we are a 58% participant in Syndicate 1729 and record our pro rata share of its operating results in our Lloyd's Syndicate segment on a quarter delay. We also record this agreement within the Specialty P&C segment on a quarter delay as the amounts are not material and this permits the cession to be reported by both the Lloyd's Syndicate segment and the Specialty P&C segment in the same reporting period. Premium ceded to Syndicate 1729 reported for the 2015 period in the table above reflects cessions that occurred during the first three quarters of 2015 and the fourth quarter of 2014. Premiums ceded to Syndicate 1729 reported for the 2014 period in the table above reflected cessions that occurred during the first three quarters of 2014. As our premiums are earned, we recognize the related ceding commission income which reduces underwriting expense by offsetting DPAC amortization. The related ceding commission income was $6.7 million for the year ended 2015 and $5.6 million for the year ended 2014. For our consolidated results, eliminations of the inter-segment portion (58% of the Specialty P&C cession) of the transactions are also recorded on a quarter delay.

(2) We have entered into various shared risk arrangements, including quota share, fronting, and captive arrangements, with certain large healthcare systems, an agency captive and other insurance entities. These arrangements include our Ascension Health and CAPAssurance Programs. While we cede a large portion of the premium written under these arrangements, they provide us an opportunity to grow net premium through strategic partnerships.

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(3) Given the length of time that it takes to resolve our claims, many years may elapse before all losses recoverable under a reinsurance arrangement are known. As a part of the process of estimating our loss reserve we also make estimates regarding the amounts recoverable under our reinsurance arrangements. As previously discussed, the premiums ultimately ceded under our excess of loss reinsurance arrangements are subject to the losses ceded under the arrangements. During 2014, the overall change in expected loss recoveries resulted in a reduction in estimated ceded premiums of approximately $16 million. In 2015, the corresponding change in expected loss recoveries resulted in a decrease in estimated ceded premiums of approximately $1 million, a change of $15 million. Approximately $6 million of the prior year ceded premium adjustment during 2015 relates to verdicts in three specific cases that remain in progress in the judicial system and we believe they may ultimately be resolved at less than their currently-reserved amount. We do not believe these isolated claims indicate a change in overall loss trends for us or the industry. Changes to estimates of premiums ceded related to prior accident years are fully earned in the period the change in estimates occur.

Ceded Premiums Ratio

As shown in the table below, our ceded premiums ratio was affected in both 2015 and 2014 by revisions to our estimate of premiums owed to reinsurers related to coverages provided in prior accident years.

	Year Ended December 31				
	2015		2014		Change
Ceded premiums ratio, as reported	16.0	%	12.3	%	3.7
Less the effect of reduction in premiums owed under reinsurance agreements, prior accident years (as previously discussed)	(0.2	%)	(3.0	%)	2.8
Ratio, current accident year	16.2	%	15.3	%	0.9

The increase in the current accident year ceded premiums ratio for the year ended December 31, 2015 was primarily attributable to growth in our shared risk arrangements as well as four quarters of ceded premium written under the quota share arrangement with Syndicate 1729 recorded during the twelve-month period compared with three quarters of ceded premium written recorded during the year ended December 31, 2014, as there was no premium recorded during the first quarter in 2014 due to results being reported on a quarter delay.

Net Premiums Earned

Net premiums earned were as follows:

	Year Ended December 31					
($ in thousands)	2015	2014	Change			
Gross premiums earned	$528,118	$543,052	$(14,934	)	(2.8	%)
Less: Ceded premiums earned	84,805	50,319	34,486		68.5	%
Net premiums earned	$443,313	$492,733	$(49,420	)	(10.0	%)

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

The decrease in gross premiums earned in 2015 primarily reflected the pro rata effect of lower physician premiums written during the preceding twelve months. The increase in ceded premiums earned primarily reflected growth in our shared risk arrangements as well as $24.8 million in premiums ceded under the quota share arrangement with Syndicate 1729 during the year ended 2015 as compared to $7.2 million for the year ended 2014. As discussed above, there was no Syndicate 1729 cession recorded during the first quarter of 2014 due to results being reported on a quarter delay. In addition, prior accident year ceded premiums reductions were $14.6 million lower in 2015 than in 2014 (see discussion under the heading "Ceded Premiums Written").

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Losses and Loss Adjustment Expenses

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

Accident year refers to the accounting period in which the insured event becomes a liability of the insurer. For claims-made policies, which represent over 90% of the premiums written in our Specialty P&C segment, the insured event generally becomes a liability when the event is first reported to the insurer. For occurrence policies the insured event becomes a liability when the event takes place. We believe that measuring losses on an accident year basis is the best measure of the underlying profitability of the premiums earned in that period, since it associates policy premiums earned with the estimate of the losses incurred related to those policy premiums.

The following table summarizes calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Additionally, the table shows our current accident year net loss ratio was affected by revisions to our estimate of premiums owed to reinsurers related to coverages provided in prior accident years. Our current accident year net loss ratios for the years ended 2015 and 2014 compare as follows:

	Net Loss Ratios (1)				
	Year Ended December 31				
	2015		2014		Change
Calendar year net loss ratio	56.4	%	46.3	%	10.1
Less impact of prior accident years on the net loss ratio	(35.9	%)	(36.7	%)	0.8
Current accident year net loss ratio	92.3	%	83.0	%	9.3
Less estimated ratio increase (decrease) attributable to:					
Ceded premium reductions, prior accident years (2)	(0.2	%)	(2.7	%)	2.5
Current accident year net loss ratio, excluding the effect of prior year ceded premium (3)	92.5	%	85.7	%	6.8

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

(2) Reductions to premiums owed under reinsurance agreements for prior accident years increased net premiums earned (the denominator of the current accident year ratio) in both 2015 and 2014, but the effect for 2015 was substantially less than in 2014. See the discussion in the Premiums section for our Specialty P&C segment under the heading “Ceded Premiums Written” for additional information.

(3) The increase in the current accident year net loss ratio is partially due to an increase in expected loss costs related to mass tort litigation, which accounts for 2.1 percentage points of the change in 2015 when compared to 2014. Also, while we decreased our loss reserves related to DDR coverage endorsements in both 2015 and 2014 the decrease was smaller in 2015, resulting in approximately 2.6 percentage points of the increase.

We recognized net favorable loss development related to our previously established reserve of $159.0 million and $180.8 million for the years ended December 31, 2015 and 2014, respectively. We re-evaluate our previously established reserve each quarter based on our most recently available claims data and currently available industry trend information. Development recognized during 2015 principally related to accident years 2008 through 2012. Development recognized during 2014 principally related to accident years 2007 through 2011.

A detailed discussion of factors influencing our recognition of loss development recognized is included in our Critical Accounting Estimates section under the heading "Reserve for Losses and Loss Adjustment Expenses." Assumptions used in establishing our reserve are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in the current operations. Due to the size of our reserve, even a small percentage adjustment to the assumptions can have a material effect on our results of operations for the period in which the change is made, as was the case in both 2015 and 2014.

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Underwriting, Policy Acquisition and Operating Expenses

Specialty P&C underwriting, policy acquisition and operating expenses were $105.6 million for 2015 and $133.1 million for 2014.

Segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Year Ended December 31			
($ in millions)	2015	2014	Change	
Specialty P&C segment:				
DPAC amortization	$45.5	$55.1	$(9.6)	(17.4%)
Management fees	7.3	—	7.3	nm
Expenses allocated from the Corporate segment	—	23.5	(23.5)	nm
ULAE portion of expenses allocated from the Corporate segment	—	(7.4)	7.4	nm
Net allocation from the Corporate segment	—	16.1	(16.1)	nm
Other underwriting and operating expenses	52.8	61.9	(9.1)	(14.7%)
Total	$105.6	$133.1	$(27.5)	(20.7%)

DPAC amortization decreased $9.6 million during 2015 primarily due to increased ceding commission income of $5.1 million, almost all of which resulted from a quota share reinsurance arrangement with Syndicate 1729, as previously discussed. The remaining decrease is attributable to both lower capitalization of underwriting and sales salaries in 2015 due to corporate restructuring initiatives (see discussion below) and a reduction in gross earned premium in 2015 as compared to 2014.

Management fees, as discussed in the following paragraph, are intercompany charges from the Corporate segment pursuant to a management agreement that became effective in the first quarter of 2015. No management fees were charged to the Specialty P&C segment in 2014.

Other underwriting and operating expenses decreased due to changes in the amount of expense charged to the Specialty P&C segment by the Corporate segment for certain services. Prior to implementation of the management agreement (see Management fees above) the cost of certain services was directly allocated from the Corporate segment to the Specialty P&C segment, both to underwriting and operating expenses and to ULAE. There were no similar allocations in 2015 as these costs are now charged to the segment via the management fee. Also, corporate restructuring initiatives undertaken over the course of 2014 shifted certain costs, primarily compensation costs, from the Specialty P&C segment to the Corporate segment. See the "Operating Expenses" section of "Segment Operating Results - Corporate" for a comparative analysis of Specialty P&C segment and Corporate segment underwriting and operating expense on a combined basis.

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Underwriting Expense Ratio (the Expense Ratio)

The underwriting expense ratio for the Specialty P&C segment reflects a decrease in 2015 as compared to 2014, as shown below:

	Year Ended December 31		
	2015	2014	Change
Underwriting expense ratio	23.8 %	27.0 %	(3.2)

The change in the ratio is principally attributable to the following:

(In percentage points)	Increase (decrease), 2015 versus 2014
Estimated ratio increase (decrease) attributable to:	
Net earned premium reductions during 2015, as well as the 2015 decline in DPAC amortization	0.9
Management fee	1.6
Effect of expense reductions, primarily attributable to expense allocation changes and restructuring	(5.7)
Net increase/(decrease) in ratio	(3.2)

The reduction to the ratio in 2015 was primarily due to the implementation of the new management agreement and the shifting of certain expenses to the Corporate segment, as previously discussed. Net earned premium declined in 2015 but the effect of the decline was substantially offset by the effect of the previously discussed reduction to DPAC amortization during 2015.

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Segment Operating Results - Workers' Compensation

Our Workers' Compensation segment provides traditional workers' compensation insurance products to employers with 1,000 or fewer employees and alternative market solutions, as discussed in Note 15 to the Notes to Consolidated Financial Statements. Segment operating results reflect pre-tax underwriting profit or loss, exclusive of investment results which are included in our Corporate segment. Segment operating results for the years ended December 31, 2015 and 2014 were $8.4 million and $6.5 million, respectively, and included the following:

	Year Ended December 31				
($ in thousands)	2015	2014	Change		
Net premiums written	$218,338	$202,697	$15,641	7.7	%
Net premiums earned	213,161	194,540	18,621	9.6	%
Net losses and loss adjustment expenses	140,744	126,447	14,297	11.3	%
Underwriting, policy acquisition and operating expenses	63,653	60,357	3,296	5.5	%
SPC dividend expense (income)	853	1,842	(989	)(53.7	%)
Net loss ratio	66.0%	65.0%	1.0		
Underwriting expense ratio	29.9%	31.0%	(1.1)		

Premiums Written

Our workers’ compensation premium volume is driven by four primary factors: 1) the amount of new business written, 2) audit premium, 3) retention of our existing book of business, and 4) premium rates charged on our renewal book of business.

Gross, ceded and net premiums written were as follows:

	Year Ended December 31				
($ in thousands)	2015	2014	Change		
Gross premiums written					
Traditional business	$172,977	$166,004	$6,973	4.2	%
Alternative market business	70,631	59,359	11,272	19.0	%
Segment results	243,608	225,363	18,245	8.1	%
Less: Ceded premiums written					
Traditional business	10,307	10,401	(94	)(0.9	%)
Alternative market business	14,963	12,265	2,698	22.0	%
Segment results	25,270	22,666	2,604	11.5	%
Net premiums written					
Traditional business	162,670	155,603	7,067	4.5	%
Alternative market business	55,668	47,094	8,574	18.2	%
Segment results	$218,338	$202,697	$15,641	7.7	%

Our traditional workers’ compensation insurance products include guaranteed cost, dividend, deductible, and retrospectively-rated policies. Our alternative market business is 100% ceded to either the SPCs at our wholly owned Cayman Islands reinsurance subsidiary, Eastern Re, or to an unaffiliated captive insurer. As of December 31, 2015, there were 23 (20 active) SPCs at Eastern Re and 3 active alternative market programs with the unaffiliated captive insurer.

Additional information regarding the structure of the SPCs is included in the Underwriting, Policy Acquisition and Operating Expense section that follows.

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Gross Premiums Written

Gross premiums written in our traditional and alternative market business for the years ended December 31, 2015 and 2014 are reflected in the table on the previous page. Gross premiums written increased for the year ended December 31, 2015, primarily reflecting new business, renewal rates and audit premium when compared to the same period in 2014. In our alternative market business, we renewed 100% of the existing programs and added three new SPCs with $2.7 million in premiums written for the year ended December 31, 2015.

New business, audit premium, retention and renewal price changes for both the traditional business and the alternative market business for 2015 and 2014 are shown in the table below:

	Year Ended December 31					
	2015			2014		
($ in millions)	Traditional Business	Alternative Market Business	Segment Results	Traditional Business	Alternative Market Business	Segment Results
New business	$28.1	$10.2	$38.3	$35.1	$8.6	$43.7
Audit premium (including EBUB)	$5.9	$0.9	$6.8	$3.5	$0.3	$3.8
Retention rate (1)	81%	89%	83%	82%	86%	83%
Change in renewal pricing (2)	1%	2%	1%	2%	—%	1%

(1) We calculate our workers' compensation retention rate as annualized expiring renewed premium divided by all annualized expiring premium subject to renewal. Our retention rate can be impacted by various factors, including price or other competitive issues, insureds being acquired, or a decision not to renew based on our underwriting evaluation. The decrease in our traditional business renewal retention rate primarily reflected increased competition.

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

Ceded Premiums Written

Ceded premiums written reflect our external reinsurance programs and alternative market business ceded to an unaffiliated captive insurance company.

Ceded premiums written were as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Premiums ceded to external reinsurers				
Traditional business	$9,922	$10,720	$(798)	(7.4%)
Alternative market business	7,205	5,927	1,278	21.6%
Segment results	17,127	16,647	480	2.9%
Change in return premium estimate under external reinsurance				
Traditional business	385	(319)	704	>100%
Alternative market business	—	—	—	nm
Segment results	385	(319)	704	>100%
Premiums ceded to an unaffiliated captive insurer				
Traditional business	—	—	—	nm
Alternative market business	7,758	6,338	1,420	22.4%
Segment results	7,758	6,338	1,420	22.4%
Total ceded premiums written				
Traditional business	10,307	10,401	(94)	(0.9%)
Alternative market business	14,963	12,265	2,698	22.0%
Segment results	$25,270	$22,666	$2,604	11.5%

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We retain the first $0.5 million in risk insured by us on our traditional business and cede losses in excess of this amount on each loss occurrence under our primary external reinsurance contract. The traditional external reinsurance contract contains a return premium provision under which we estimate return premium based on the underlying loss experience of policies covered under the contract. Changes in the return premium estimate reflect the loss experience under the reinsurance contract for the years ended December 31, 2015 and 2014. In our alternative market business, the risk retention for each loss occurrence ranges from $0.3 million to $0.35 million based on the alternative market program. We cede 100% of premiums written under three alternative market programs to an unaffiliated captive insurer.

Premiums ceded to external reinsurers in our traditional business decreased during the year ended December 31, 2015, which primarily reflected a reduction in reinsurance rates. The $0.4 million decrease in the return premium estimate for the year ended December 31, 2015 primarily reflected 2015 traditional ceded incurred losses of $7.9 million (including $4.9 million related to the 2015 accident year), partially offset by favorable loss experience on contract years prior to 2014. The increase in premiums ceded to the unaffiliated captive insurer during the year ended December 31, 2015 reflected premium growth in the programs.

Ceded Premiums Ratio

Ceded premiums ratio was as follows:

	Year Ended December 31					
	2015			2014		
	Traditional Business	Alternative Market Business	Segment Results	Traditional Business	Alternative Market Business	Segment Results
Ceded premiums ratio, as reported	6.0 %	21.2 %	10.4 %	6.3 %	20.7 %	10.1 %
Less the effect of:						
Return premium estimated under external reinsurance	0.2 %	— %	0.2 %	(0.2 %)	— %	(0.1 %)
Premiums ceded to unaffiliated captive insurer (100%)	— %	11.0 %	3.2 %	— %	10.7 %	2.8 %
Ceded premiums ratio, less the effects of above	5.8 %	10.2 %	7.0 %	6.5 %	10.0 %	7.4 %

Per the reinsurance agreements, we cede premiums related to our traditional business on an earned premium basis, whereas alternative market premiums are ceded on a written premium basis. The decrease in the traditional ceded premiums ratio for 2015 when compared to 2014 reflected the reduction in reinsurance rates.

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Net Premiums Earned

Net premiums earned for the year ended December 31, 2015 were as follows:

	Year Ended December 31				
($ in thousands)	2015	2014	Change		
Gross premiums earned					
Traditional business	$172,115	$160,717	$11,398	7.1	%
Alternative market business	66,168	55,616	10,552	19.0	%
Segment results	238,283	216,333	21,950	10.1	%
Less: Ceded premiums earned					
Traditional business	10,859	9,849	1,010	10.3	%
Alternative market business	14,263	11,944	2,319	19.4	%
Segment results	25,122	21,793	3,329	15.3	%
Net premiums earned					
Traditional business	161,256	150,868	10,388	6.9	%
Alternative market business	51,905	43,672	8,233	18.9	%
Segment results	$213,161	$194,540	$18,621	9.6	%

Net premiums earned consist of gross premiums earned less the portion of earned premiums that we cede to our reinsurers for their assumption of a portion of our losses. Our workers' compensation policies are twelve-month policies and premiums are earned on a pro rata basis over the policy period. Net premiums earned also include premium adjustments related to the audit of our insureds' payrolls. Payroll audits are conducted subsequent to the end of the policy period and any related adjustments are recorded as fully earned in the current period. In addition, we record an estimate for EBUB and evaluate the estimate on a quarterly basis. We increased the EBUB estimate by $0.5 million during 2015, compared to $0.4 million in 2014, and the impact of that change is included in Audit premium.

Losses and Loss Adjustment Expenses

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

	Net Loss Ratios Year Ended December 31																	
	2015						2014						Change					
	Traditional Business		Alternative Market Business		Segment Results		Traditional Business		Alternative Market Business		Segment Results		Traditional Business		Alternative Market Business		Segment Results	
Calendar year net loss ratio	65.5	%	67.5	%	66.0	%	65.0	%	65.1	%	65.0	%	0.5	%	2.4	%	1.0	%
Less impact of prior accident years on the net loss ratio	(1.0	%)	(1.2	%)	(1.1	%)	(1.0	%)	0.6	%	(0.7	%)	—	%	(1.8	%)	(0.4	%)
Current accident year net loss ratio	66.5	%	68.7	%	67.1	%	66.0	%	64.5	%	65.7	%	0.5	%	4.2	%	1.4	%
Less impact of audit premium on loss ratio	—	%	(1.2	%)	(0.3	%)	—	%	(0.5	%)	(0.1	%)	—	%	(0.7	%)	(0.2	%)
Current accident year net loss ratio, excluding the effect of audit and return premium	66.5	%	69.9	%	67.4	%	66.0	%	65.0	%	65.8	%	0.5	%	4.9	%	1.6	%

The current accident year net loss ratio in our traditional business increased 0.5 percentage points in 2015 compared to 2014, which primarily reflected an increase in severity-related claims, partially offset by favorable loss experience in the rest of the book of business. The increase in the current accident year net loss ratio in our alternative market business primarily reflected an increase in severity-related claim activity, specifically in the fourth quarter of 2015. We recognized net favorable prior year development related to our previously established reserve of $2.2 million for the year ended December 31, 2015 and $1.3 million for the same respective period of 2014. The net favorable prior year

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development included $1.6 million related to amortization of the purchase accounting fair value adjustment for our traditional business for both 2015 and 2014. It also included $0.6 million in net favorable prior year development for our alternative market business for 2015 and $0.3 million in net unfavorable prior year development for 2014. Within our alternative market business, audit premium from insureds results in a decrease in the net loss ratio, whereas audit premium returned to insureds results in an increase in the net loss ratio. We recognized audit premium in our alternative market business during both 2015 and 2014 and the effect of that premium on the current accident year net loss ratio is reflected in the table above.

Underwriting, Policy Acquisition and Operating Expenses

Underwriting, policy acquisition and operating expenses include commissions, premium taxes and underwriting salaries, which are capitalized and deferred over the related workers' compensation policy period, net of external ceding commissions earned. The capitalization of these costs can vary as they are subject to the success rate of our contract acquisition efforts. These expenses also include management fees charged by the Corporate segment, which represent intercompany charges pursuant to a management agreement that became effective in the first quarter of 2015. No management fees were charged to the Workers' Compensation segment in 2014.

The following table provides a comparison of underwriting, policy acquisition and operating expenses:

	Year Ended December 31				
($ in thousands)	2015	2014	Change		
Traditional business	$47,343	$46,717	$626	1.3	%
Alternative market business	16,310	13,640	2,670	19.6	%
Underwriting, policy acquisition and operating expenses	$63,653	$60,357	$3,296	5.5	%

The following table highlights certain discrete events affecting expenses, entirely in our traditional business:

(In thousands)	Year Ended Increase (decrease), 2015 versus 2014	
One-time professional fees	$(661	)
Transaction-related expenses	$(2,180	)

There was a nominal amount of transaction-related expenses incurred during the year ended December 31, 2015.

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Underwriting Expense Ratio (the Expense Ratio)

Our expense ratio for the years ended December 31, 2015 and 2014, including the impact of audit premium, management fees and certain discrete items, was as follows:

	Year Ended December 31								
	2015			2014			Change		
	Traditional Business	Alternative Market Business	Segment Results	Traditional Business	Alternative Market Business	Segment Results	Traditional Business	Alternative Market Business	Segment Results
Underwriting expense ratio, as reported	29.4 %	31.4 %	29.9 %	31.0 %	31.2 %	31.0 %	(1.6 %)	0.2 %	(1.1 %)
Less estimated ratio increase (decrease) attributable to:									
Transaction-related expenses	— %	— %	— %	1.4 %	— %	1.1 %	(1.4 %)	— %	(1.1 %)
One-time professional fees	— %	— %	— %	0.4 %	— %	0.3 %	(0.4 %)	— %	(0.3 %)
Amortization of intangible assets	3.2 %	— %	2.4 %	3.4 %	— %	2.7 %	(0.2 %)	— %	(0.3 %)
Management fees	1.1 %	— %	0.9 %	— %	— %	— %	1.1 %	— %	0.9 %
Impact of audit premium	(1.1 %)	(0.5 %)	(1.0 %)	(0.6 %)	(0.3 %)	(0.6 %)	(0.5 %)	(0.2 %)	(0.4 %)
Impact of return premium estimate	(0.1 %)	— %	(0.1 %)	(0.1 %)	— %	(0.1 %)	— %	— %	— %
Underwriting expense ratio, less listed effects	26.3 %	31.9 %	27.7 %	26.5 %	31.5 %	27.6 %	(0.2 %)	0.4 %	0.1 %

The decrease in the traditional business expense ratio for 2015 primarily reflected the growth in net premiums earned and prudent expense management. The alternative markets expense ratio primarily reflected ceding commissions charged to each program.

Segregated Portfolio Cell Dividend Expense (Income)

Our Workers' Compensation segment provides turn-key workers' compensation alternative market solutions that include program design, fronting, claims administration, risk management, SPC rental, asset management and SPC management services. The asset management and SPC management services are outsourced to a third party. Alternative market customers include individual companies, groups and associations. SPC dividend expense (income) for each period represents the profit or loss attributable to the alternative market business ceded to the SPCs of Eastern Re, net of any participation we have taken in the SPCs.

The SPCs are segregated pools of assets and liabilities that provide an insurance facility for a defined set of risks. Assets of each SPC are solely for the benefit of that individual cell and each SPC is solely responsible for the liabilities of that individual cell. Assets of one SPC are statutorily protected from the creditors of the others. We participate to a varying degree in the results of selected SPCs. Our ownership interest in the SPCs in which we participate is generally 50%, but we have ownership interests as low as 25% and as high as 82.5%. Under the SPC structure, the net operating results of each cell, net of our participation, are due to the external owners of that cell.

SPC dividend expense (income) for the year ended December 31, 2015 was as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
SPC net operating results - profit/(loss)	$(492)	$2,539	$(3,031)	(119.4 %)
Less: Eastern participation - profit/(loss)	(1,345)	697	(2,042)	(293.0 %)
SPC dividend expense (income)	$853	$1,842	$(989)	(53.7 %)

SPC dividend expense (income) for 2015 primarily reflected an increase in the SPC loss ratio and a decrease in net realized gains when compared to the same 2014 period. The increase in the SPC loss ratio primarily reflected severity related claim activity in the fourth quarter of 2015. Net realized losses totaled $1.5 million in 2015, compared to net realized gains of $0.5 million in 2014, primarily reflecting a decline in the fair value of the SPC’s equity securities in 2015.

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Segment Operating Results - Lloyd's Syndicate

Through a wholly owned and consolidated subsidiary, we are a corporate member of Lloyd's of London and have provided the majority (58%) of the capital for Syndicate 1729, which began writing and reinsuring property and casualty business as of January 1, 2014. The remaining capital for Syndicate 1729 is provided by unrelated third parties, including private names and other corporate members.

Syndicate 1729 covers a range of property and casualty insurance and reinsurance lines, and has a maximum underwriting capacity of £90 million for the 2016 underwriting year, of which £52 million ($76 million based on December 31, 2015 exchange rates) is our allocated underwriting capacity. We are required to provide capital (also referred to as FAL) to support our underwriting capacity and are meeting our FAL requirement with investment securities held at Lloyd's. Our FAL securities had a fair value of $95.8 million at December 31, 2015, as discussed in Note 4 of the Notes to Consolidated Financial Statements.

Our Lloyd's Syndicate segment results includes both our 58% participation in the operating results of Syndicate 1729 and 100% of the operating results of our wholly owned subsidiaries that support Syndicate 1729. We report results from our Syndicate 1729 involvement on a quarter delay, except that investment results associated with our FAL investments and certain U.S. paid administrative expenses are reported concurrently as that information is available on an earlier time frame. Due to the reporting delay and because Syndicate 1729 did not commence active operations until January 2014, only three quarters of Syndicate 1729 activity is included in our 2014 results while our 2015 results include four quarters of activity.

Our Lloyd's Syndicate segment operating results for 2015 was a loss of $5.6 million and for 2014 was a loss of $5.0 million, composed as follows:

	Year Ended December 31	
($ in thousands)	2015	2014
Gross premiums written	$56,929	$33,731
Net premiums written	48,821	32,106
Net premiums earned	37,675	12,458
Net investment income	928	410
Net losses and loss adjustment expenses	25,181	8,438
Underwriting, policy acquisition and operating expenses	18,518	9,535
Income tax expense	1,240	—
Net loss ratio	66.8 %	67.7 %
Underwriting expense ratio	49.2 %	76.5 %

Gross premiums written in 2015 consisted of casualty coverages (47% of total gross written premium), property insurance coverages (29%), catastrophe reinsurance coverages (19%), and property reinsurance coverages (5%). Approximately $4.0 million of the 2015 increase in net premiums written is due to the additional quarter of activity in 2015 with the remainder primarily attributable to new business. As discussed in our Specialty P&C segment operating results, Syndicate 1729 has entered into a quota share reinsurance agreement with one of our Specialty P&C wholly owned insurance subsidiaries and pays a ceding commission related to the amount assumed. Our Specialty P&C segment also reports this ceding arrangement on the same quarter delay as the effect of doing so is not material. Gross premiums written in the above table included $14.9 million in 2015 and $14.8 million in 2014 attributable to our 58% participation in this ceding arrangement.

Net premiums earned consisted of gross premiums earned less the portion of earned premiums that we cede to our reinsurers for their assumption of a portion of our losses. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Policies written to date primarily carry a term of one year. Net premiums earned reported for 2015 included premium assumed from a ProAssurance subsidiary of approximately $14.4 million and approximately $4.2 million for 2014. The 2015 increase in net premiums earned reflects the effect of there being no active Syndicate operations prior to January 1, 2014 and the reporting delay.

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Losses for the year were primarily recorded using the loss assumptions by risk category incorporated into the business plan submitted to Lloyd's for Syndicate 1729 with consideration given to loss experience incurred to date. The assumptions used in the business plan were consistent with loss results reflected in Lloyd's historical data for similar risks. We expect loss ratios to fluctuate from quarter to quarter as Syndicate 1729 writes more business and the book begins to mature.

Underwriting expenses were $18.5 million and $9.5 million for the years ended December 31, 2015 and 2014, respectively. The improvement in the 2015 expense ratio reflects the increase in net premiums earned and we anticipate a continued reduction to the ratio as the level of net premiums earned is expected to grow.

Net investment income for the years ended December 31, 2015 and 2014 was primarily attributable to interest earned on the FAL investments. Our FAL investments are primarily short-term investments and investment-grade corporate debt securities.

Operating results of this segment are subject to U.K. income tax law. Tax expense incurred in 2015 includes both our estimated U.K. tax liability for the 2014 tax year (determined during the second quarter of 2015) and an accrual of our 2015 U.K. tax liability. The subsidiaries of this segment generated U.K. tax income primarily because certain expenses recognized for GAAP reporting purposes are not deductible for U.K. tax purposes.

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Segment Operating Results - Corporate

Segment operating results for our Corporate segment were $21.3 million and $57.8 million for the years ended December 31, 2015 and December 31, 2014, respectively. Results included the following:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Net investment income	$107,732	$125,147	$(17,415)	(13.9 %)
Equity in earnings (loss) of unconsolidated subsidiaries	3,682	3,986	(304)	(7.6 %)
Net investment result	$111,414	$129,133	$(17,719)	(13.7 %)
Total net realized investment gains (losses)	(41,663)	14,650	(56,313)	(384.4 %)
Operating expense	24,518	8,768	15,750	179.6 %
Interest expense	14,596	14,084	512	3.6 %
Income taxes	11,418	65,440	(54,022)	(82.6 %)

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

Net Investment Income

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

Net investment income by investment category was as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Fixed maturities	$96,315	$111,442	$(15,127)	(13.6 %)
Equities	13,317	10,817	2,500	23.1 %
Short-term and Other investments	2,035	8,833	(6,798)	(77.0 %)
BOLI	2,053	2,006	47	2.3 %
Investment fees and expenses	(5,988)	(7,951)	1,963	24.7 %
Net investment income	$107,732	$125,147	$(17,415)	(13.9 %)

Fixed Maturities

The decrease in our income from fixed maturity securities was due to lower average investment balances and to lower income yields. Yields declined during 2015 because maturities and calls of older, higher yielding bonds lowered the average yield of our portfolio. We reduced the size of our fixed portfolio over the last year in order to fund the repurchase of our stock, pay dividends to our shareholders and invest in other asset classes. On an overall basis our average investment in fixed securities was approximately 9.0% lower in 2015 as compared to 2014.

Average yields for our fixed maturity portfolio were as follows:

	Year Ended December 31	
	2015	2014
Average income yield	3.4%	3.6%
Average tax equivalent income yield	4.0%	4.2%

Equities

Income from our equity portfolio increased approximately 23.1% for the year ended December 31, 2015, as compared to 2014. The 2015 increase in income reflects an increase to our allocation to this asset category during 2015 as well as a different mix of equities owned.

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Short-term Investments and Other Invested Assets

This income category primarily consisted of distributions from LPs that are accounted for under the cost method, and almost all of the decrease in the category is attributable to LP distributions. Such distributions are affected by the volatility of equity and credit markets, and in 2015 we saw a decline in distributions that were made to us.

Investment Fees and Expenses

Investment fees and expenses decreased $2.0 million for the year ended December 31, 2015. The decrease reflected lower portfolio management fees, due to various factors including a smaller portfolio and a more favorable fee structure obtained in 2015.

Equity in Earnings (Loss) of Unconsolidated Subsidiaries

Equity in earnings (loss) of unconsolidated subsidiaries is derived from our investment interests accounted for under the equity method. Results were as follows:

	Year Ended December 31			
($ in thousands)	2015	2014	Change	
Investment LPs/LLCs	$13,970	$14,714	$(744)	(5.1%)
Tax credit partnerships	(10,288)	(10,728)	440	4.1%
Equity in earnings (loss) of unconsolidated subsidiaries	$3,682	$3,986	$(304)	(7.6%)

We hold interests in certain LPs/LLCs that generate earnings from trading portfolios, secured debt, debt securities, multi-strategy funds and private equity investments. The performance of the LPs is affected by the volatility of equity and credit markets.

Our tax credit investments are designed to generate returns in the form of tax credits and tax-deductible project operating losses. We account for our tax credit investments under the equity method and record our allocable portion of the operating losses of the underlying properties based on estimates provided by the partnership. We adjust our estimates of our allocable portion of operating losses periodically as actual operating results of the underlying properties become available.

The tax benefits received from our tax credit partnerships, which are not reflected in our investment results above, reduced our tax expenses in 2015 and 2014 as follows:

	Year Ended December 31	
(In millions)	2015	2014
Tax credits recognized during the period	$22.4	$17.9
Tax benefit of amortization	$3.6	$3.8

During 2015, we began investing in historic tax credit partnerships. Tax credits provided by the underlying projects of these partnerships are typically available in the tax year in which the project is put into active service, whereas the tax credits provided by qualified affordable housing tax credit partnerships, which make up the majority of our tax credit investments, are provided over approximately a ten year period. The increase in the amount of tax credits recognized in 2015 is primarily due to our investment in historic tax credit partnerships.

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Non-GAAP Financial Measure – Tax Equivalent Investment Result

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

	Year Ended December 31	
(In thousands)	2015	2014
GAAP net investment result:		
Net investment income	$107,732	$125,147
Equity in earnings (loss) of unconsolidated subsidiaries	3,682	3,986
GAAP net investment result	$111,414	$129,133
Pro forma tax-equivalent investment result	$164,756	$175,344
Reconciliation of pro forma tax-equivalent investment result to GAAP net investment result:		
Pro forma tax-equivalent investment result	$164,756	$175,344
Less taxable equivalent adjustments, calculated using the 35% federal statutory tax rate:		
State and municipal bonds	14,449	15,727
BOLI	1,105	1,080
Dividends received	3,316	1,838
Tax credit partnerships	34,472	27,566
GAAP net investment result	$111,414	$129,133

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Net Realized Investment Gains (Losses)

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

	Year Ended December 31	
(In thousands)	2015	2014
OTTI losses, total:		
State and municipal bonds	$—	$(50)
Corporate debt	(11,781)	(1,425)
Other investments	(8,136)	—
Portion recognized in OCI:		
Corporate debt	4,572	268
Net impairments recognized in earnings	(15,345)	(1,207)
Gross realized gains, available-for-sale securities	11,910	5,623
Gross realized (losses), available-for-sale securities	(11,479)	(1,103)
Net realized gains (losses), trading securities	1,080	28,018
Net realized gains (losses), other investments	464	326
Change in unrealized holding gains (losses), trading securities	(28,343)	(18,883)
Change in unrealized holding gains (losses), convertible securities, carried at fair value as a part of Other investments	(896)	1,876
Other	946	—
Net realized investment gains (losses)	$(41,663)	$14,650

During 2015, we recognized OTTI through earnings of $7.2 million related to corporate bonds, including credit-related OTTI of $4.9 million related to debt instruments from six issuers in the energy sector. The fair value of these bonds declined in 2015 as did the credit quality of the issuers and we recognized credit-related OTTI to reduce the amortized cost basis of the bonds to the present value of future cash flows we expected to receive from the bonds. We also recognized non-credit impairments of $3.7 million in OCI relative to the bonds of these issuers, as the fair value of the bonds was less than the present value of the expected future cash flows from the securities. We also recognized an OTTI in earnings during 2015 of $0.9 million related to a bond we intended to sell.

We recognized an $8.1 million OTTI in earnings during 2015 related to an investment fund that is accounted for using the cost method. The fund is focused on the energy sector and securities held by the fund have declined in value. An OTTI was recognized to reduce our carrying value of the investment to the NAV reported by the fund.

During 2014 we recognized credit-related impairments related to two corporate debt instruments, both in retail/services industries. A non-credit impairment was recognized in OCI related to one of the instruments as the fair value of the instrument was less than the expected future cash flows from the security.

We recognized net losses relative to our trading securities during 2015, primarily due to reductions in market valuations during the period. During 2014, our trading portfolio produced net gains during the period, due both to gains from sales and to improvements in market valuations.

Operating Expenses

Corporate segment operating expenses were $24.5 million and $8.8 million for the years ended December 31, 2015 and 2014, respectively.

The increase in operating expenses as compared to 2014 reflects the effects of corporate restructuring initiatives undertaken over the course of 2014 and the implementation of a management fee charged by the Corporate segment to the Specialty P&C and Workers' Compensation segments in 2015. The restructuring initiative shifted certain costs, primarily compensation costs, from the Specialty P&C segment to the Corporate segment. Also, beginning with the first quarter of 2015, the operating subsidiaries within our Specialty P&C and Workers' Compensation segments are charged a management fee by the Corporate segment for services provided to these subsidiaries. The management fee is based on the extent to which services are provided to the subsidiary and the amount of premium written by the subsidiary. Under the new arrangement, the expenses associated with such services are reported as expenses of the Corporate segment, and the management fees charged are reported as an offset to Corporate operating expenses. Prior to 2015, a substantial portion of expenses associated with services provided to other segments were directly allocated to the insurance subsidiaries included in the Specialty P&C segment. Expenses were

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not allocated to the subsidiaries within the Workers' Compensation segment during 2014 as these subsidiaries were newly acquired.

Due to these changes to our reporting of expenses by segment, we believe a comparison of Corporate and Specialty P&C expenses on a combined basis is more meaningful than a separate analysis by segment. The table below compares underwriting and operating expenses reported by the Corporate and Specialty P&C segments on a combined basis for the years ended December 31, 2015 and 2014.

	Year Ended December 31			
($ in millions)	2015	2014	Change	
Underwriting, policy acquisition and operating expense:				
Corporate Segment:				
Operating expenses	$38.6	$32.3	$6.3	19.5 %
Operating expenses allocated to Specialty P&C segment	—	(23.5)	23.5	nm
Management fee offset	(14.1)	—	(14.1)	nm
Segment Total	24.5	8.8	15.7	178.4 %
Specialty P&C segment:				
DPAC amortization	45.5	55.1	(9.6)	(17.4 %)
Management fees	7.3	—	7.3	nm
Expenses allocated from the Corporate segment	—	23.5	(23.5)	nm
ULAE portion of expenses allocated from the Corporate segment	—	(7.4)	7.4	nm
Net allocation from the Corporate segment	—	16.1	(16.1)	nm
Other underwriting and operating expenses	52.8	61.9	(9.1)	(14.7 %)
Segment Total	105.6	133.1	(27.5)	(20.7 %)
Corporate and Specialty P&C expenses, combined	$130.1	$141.9	$(11.8)	(8.3 %)
Corporate and Specialty P&C expenses, combined, exclusive of DPAC amortization, management fees and allocations identified above	$91.4	$94.2	$(2.8)	(3.0 %)

On a combined basis, exclusive of any effect from DPAC amortization, management fees or allocations, there was a $2.8 million decrease in expenses in 2015 as compared to 2014. The net decrease was attributable to acquisition-related expenses incurred in 2014 but not in 2015, partially offset by higher expenses during 2015. Expenses incurred in 2014 but not in 2015 included expenses associated with discontinued operations of an acquired entity, certain retention and severance expenses, and amortization of intangible assets that became fully amortized early in 2015. Expense increases during 2015 primarily resulted from the following: higher costs for technology enhancements, corporate restructuring which shifted expense, primarily compensation expense, from ULAE cost centers to operating expense cost centers, and a corporate litigation recovery received in 2014.

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Interest Expense

Interest expense increased during 2015 as compared to 2014 primarily due to a $100 million secured borrowing under our Revolving Credit Agreement in January 2015. Our weighted average outstanding debt approximated $348 million for the year ended December 31, 2015 as compared to $250 million for the year ended December 31, 2014.

Interest expense for 2015 and 2014 is provided in the following table:

	Year Ended December 31		
(In thousands)	2015	2014	Change
Senior notes due 2023	$13,428	$13,433	$(5)
Revolving credit agreement (including fees and amortization)	1,130	507	623
Other	38	144	(106)
	$14,596	$14,084	$512

Taxes

We calculate our effective tax rate on a consolidated basis, dividing consolidated tax expense by consolidated pre-tax income. Consolidated tax expense reflects both U.S. tax expense, all of which is allocated to our Corporate segment, and U.K. tax expense, all of which is allocated to our Lloyd's Syndicate segment, as detailed in the table that follows:

	Year Ended December 31	
(In thousands)	2015	2014
Corporate segment income tax expense	$11,418	$65,440
Lloyd's Syndicate segment income tax expense	1,240	—
Consolidated income tax expense	$12,658	$65,440

Factors affecting our consolidated effective tax rate include the following:

	Year Ended December 31	
	2015	2014
Statutory rate	35.0 %	35.0 %
Tax-exempt income*	(10.0 %)	(5.0 %)
Tax credits	(17.4 %)	(6.8 %)
Non-U.S. losses and payments	2.1 %	0.7 %
Other	0.1 %	1.1 %
Effective tax rate	9.8 %	25.0 %

* Includes tax-exempt interest, dividends received deduction, and cash surrender value of BOLI.

Our effective tax rates for both 2015 and 2014 were different from the statutory Federal income tax rate primarily due to the following:

- a portion of our investment income was tax-exempt.
- we utilized tax credits transferred to us from our tax credit partnership investments.
- we did not recognize a tax benefit related to the operating loss or the U.K. tax expense associated with our Lloyd's Syndicate segment.

Tax-exempt income decreased in 2015 but had an increased effect on our effective tax rate because of an even greater decline in pre-tax income during 2015. The increased impact of the tax credits on the tax rate was primarily due to lower pre-tax income in 2015, but also reflected an increased amount of credits. Tax credits recognized for 2015 were $22.4 million as compared to $17.9 million for 2014.

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Results of Operations–Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

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

	Year Ended December 31		
($ in thousands, except per share data)	2014	2013	Change
Revenues:			
Net premiums written	$701,849	$525,182	$176,667
Net premiums earned	$699,731	$527,919	$171,812
Net investment result	129,543	136,804	(7,261)
Net realized investment gains (losses)	14,654	67,904	(53,250)
Other income	8,398	7,551	847
Total revenues	852,326	740,178	112,148
Expenses:			
Losses and loss adjustment expenses	379,232	243,015	136,217
Reinsurance recoveries	(16,148)	(18,254)	2,106
Net losses and loss adjustment expenses	363,084	224,761	138,323
Underwriting, policy acquisition and operating expenses	211,311	147,817	63,494
Segregated portfolio cells dividend expense	1,842	—	1,842
Interest expense	14,084	2,755	11,329
Total expenses	590,321	375,333	214,988
Gain on acquisition	—	32,314	(32,314)
Income before income taxes	262,005	397,159	(135,154)
Income taxes	65,440	99,636	(34,196)
Net income	$196,565	$297,523	$(100,958)
Operating income	$186,367	$221,097	$(34,730)
Earnings per share:			
Basic	$3.32	$4.82	$(1.50)
Diluted	$3.30	$4.80	$(1.50)
Operating earnings per share:			
Basic	$3.14	$3.58	$(0.44)
Diluted	$3.13	$3.56	$(0.43)
Net loss ratio	51.9%	42.6%	9.3
Underwriting expense ratio	30.2%	28.0%	2.2
Combined ratio	82.1%	70.6%	11.5
Operating ratio	64.2%	46.1%	18.1
Effective tax rate	25.0%	25.1%	(0.1)
Return on equity*	8.6%	11.4%	(2.8)

* Gain on acquisition is excluded from the calculation of return on equity for 2013.

In all tables that follow, the abbreviation “nm” indicates that the percentage change is not meaningful.

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Revenues

Our consolidated net premiums earned were as follows:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Net Premiums Earned				
Specialty P&C	$492,733	$527,919	$(35,186)	(6.7 %)
Workers' Compensation	194,540	—	194,540	nm
Lloyd's Syndicate	12,458	—	12,458	nm
Consolidated total	$699,731	$527,919	$171,812	32.5 %

Consolidated net premiums earned increased in 2014 as compared to 2013 primarily due to the contribution of our recently acquired Workers' Compensation segment. The decline in net premiums earned for our Specialty P&C segment was primarily attributable to the pro rata effect of lower physician premiums written during the preceding twelve months and also reflected an increase in ceded premiums earned. Given the start-up nature of Syndicate 1729 it added only $12.5 million in net premiums earned for the year ended December 31, 2014 (as compared to net written premium of $32.1 million for the year ended December 31, 2014).

Our net investment result (which includes both net investment income and earnings from unconsolidated subsidiaries) decreased $7.3 million or 5.3% for the year ended December 31, 2014. Approximately $3.7 million was a decrease in Net investment income primarily due to reduced earnings on our fixed income portfolio, which was partially offset by increased earnings from our Other investments. Earnings from unconsolidated subsidiaries decreased $3.6 million in the year ended December 31, 2014, primarily due to earnings recognized in 2013 as a result of a change of an LP from the cost method to the equity method. Otherwise, earnings from our other investment LPs were higher in 2014. Amortization of qualified affordable housing tax credit partnerships was relatively flat as compared to 2013.

Net realized investment gains (losses) decreased $53.3 million for the year ended December 31, 2014 as compared to 2013. The changes primarily related to trading securities carried at fair value. Net impairments were approximately $1.2 million in the year ended December 31, 2014 and nominal in the year ended December 31, 2013.

Expenses

The following table shows our net loss ratio by segment:

	Year Ended December 31		
($ in millions)	2014	2013	Change
Current accident year net loss ratio			
Consolidated ratio	77.9 %	84.8 %	(6.9)
Specialty P&C	83.0 %	84.8 %	(1.8)
Workers' Compensation	65.7 %	— %	nm
Lloyd's Syndicate	67.7 %	— %	nm
Calendar year net loss ratio			
Consolidated ratio	51.9 %	42.6 %	9.3
Specialty P&C	46.3 %	42.6 %	3.7
Workers' Compensation	65.0 %	— %	nm
Lloyd's Syndicate	67.7 %	— %	nm
Favorable net loss development, prior accident years			
Consolidated	$182.1	$222.7	$(40.6)
Specialty P&C	$180.8	$222.7	$(41.9)
Workers' Compensation	$1.3	$—	$1.3
Lloyd's Syndicate	$—	$—	$—

The decrease in our consolidated current accident year net loss ratio for the year ended December 31, 2014 was primarily attributable to the addition of our workers' compensation business. The start-up of Syndicate 1729 during 2014 had only a

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nominal effect on the consolidated ratio. Combined, these new operations decreased our 2014 consolidated current accident year net loss ratio by 5.1 percentage points. The current accident year net loss ratio of our Specialty P&C segment (our historical business) reflected a decrease primarily attributable to a reduction to our estimate of the reserve required for our death, disability and retirement (DDR) coverage, partially offset by the effect of a higher accrual for internal claims adjustment expenses on a lower volume of premiums earned.

Our consolidated calendar year net loss ratio is lower than our consolidated current accident year net loss ratio due to the recognition of net favorable loss development in our Specialty P&C and Workers' Compensation segments as shown in the table above.

Our underwriting expense ratio reflected the following:

	Year Ended December 31		
	2014	2013	Change
Underwriting Expense Ratio, as reported			
Consolidated	30.2 %	28.0 %	2.2
Underwriting Expense Ratio, excluding the effect of discrete events and Syndicate 1729			
Consolidated	28.4 %	26.3 %	2.1
Specialty P&C	26.5 %	24.2 %	2.3
Workers' Compensation	29.6 %	— %	nm

Our consolidated expense ratio increased in 2014 due to a number of factors, including the acquisition of Eastern and additional expenses associated with our participation in Syndicate 1729. The ratios for both 2014 and 2013 were also affected by expenses attributable to discrete events, such as transaction and other costs associated with business combinations or expansions, and costs associated with technology initiatives. Our 2014 ratio also reflects an increase due to the effect of purchase accounting on deferred policy acquisition cost amortization in 2013. Exclusive of expenses attributable to discrete events, we estimate that the addition of our Workers' Compensation segment, which carries a higher expense ratio, and our Lloyd's Syndicate segment, which had a high expense ratio due to its start-up phase, increased our consolidated expense ratio by approximately 1.3 percentage points for the year ended December 31, 2014. Otherwise, our consolidated ratio increased in 2014 due to lower earned premium from our Specialty P&C segment and the aforementioned effect of purchase accounting on the 2013 ratio.

Exclusive of the effect of discrete events and the effect of purchase accounting on 2013 DPAC amortization, our Specialty P&C segment ratio increased because the decline in our operating costs did not keep pace with the decline in net premiums earned. Approximately 2.7 percentage points of the Workers' Compensation segment expense ratio for the year ended December 31, 2014 was attributable to the amortization of intangible assets recognized in the acquisition of Eastern.

Taxes

Our effective tax rate was 25.0% for the year ended December 31, 2014, comparable to our 2013 effective tax rate of 25.1%. Tax-exempt income decreased during 2014 but had a greater effect on our effective rate as our total income was lower in 2014. Tax credits also had an increased effect but were approximately the same amount in 2014 as in 2013. Our 2013 effective tax rate was reduced due to a gain on acquisition that was not taxable; there was no similar non-taxable gain in 2014.

Operating Ratio and Return on Equity

Our operating ratio (calculated as our combined ratio, less our investment income ratio) increased by 18.1 percentage points in the year ended December 31, 2014, reflecting higher net loss and expense ratios, and a decline in our investment ratio of 6.6 percentage points for the year ended December 31, 2014, primarily due to the acquisition of Eastern. Compared to our professional liability business, workers' compensation generally requires lower reserves which necessitates lower investment assets to support those reserves in proportion to earned premium.

Return on equity (ROE) was 8.6% for the year ended December 31, 2014 and was 11.4% for the year ended December 31, 2013. Our calculation of return on equity for the year ended December 31, 2013 excluded the effect of the $32.3 million gain on acquisition.

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Book Value per Share

Our book value per share at December 31, 2014 as compared to December 31, 2013 is shown in the following table.

	Book Value Per Share
Book Value Per Share at December 31, 2013	$39.13
Increase (decrease) to book value per share during the year ended December 31, 2014 attributable to:	
Net income	3.32
Decrease in accumulated other comprehensive income	(0.02)
Dividends declared	(3.86)
Other, primarily the repurchase of shares	(0.40)
Book Value Per Share at December 31, 2014	$38.17

Non-GAAP Financial Measures

Operating income is a non-GAAP financial measure that is widely used to evaluate performance within the insurance sector. In calculating operating income, we have excluded the after-tax effects of net realized investment gains or losses, guaranty fund assessments or recoupments gain on acquisition and the effect of confidential settlements that do not reflect normal operating results. We believe operating income presents a useful view of the performance of our insurance operations, but should be considered in conjunction with net income computed in accordance with GAAP. The following table is a reconciliation of Net income to Operating income:

	Year Ended December 31	
(In thousands, except per share data)	2014	2013
Net income	$196,565	$297,523
Items excluded in the calculation of operating income:		
Net realized investment (gains) losses	(14,654)	(67,904)
Guaranty fund assessments (recoupments)	(169)	40
Gain on acquisition	—	(32,314)
Effect of confidential settlements, net	(866)	—
Pre-tax effect of exclusions	(15,689)	(100,178)
Tax effect, at 35%, exclusive of non-taxable gain on acquisition	5,491	23,752
Operating income	$186,367	$221,097
Per diluted common share:		
Net income	$3.30	$4.80
Effect of exclusions	(0.17)	(1.24)
Operating income per diluted common share	$3.13	$3.56

Note: The 35% rate above is the annual expected incremental tax rate associated with the taxable or tax deductible items listed.

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Segment Operating Results - Specialty Property & Casualty

Our Specialty P&C segment focuses on professional liability insurance and medical technology and life sciences products liability insurance as discussed in Note 15 of the Notes to Consolidated Financial Statements. Specialty P&C segment operating results reflect pre-tax underwriting profit or loss from these insurance lines, and does not include investment results, which are included in our Corporate segment. Segment operating results for the year ended December 31, 2014 were $137.2 million as compared to $176.7 million for the year ended December 31, 2013, and included the following:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Net premiums written	$467,046	$525,182	$(58,136)	(11.1%)
Net premiums earned	$492,733	$527,919	$(35,186)	(6.7%)
Net losses and loss adjustment expenses	$228,199	$224,761	$3,438	1.5%
Underwriting, policy acquisition and operating expenses	$133,132	$132,076	$1,056	0.8%
Net loss ratio	46.3%	42.6%	3.7	
Underwriting expense ratio	27.0%	25.0%	2.0	

Premiums Written

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

Gross, ceded and net premiums written were as follows:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Gross premiums written	$532,608	$567,547	$(34,939)	(6.2%)
Ceded premiums written	(65,562)	(42,365)	(23,197)	(54.8%)
Net premiums written	$467,046	$525,182	$(58,136)	(11.1%)

Gross Premiums Written

Gross premiums written by component were as follows:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Professional liability				
Physicians (1):				
Twelve month term	$362,056	$388,583	$(26,527)	(6.8%)
Twenty-four month term	19,949	25,584	(5,635)	(22.0%)
Total Physicians	382,005	414,167	(32,162)	(7.8%)
Healthcare facilities (2)	33,521	35,356	(1,835)	(5.2%)
Other healthcare providers (3)	33,589	33,971	(382)	(1.1%)
Legal professionals (4)	27,776	27,060	716	2.6%
Tail coverages (5)	18,745	20,920	(2,175)	(10.4%)
Total professional liability	495,636	531,474	(35,838)	(6.7%)
Medical technology and life sciences products liability (6)	35,265	34,190	1,075	3.1%
Other	1,707	1,883	(176)	(9.3%)
Total	$532,608	$567,547	$(34,939)	(6.2%)

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(1) Physician policies were our greatest source of premium revenues in both 2014 and 2013. We offer twenty-four month term policies to our physician insureds in one selected jurisdiction. The decline in twenty-four month premium, as compared to 2013, primarily reflects the normal cycle of renewals (policies subject to renewal in 2014 were previously written in 2012 rather than in 2013). There was no significant volume change associated with twenty-four month policies during the year ended December 31, 2014.

(2) Our healthcare facilities premium (which includes hospitals, surgery centers and other facilities) declined in 2014, principally due to the non-renewal of certain business.

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

(4) Our legal professionals policies are offered throughout the United States, principally through agent and brokerage arrangements.

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

(6) Our medical technology and life sciences products liability (products liability) business is marketed throughout the United States; coverage is offered on a primary basis, within specified limits, to manufacturers and distributors of medical technology and life sciences products. In addition to the previously listed factors that affect our premium volume, our products liability premium volume is impacted by the sales volume of insureds.

New business written by component was as follows:

	Year Ended December 31	
(In millions)	2014	2013
Physicians	$17.1	$18.0
Healthcare facilities	$5.0	$6.2
Other healthcare providers	$2.8	$2.5
Legal professionals *	$4.2	$2.0
Medical technology and life sciences products liability *	$5.4	na

* Excludes new business attributable to our Medmarc acquisition for the year ended December 31, 2013, as the entire Medmarc book of business was new to us in 2013.

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

Retention by component was as follows:

	Year Ended December 31	
	2014	2013
Physicians, standard lines only	89 %	89 %
Healthcare facilities	83 %	79 %
Other healthcare providers	81 %	82 %
Legal professionals *	82 %	88 %
Medical technology and life sciences products liability *	85 %	na

* Premiums contributed by our Medmarc acquisition are excluded from the calculation of retention for the year ended December 31, 2013, as the entire Medmarc book of business was new to us in 2013.

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The pricing of our business includes the effects of filed rates, surcharges, and discounts. We continue to base our pricing on expected losses, as indicated by our historical loss data and available industry loss data. We are committed to a rate structure that will allow us to fulfill our obligations to our insureds, while generating competitive returns for our shareholders.

Changes in renewal pricing by component was as follows:

	Year Ended December 31	
	2014	
Physicians	1	%
Healthcare facilities	(3	%)
Other healthcare providers	4	%
Legal professionals	6	%
Medical technology and life sciences products liability	2	%

Ceded Premiums Written

Ceded premiums represent the amounts owed to our reinsurers for their assumption of a portion of our losses. Through our current excess of loss reinsurance arrangements we retain the first $1 million in risk insured by us and cede any coverages in excess of this amount, and for our products liability coverages, we also retain 20% of the next $9 million of risk for coverages in excess of $1 million. We pay our reinsurers a ceding premium in exchange for their accepting the risk, the ultimate amount of which is determined by the loss experience of the business ceded, subject to certain minimum and maximum amounts.

Ceded premiums written for the years ended December 31, 2014 and 2013 were comprised as follows:

	Year Ended December 31				
($ in thousands)	2014	2013	Change		
Excess of loss reinsurance arrangements	$31,031	$30,571	$460	1.5	%
Premium ceded to Syndicate 1729 (1)	20,899	—	20,899	nm	
Other shared risk arrangements (2)	20,642	19,040	1,602	8.4	%
Other ceded premiums written	8,705	9,157	(452)	(4.9	%)
Reduction in premiums owed under reinsurance agreements, prior accident years, net (3)	(15,715)	(16,403)	688	4.2	%
Total ceded premiums written	$65,562	$42,365	$23,197	54.8	%

(1) Effective January 1, 2014, one of our subsidiaries began ceding premium to Syndicate 1729 under a quota share agreement, net of a related ceding commission. As previously discussed, we are a 58% participant in Syndicate 1729 and record our pro rata share of its operating results in our Lloyd's Syndicate segment on a quarter delay. We also record the Specialty P&C segment results for this agreement on a quarter delay as the amounts are not material and this permits the cession to be reported by both the Lloyd's Syndicate segment and the Specialty P&C segment in the same reporting period. Premium ceded to Syndicate 1729 reported for the year ended December 31, 2014 in the table above reflects cessions that occurred during the nine-months ended September 30, 2014. The related ceding commission income recorded as an offset to deferred policy acquisition costs for the year ended December 31, 2014 was $5.6 million. The fourth quarter cession of $4.8 million and the related ceding commission income of $1.3 million will be recorded in the first quarter of 2015. Eliminations of the inter-segment portion (58% of the Specialty P&C cession) of the transactions are also recorded on a quarter delay.

(2) We have entered into various shared risk arrangements, including quota share, fronting, and captive arrangements, with certain large healthcare systems and other insurance entities. These arrangements include our Ascension Health Certitude and CAPAssurance Programs. The increase in ceded premiums written under our shared risk arrangements for the year ended December 31, 2014 principally reflected premiums ceded under arrangements begun during 2014, partially offset by a large policy under one of the arrangements that did not renew in 2014.

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(3) Given the length of time that it takes to resolve our claims, many years may elapse before all losses recoverable under a reinsurance arrangement are known. As a part of the process of estimating our loss reserve we also make estimates regarding the amounts recoverable under our reinsurance arrangements. As previously discussed, the premiums ultimately ceded under our excess of loss reinsurance arrangements are subject to the losses ceded under the arrangements. In both 2014 and 2013, we reduced our estimate of expected losses and associated recoveries for prior year ceded losses, as well as our estimate of ceded premiums owed to reinsurers. Changes to estimates of premiums ceded related to prior accident years are fully earned in the period the change in estimates occur.

Ceded Premiums Ratio

As shown in the table below, our ceded premiums ratio was affected in both 2014 and 2013 by revisions to our estimate of premiums owed to reinsurers related to coverages provided in prior accident years.

	Year Ended December 31		
	2014	2013	Change
Ceded premiums ratio, as reported	12.3 %	7.5 %	4.8
Less the effect of reduction in premiums owed under reinsurance agreements, prior accident years (as previously discussed)*	(3.0 %)	(2.9 %)	(0.1)
Ratio, current accident year	15.3 %	10.4 %	4.9

* Effect shown for 2013 is net of an increase to the ratio of approximately 0.3 percentage points attributable to business combinations.

The remaining increase in the current accident year ceded premiums ratio for the year ended December 31, 2014 was primarily attributable to the increase in ceded premiums written under the quota share arrangement with Syndicate 1729 and our shared risk arrangements, as previously discussed. Additionally, premium volume from retained coverages was lower in 2014 than in 2013, which reduced gross premiums written but had no effect on ceded premiums written, and thus increased the ratio.

Net Premiums Earned

Net premiums earned were as follows:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Gross premiums earned	$543,052	$569,433	$(26,381)	(4.6 %)
Ceded premiums earned	(50,319)	(41,514)	(8,805)	(21.2 %)
Net premiums earned	$492,733	$527,919	$(35,186)	(6.7 %)

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

The decrease in gross premiums earned in 2014 primarily reflects the pro rata effect of lower physician premiums written during the preceding twelve months, partially offset by an increase in premiums earned due to growth associated with our shared risk arrangements. The increase in premiums ceded during 2014 primarily reflects growth associated with certain shared risk arrangements that were either new in 2014 or not in effect for all of 2013 and premiums ceded under the quota share arrangement with Syndicate 1729. Also, prior accident year ceded premiums reductions were $0.7 million lower in 2014 than in 2013 (see discussion under the heading "Ceded Premiums Written").

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Losses and Loss Adjustment Expenses

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

Accident year refers to the accounting period in which the insured event becomes a liability of the insurer. For claims-made policies, which represent over 90% of the premiums written in our Specialty P&C segment, the insured event generally becomes a liability when the event is first reported to the insurer. For occurrence policies the insured event becomes a liability when the event takes place. We believe that measuring losses on an accident year basis is the best measure of the underlying profitability of the premiums earned in that period, since it associates policy premiums earned with the estimate of the losses incurred related to those policy premiums.

The following table summarizes calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Additionally, the table shows our current accident year net loss ratio was significantly affected by revisions to our estimate of premiums owed to reinsurers related to coverages provided in prior accident years. Our current accident year net loss ratios for 2014 and 2013 compare as follows:

	Net Loss Ratios (1)					
	Year Ended December 31					
	2014		2013		Change	
Calendar year net loss ratio	46.3	%	42.6	%	3.7	
Less impact of prior accident years on the net loss ratio	(36.7	%)	(42.2	%)	5.5	
Current accident year net loss ratio	83.0	%	84.8	%	(1.8	)
Less estimated ratio increase (decrease) attributable to:						
Ceded premium reductions, prior accident years (2)	(2.7	%)	(2.7	%)	—	
Current accident year net loss ratio, excluding the effect of prior year ceded premium (3)	85.7	%	87.5	%	(1.8	)

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

(2) Reductions to premiums owed under reinsurance agreements for prior accident years increased net premiums earned (the denominator of the current accident year ratio) in both 2014 and 2013. The net increase to the ratio in 2013 reflects an offset of 0.3 percentage points that is attributable to loss reserves acquired in business combinations. See the discussion in the Premiums section for our Specialty P&C segment under the heading “Ceded Premiums Written” for additional information.

(3) The remaining decrease in the current accident year net loss ratio primarily reflects a decrease in our loss reserves related to death, disability and retirement (DDR) coverage endorsements provided to our insureds. The reserve for DDR is actuarially estimated and is affected by changes in the number of insureds expected to benefit from the coverage endorsement. This decrease was partially offset by the effect of a higher accrual for internal claims adjustment expenses on a lower volume of premiums earned.

We recognized favorable loss development related to our previously established reserve, on a gross basis, of $213.7 million for the year ended December 31, 2014. On a net basis, we recognized favorable development of $180.8 million for the year ended December 31, 2014. The net basis reflects the favorable development recognized with respect to our ceded coverage layers. We re-evaluate our previously established reserve each quarter based on our most recently available claims data and currently available industry trend information. Development recognized during 2014 principally related to accident years 2007 through 2011.

We recognized favorable loss development related to our previously established reserve, on a gross basis, of $248.5 million for the year ended December 31, 2013. On a net basis, we recognized favorable development of $222.7 million for the year ended December 31, 2013. Development recognized during 2013 principally related to accident years 2005 through 2011.

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A detailed discussion of factors influencing our recognition of loss development recognized is included in our Critical Accounting Estimates section under the heading "Reserve for Losses and Loss Adjustment Expenses." Assumptions used in establishing our reserve are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in the then current operations. Due to the size of our reserve, even a small percentage adjustment to the assumptions can have a material effect on our results of operations for the period in which the change is made, as was the case in both 2014 and 2013.

Underwriting, Policy Acquisition and Operating Expenses

The table below provides a comparison of 2014 and 2013 underwriting, policy acquisition and operating expenses:

	Year Ended December 31				
($ in thousands)	2014	2013	Change		
Underwriting, policy acquisition and operating expenses	$133,132	$132,076	$1,056	0.8	%

The following table highlights the more significant items affecting the comparability of expenses between 2014 and 2013:

(In millions)	Increase (Decrease) 2014 vs 2013	
Excluding the effect from purchase accounting listed separately below, DPAC amortization decreased in 2014. The amortization decrease was primarily attributable to a $2.8 million increase in ceding commission income. Ceding commissions are an offset to acquisition costs.	$(1.9	)
Amortization of deferred policy acquisition costs was lower due to the application of GAAP purchase accounting rules in 2013, but was at a normal level in 2014.	3.8	
Costs associated with ongoing technology enhancement initiatives	1.2	
Other variances not individually significant	(0.3	)
Expenses associated with discrete events:		
Transaction-related costs associated with entities acquired in 2013, principally professional fees and one time compensation costs	(2.7	)
Discontinued technology initiatives	0.9	
Net change in expenses	$1.0	

Underwriting Expense Ratio (the Expense Ratio)

As shown in the following table, our expense ratio was affected in both 2014 and 2013 by expenses associated with discrete events (see table above):

	Underwriting Expense Ratio					
	Year Ended December 31					
	2014		2013		Change	
Underwriting expense ratio, as reported	27.0	%	25.0	%	2.0	
Less estimated ratio increase (decrease) attributable to expenses associated with discrete events (see table above)	0.5	%	0.8	%	(0.3	)
Underwriting expense ratio, less listed effects	26.5	%	24.2	%	2.3	

The remaining increase in the ratio is due to the $3.8 million increase in deferred policy acquisition cost amortization identified in the previous table (approximately a 0.8 percentage point increase in the ratio), other operating cost increases during 2014 (approximately a 0.7 percentage point increase in the ratio), and the effect of a reduction in net earned premium as compared to 2013 (approximately a 0.8 percentage point increase in the ratio).

Segment Operating Results - Workers' Compensation

Our Workers' Compensation segment provides traditional workers' compensation insurance products primarily to employers with 1,000 employees or fewer and alternative market solutions, as discussed in Note 15 to the Notes to Consolidated Financial Statements. Our Workers' Compensation operations are the primary business operations acquired through our purchase of Eastern in 2014. Segment operating results reflect pre-tax underwriting profit or loss, and does not include investment results which are reported in our Corporate segment. Segment operating results for the year ended December 31, 2014 were $6.5 million and included the following:

($ in thousands)	Year Ended December 31, 2014
Net premiums written	$202,697
Net premiums earned	$194,540
Net losses and loss adjustment expenses	$126,447
Underwriting, policy acquisition and operating expenses	$60,357
Segregated portfolio cell dividend expense	$1,842
Net loss ratio	65.0 %
Underwriting expense ratio	31.0 %

Premiums Written

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

Gross, ceded and net premiums written for the year ended December 31, 2014 were as follows:

	Year Ended December 31, 2014		
(In thousands)	Traditional Business	Alternative Market Business	Segment Results
Gross premiums written	$166,004	$59,359	$225,363
Ceded premiums written	(10,401)	(12,265)	(22,666)
Net premiums written	$155,603	$47,094	$202,697

Our traditional workers' compensation insurance products include guaranteed cost, dividend, deductible, and retrospectively-rated policies. Our alternative market business is ceded 100% either to the segregated portfolio cells at our wholly owned Cayman Islands reinsurance subsidiary, Eastern Re, or to an unaffiliated captive insurer. As of December 31, 2014, there were 21 (17 active) segregated portfolio cells at Eastern Re and 3 active alternative market programs with an unaffiliated captive insurer.

Additional information regarding the operations of the segregated portfolio cells is included in the Underwriting, policy acquisition and operating expense section below.

Gross Premiums Written

Gross premiums written in our traditional and alternative market business for 2014 reflected the following:

	Year Ended December 31, 2014		
(In thousands)	Traditional Business	Alternative Market Business	Segment Results
Gross premiums written	$166,004	$59,359	$225,363

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Retention, renewal price change, new business and audit premium for both the traditional business and the alternative market business for 2014 are shown in the table below:

($ in thousands)	Year Ended December 31, 2014 Traditional Business	Alternative Market Business	Segment Results
New business	$35,111	$8,614	$43,725
Audit premium	$3,457	$347	$3,804
Retention rate (1)	82 %	86 %	83 %
Change in renewal pricing (2)	2 %	— %	1 %

(1) Our retention rate reflected the impact of price competition in the marketplace. We calculate our workers' compensation retention rate as annualized renewed premium divided by all annualized premium subject to renewal.
(2) The pricing of our business includes an assessment of the underlying policy exposure and the effects of current market conditions. We continue to base our pricing on expected losses, as indicated by our historical loss data.

Ceded Premiums Written

Ceded premiums written reflect our external reinsurance programs and alternative market business ceded to an unaffiliated captive insurance company.

Ceded premiums written for the year ended December 31, 2014 were as follows:

(In thousands)	Year Ended December 31, 2014 Traditional Business	Alternative Market Business	Segment Results
Premiums ceded to external reinsurers	$10,720	$5,927	$16,647
Return premium estimate under external reinsurance	(319)	—	(319)
Premiums ceded to unaffiliated captive insurers	—	6,338	6,338
Total ceded premiums written	$10,401	$12,265	$22,666

We retain the first $0.5 million in risk insured by us on our traditional business and cede losses in excess of this amount on each loss occurrence under our primary external reinsurance contract. The traditional external reinsurance contract contains a return premium provision under which we estimate return premium based on the underlying loss experience of policies covered under the contract. Changes in the return premium estimate reflect the loss experience under the reinsurance contract for the year ended December 31, 2014. In our alternative market business, the risk retention for each loss occurrence ranges from $0.3 to $0.35 million based on the alternative market program. We cede 100% of premiums written under three alternative market programs to an unaffiliated captive insurer.

Ceded Premiums Ratio

	Year Ended December 31, 2014 Traditional Business	Alternative Market Business	Segment Results
Ceded premiums ratio, as reported	6.3%	20.7%	10.1%
Less the effect of:			
Return premium estimated under external reinsurance	(0.2%)	—%	(0.1%)
Premiums ceded to unaffiliated captive insurer (100%)	—%	10.7%	2.8%
Ceded premiums ratio, less the effects of above	6.5%	10.0%	7.4%

Ceded premiums under our primary external reinsurance contract represented 7.4% of gross premiums written for the year ended December 31, 2014. We cede premiums related to our traditional business on an earned premium basis, whereas alternative market premiums are ceded on a written premium basis.

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Net Premiums Earned

Net premiums earned for the year ended December 31, 2014 were as follows:

	Year Ended December 31, 2014		
(In thousands)	Traditional Business	Alternative Market Business	Segment Results
Gross premiums earned	$160,717	$55,616	$216,333
Ceded premiums earned	(9,849)	(11,944)	(21,793)
Net premiums earned	$150,868	$43,672	$194,540

Net premiums earned consists of gross premiums earned less the portion of earned premiums that we cede to our reinsurers for their assumption of a portion of our losses. Our workers' compensation policies are twelve-month policies and premiums are earned on a pro rata basis over the policy period. Net premiums earned also include premium adjustments related to the audit of our insureds' payrolls. Payroll audits are conducted subsequent to the end of the policy period and any related adjustments are recorded in the current period. In addition, we record an estimate for EBUB and evaluate the estimate on a quarterly basis. We increased the EBUB estimate by $0.4 million during 2014, and the impact of that change is included in Audit premium.

Losses and Loss Adjustment Expenses

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

	Net Loss Ratios December 31, 2014		
	Traditional Business	Alternative Market Business	Segment Results
Calendar year net loss ratio	65.0%	65.1%	65.0%
Less impact of prior accident years on the net loss ratio	(1.0%)	0.6%	(0.7%)
Current accident year net loss ratio	66.0%	64.5%	65.7%
Less impact of audit premium on loss ratio	(1.3%)	(0.5%)	(1.2%)
Current accident year net loss ratio, excluding the effect of audit premium	67.3%	65.0%	66.9%

We recognized favorable prior year development at the segment level for our workers' compensation business of $1.3 million for the year ended December 31, 2014. Our traditional business produced $1.6 million in favorable development related to amortization associated with the purchase accounting fair value adjustment, which was offset by unfavorable development of $0.3 million related to our alternative market business, primarily reflecting medical severity-related claims activity in the 2013 accident year.

We recognized audit premium from customers in both our traditional and alternative market business during 2014, which reduced the current accident year net loss ratio. Audit premium from customers results in a decrease in the net loss ratio, whereas audit premium returned to customers results in an increase in the net loss ratio.

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Underwriting, Policy Acquisition and Operating Expenses

Underwriting, policy acquisition and operating expenses for the year ended December 31, 2014 were $60.4 million. These expenses include commissions, premium taxes, and underwriter salaries, which are capitalized and deferred over the related workers' compensation policy period, net of external ceding commissions earned. The capitalization of these costs can vary as they are subject to the success rate of our contract acquisition efforts.

(In thousands)	Year Ended December 31, 2014
Traditional business	$46,717
Alternative market business	13,640
Underwriting, policy acquisition and operating expenses	$60,357

The following table highlights certain discrete events affecting expenses, entirely in our traditional business in 2014:

(In thousands)	Expense Increase (Decrease) Year Ended December 31, 2014
One-time professional fees	$661
Transaction-related expenses	$2,180

Underwriting Expense Ratio (the Expense Ratio)

Our expense ratio for the year ended December 31, 2014, including the impact of audit premium and certain discrete items in our traditional and alternative market business, was as follows:

	Year Ended December 31, 2014					
	Traditional Business		Alternative Market Business*		Segment Results	
Underwriting expense ratio, as reported	31.0	%	31.2	%	31.0	%
Less estimated ratio increase (decrease) attributable to:						
Transaction-related expenses	1.4	%	—	%	1.1	%
One-time professional fees	0.4	%	—	%	0.3	%
Amortization of intangible assets	3.4	%	—	%	2.7	%
Impact of return premium estimate	(0.1	%)	—	%	(0.1	%)
Impact of audit premium	(0.6	%)	(0.3	%)	(0.6	%)
Underwriting expense ratio, less listed effects	26.5	%	31.5	%	27.6	%

*The expense ratio of our alternative market business approximates the ceding commissions paid to Eastern.

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Segregated Portfolio Cell (SPC) Dividend Expense

Our Workers' Compensation segment provides turn-key workers' compensation alternative market solutions that include program design, fronting, claims administration, risk management, SPC rental, asset management and SPC management services. The asset management and SPC management services are outsourced to a third party. Alternative market customers include individual companies, groups and/or associations (known as SPC dividend participants). SPC dividend expense for each period represents the profit or loss attributable to the alternative market business ceded to the SPCs of Eastern Re, net of any participation we have taken in the SPCs.

The SPCs are segregated pools of assets and liabilities that provide an insurance facility for a defined set of risks. Assets of each SPC are solely for the benefit of that individual cell and each SPC is solely responsible for the liabilities of that individual cell. Assets of one SPC are statutorily protected from the creditors of the others. We participate to a varying degree in the results of selected SPCs. Our ownership interest in the SPCs in which we participate is generally 50%, but we have ownership interests as low as 25% and as high as 82.5%. Under the SPC structure, the net operating results of each cell, net of our participation, are due to the SPC participants of that cell.

SPC dividend expense for the year ended December 31, 2014 was as follows:

(In thousands)	Year Ended December 31, 2014
SPC net operating results - profit/(loss)	$2,539
Less: Eastern participation - profit/(loss)	697
SPC dividend expense (income)	$1,842

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Segment Operating Results - Lloyd's Syndicate

Through a wholly owned and consolidated subsidiary (the Corporate Member), we are a Corporate Member of Lloyd's of London. Our Corporate Member is the majority (58%) capital provider to Syndicate 1729, which began writing and reinsuring property and casualty business as of January 1, 2014. The remaining capital for Syndicate 1729 is provided by unrelated third parties, including private names and other corporate members.

Syndicate 1729 covers a range of property and casualty insurance and reinsurance lines, and has a maximum underwriting capacity of £75 million for the 2015 underwriting year, of which £43 million ($67 million based on December 31, 2014 exchange rates) is our allocated underwriting capacity as a corporate member.

Syndicate 1729 functions as the medium through which we and the other capital providers participate in the property and casualty business underwritten by the Syndicate. Syndicate 1729 is led by Duncan Dale, an underwriter with more than 30 years of experience at Lloyd’s and in the London insurance and reinsurance market. A service company, 70% owned by Mr. Dale and 30% owned by ProAssurance, provides underwriting and other services to Syndicate 1729 on a fee basis. We account for our interest in the service company using the equity method as we do not control the service company.

Our Lloyd's Syndicate segment (comprised of our 58% participation in Syndicate 1729 operating results and 100% of the operating results of our wholly owned subsidiaries that support Syndicate 1729) reported net operating losses for the year ended December 31, 2014 of $5.0 million. We report results from our Syndicate 1729 involvement on a quarter delay, except that investment results associated with our FAL investments and certain U.S. paid administrative expenses, principally start-up costs, are reported concurrently as that information is available on an earlier time frame.

Segment results reported for the year ended December 31, 2014 included the following:

($ in thousands)	Year Ended December 31, 2014	
Net premiums written	$32,106	
Net premiums earned	$12,458	
Net investment income	$410	
Net losses and loss adjustment expenses	$8,438	
Underwriting, policy acquisition and operating expenses	$9,535	
Net loss ratio	67.7	%
Underwriting expense ratio	76.5	%

Segment gross premiums written by component as well as a reconciliation to net premiums written are shown in the following table.

($ in thousands)	Year Ended December 31, 2014	
Gross premiums written:		
Casualty	$21,703	
Property	6,110	
Catastrophe	5,918	
Ceded premiums written	(1,625	)
Net premiums written	$32,106	

As discussed in our Specialty P&C segment operating results, effective January 1, 2014, Syndicate 1729 entered into a quota share reinsurance agreement with one of our Specialty P&C wholly owned insurance subsidiaries and pays a ceding commission related to the amount assumed. Our Specialty P&C segment reports this ceding arrangement on a quarter delay as the effect of the delay is not material and this permits the cession to be reported by both the Lloyd's Syndicate segment and the Specialty P&C segment in the same reporting period. The above table includes casualty premiums of $12.0 million (our 58% share of total premium ceded to Syndicate 1729) that are attributable to this arrangement.

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Net premiums earned consist of gross premiums earned less the portion of earned premiums ceded to external reinsurers for their assumption of a portion of our losses. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Syndicate 1729 policies written to date primarily carry a term of one year.

The net loss ratio was 67.7% for the year ended December 31, 2014. Losses for the year were recorded using the loss assumptions incorporated into the business plan submitted to Lloyd's for Syndicate 1729; these assumptions are consistent with loss results reflected in Lloyd's historical data for similar risks.

Underwriting expenses were $9.5 million for the year ended December 31, 2014, and primarily consisted of underwriting and administrative salaries and benefits, professional fees and amortization of policy acquisition costs (approximately $3.2 million). No underwriting salaries or benefits were deferred during the period due to the Syndicate being in a start-up phase. The high expense ratio for the segment reflects these and other start-up costs expensed during the year, as well as reduced levels of earned premium due to Syndicate 1729 being in its initial stage of operations.

Net investment income for the year ended December 31, 2014 primarily related to the income earned on the FAL investments. Our FAL investments are primarily in the form of short-term investments and investment-grade corporate debt securities.

Operating results of this segment are subject to both U.K and U.S. income tax law. No tax benefit has been recognized related to the operations of this segment as the loss is not currently deductible for tax purposes in either the U.K. or the U.S. and does not meet GAAP criteria for recognition of a deferred tax asset.

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Segment Operating Results - Corporate

Segment operating results for our Corporate segment were $57.8 million and $120.8 million for the years ended December 31, 2014 and December 31, 2013, respectively. Results included the following:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Net investment income	$125,147	$129,265	$(4,118)	(3.2%)
Equity in earnings (loss) of unconsolidated subsidiaries	3,986	7,539	(3,553)	(47.1%)
Net investment result	$129,133	$136,804	$(7,671)	(5.6%)
Total net realized investment gains (losses)	$14,650	$67,904	$(53,254)	(78.4%)
Operating expense	$8,768	$15,748	$(6,980)	(44.3%)
Interest expense	$14,084	$2,755	$11,329	>100%
Income taxes	$65,440	$99,636	$(34,196)	(34.3%)
Gain on acquisition	$—	$32,314	$(32,314)	(100%)

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

Net Investment Income

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

Net investment income by investment category was as follows:

	Year Ended December 31			
($ in thousands)	2014	2013	Change	
Fixed maturities	$111,442	$122,065	$(10,623)	(8.7%)
Equities	10,817	9,454	1,363	14.4%
Short-term and Other investments	8,833	2,584	6,249	>100%
Business owned life insurance	2,006	1,960	46	2.3%
Investment fees and expenses	(7,951)	(6,798)	(1,153)	(17.0%)
Net investment income	$125,147	$129,265	$(4,118)	(3.2%)

Fixed Maturities

The decrease in our income from fixed maturity securities was primarily due to lower average investment balances. Although we added fixed securities valued at $107 million to our portfolio in 2014 as a result of the Eastern acquisition, we reduced the size of our fixed portfolio over the last year in order to purchase Eastern, repay debt, repurchase stock, pay dividends and invest in other asset classes. On an overall basis our average investment in fixed securities was approximately 6% lower in 2014 as compared to 2013.

Average yields for our fixed maturity portfolio were as follows.

	Year Ended December 31	
	2014	2013
Average income yield	3.6%	3.7%
Average tax equivalent income yield	4.2%	4.3%

Yields on fixed maturity securities decreased as compared to the same period in the prior year. Average income yields for the year ended December 31, 2014 primarily reflected a 6 basis point decline resulting from fixed maturity securities acquired in the Eastern transaction. In accordance with purchase accounting guidance, all Eastern securities were valued at fair value on the date acquired, which resulted in these securities having a lower yield on average than our other securities.

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Equities

Income from our equity portfolio increased approximately 14% for the year ended December 31, 2014, as compared to 2013. Average investment balances increased 25% for the year ended December 31, 2014 primarily due to the acquisition of Eastern. The equities acquired in the Eastern transaction were predominately bond funds which produce lower average yields than our traditional equities.

Short-term Investments and Other Investments

Income from our Other investments increased for the year ended December 31, 2014, principally due to increased distributions received from our interests in LPs that we account for using the cost method.

Investment Fees and Expenses

Investment fees and expenses increased for the year ended December 31, 2014 due to the addition of Eastern and some associated transition expenses in 2014.

Equity in Earnings (Loss) of Unconsolidated Subsidiaries

Equity in earnings (loss) of unconsolidated subsidiaries is derived from our investment interests accounted for under the equity method. Results were as follows:

	Year Ended December 31		
(In thousands)	2014	2013	Change
Investment LPs/LLCs	$14,714	$17,673	$(2,959)
Tax credit partnerships	(10,728)	(10,134)	(594)
Equity in earnings (loss) of unconsolidated subsidiaries	$3,986	$7,539	$(3,553)

We hold interests in certain LPs/LLCs that generate earnings from trading portfolios, secured debt, debt securities, multi-strategy funds and private equity investments. Our 2013 earnings included $8.4 million that related to periods prior to 2013 but was recognized in 2013 as the result of converting one LP investment from the cost to the equity method. The equity method was considered preferable as our ownership percentage in the LP had increased. Exclusive of the effect of this conversion, LP earnings were higher in 2014 as compared to 2013.

Our tax credit partnerships, which currently contain qualified affordable housing projects, are designed to generate returns by providing tax benefits in the form of tax credits and tax-deductible project operating losses. We account for our tax credit investments on the equity method and record amortization of our investment each period based on our allocable portion of the projected operating losses of the underlying properties. Amortization is adjusted periodically as actual operating results of the underlying properties become available. Our amortization remained relatively flat in 2014 as compared to the prior year.

The tax benefits received from our tax credit partnerships, which are not reflected in our investment results above, reduced our tax expenses in 2014 and 2013 as follows:

	Year Ended December 31	
(In thousands)	2014	2013
Tax credits recognized during the period	$17,918	$17,888
Tax benefit of amortization	$3,755	$3,547

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Non-GAAP Financial Measure – Tax Equivalent Investment Result

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

	Year Ended December 31	
(In thousands)	2014	2013
GAAP net investment result:		
Net investment income	$125,147	$129,265
Equity in earnings (loss) of unconsolidated subsidiaries	3,986	7,539
GAAP net investment result, as reported	$129,133	$136,804
Pro forma tax-equivalent investment results	$175,344	$184,628
Reconciliation of pro forma and GAAP tax-equivalent investment results:		
Pro forma tax-equivalent investment results	$175,344	$184,628
Less taxable equivalent adjustments, calculated using the 35% federal statutory tax rate:		
State and municipal bonds	15,727	17,590
BOLI	1,080	1,056
Dividends received	1,754	1,674
Tax credit partnerships	27,566	27,504
Other investments	84	—
GAAP net investment result, as reported	$129,133	$136,804

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Net Realized Investment Gains (Losses)

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

	Year Ended December 31	
(In thousands)	2014	2013
Other-than-temporary impairment losses, total:		
State and municipal bonds	$(50)	$(71)
Corporate debt	(1,425)	—
Portion recognized in (reclassified from) Other Comprehensive Income:		
Corporate debt	268	—
Net impairments recognized in earnings	(1,207)	(71)
Gross realized gains, available-for-sale securities	5,623	18,130
Gross realized (losses), available-for-sale securities	(1,103)	(7,031)
Net realized gains (losses), trading securities	28,018	20,444
Net realized gains (losses), other investments	326	—
Change in unrealized holding gains (losses), trading securities	(18,883)	35,507
Change in unrealized holding gains (losses), convertible securities, carried at fair value as a part of Other investments	1,876	—
Other	—	925
Net realized investment gains (losses)	$14,650	$67,904

During 2014, we recognized credit-related impairments of $1.4 million related to two corporate debt instruments. Additionally, we recognized a non-credit impairment related to one of the instruments of $0.3 million as the instrument's fair value was less than the expected future cash flows from the security. All impairments of debt securities recognized during 2013 were credit-related.

In both 2014 and 2013, sales of securities in our trading portfolio generated realized gains which reduced trading security unrealized holding gains (losses). On the whole, market valuations improved in both 2014 and 2013. In 2013, the improvement more than offset the effect of sales during the period, but only partially offset the effect of sales during 2014.

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Operating Expenses

Operating expenses were $8.8 million for the year ended December 31, 2014, and $15.7 million for the year ended December 31, 2013. Corporate expenses in 2014 reflected cost reductions of approximately $3.1 million that were attributable to discrete events of one period or the other, including in 2013 costs associated with business combinations or expansions, and in 2014, recoveries associated with the settlement of litigation and a reserve established related to discontinued operations of an acquired entity. Otherwise, Corporate segment expenses were approximately $3.9 million lower in 2014 than in 2013.

Interest Expense

Interest expense increased during 2014 as compared to 2013 primarily due to the issuance of unsecured senior notes in the fourth quarter of 2013 which carry a higher interest rate and are greater in amount than our average borrowing outstanding in 2013. Our weighted average outstanding debt approximated $250 million for the year ended December 31, 2014 as compared to $119 million for the year ended December 31, 2013.

Interest expense for 2014 and 2013 is provided in the following table:

	Year Ended December 31		
(In thousands)	2014	2013	Change
Senior notes due 2023	$13,433	$1,502	$11,931
Revolving credit agreement (including fees and amortization)	507	1,245	(738)
Other	144	8	136
	$14,084	$2,755	$11,329

Taxes

We calculate our effective tax rate on a consolidated basis, dividing consolidated tax expense by consolidated pre-tax income. Factors affecting our effective tax rate include the following:

	Year Ended December 31	
	2014	2013
Statutory rate	35.0%	35.0%
Tax-exempt income	(5.0%)	(3.7%)
Tax credits	(6.8%)	(4.5%)
Non-taxable gain on acquisition	—%	(2.8%)
Non-U.S. loss	0.7%	—%
Other	1.1%	1.1%
Effective tax rate	25.0%	25.1%

Our effective tax rates for both 2014 and 2013 were different from the statutory Federal income tax rate primarily due to the following:

- a portion of our investment income was tax-exempt
- we utilized tax credits transferred to us from our tax credit partnership investments
- we did not recognize a tax benefit related to the operating loss associated with our participation in Lloyd's Syndicate 1729, a U.K. tax entity
- the gain on acquisition recognized in 2013 was not taxable

The increased effect of tax-exempt income and the tax-credits was primarily because the total amount of pre-tax income declined in 2014 as compared to 2013. Tax credits approximated $17.9 million for both the year ended December 31, 2014 and the year ended December 31, 2013.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Interest Rate Risk

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

The following table summarizes estimated changes in the fair value of our available-for-sale fixed maturity securities for specific hypothetical changes in interest rates by asset class at December 31, 2015 and December 31, 2014. There are principally two factors that determine interest rates on a given security: market interest rates and credit spreads. As different asset classes can be affected in different ways by movements in those two factors, we have broken out our portfolio by asset class in the following table.

	December 31, 2015				
	(200)	(100)	Current	100	200
Fair Value (in millions):					
U.S. Treasury obligations	$132	$128	$124	$118	$113
U.S. Government-sponsored enterprise obligations	27	27	26	26	25
State and municipal bonds	986	973	941	907	874
Corporate debt	1,375	1,340	1,292	1,245	1,201
Asset-backed securities	388	387	378	365	351
All fixed maturity securities	$2,908	$2,855	$2,761	$2,661	$2,564
Duration:					
U.S. Treasury obligations	3.68	3.64	3.56	3.44	3.36
U.S. Government-sponsored enterprise obligations	2.23	2.18	2.38	2.50	2.49
State and municipal bonds	3.46	3.51	3.54	3.62	3.70
Corporate debt	3.58	3.59	3.64	3.59	3.53
Asset-backed securities	1.52	1.87	2.97	3.73	4.00
All fixed maturity securities	3.26	3.32	3.50	3.60	3.63
	December 31, 2014				
Fair Value (in millions):					
U.S. Treasury obligations	$176	$172	$167	$161	$156
U.S. Government-sponsored enterprise obligations	41	40	40	38	37
State and municipal bonds	1,114	1,097	1,063	1,024	985
Corporate debt	1,503	1,468	1,417	1,365	1,316
Asset-backed securities	468	467	458	447	432
All fixed maturity securities	$3,302	$3,244	$3,145	$3,035	$2,926
Duration:					
U.S. Treasury obligations	3.56	3.50	3.43	3.36	3.30
U.S. Government-sponsored enterprise obligations	2.53	2.49	2.80	3.08	3.12
State and municipal bonds	3.40	3.49	3.60	3.73	3.85
Corporate debt	3.71	3.73	3.82	3.76	3.70
Asset-backed securities	1.51	1.69	2.36	3.08	3.47
All fixed maturity securities	3.30	3.30	3.50	3.60	3.70

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

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

Our cash and short-term investment portfolio at December 31, 2015 was carried on a cost basis which approximates its fair value. Our portfolio lacks significant interest rate sensitivity due to its short duration.

Credit Risk

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

As of December 31, 2015, 95% of our fixed maturity securities were rated investment grade as determined by NRSROs, such as Fitch, Moody’s and Standard & Poor’s. We believe that this concentration in investment grade securities reduces our exposure to credit risk on our fixed income investments to an acceptable level. However, investment grade securities, in spite of their rating, can rapidly deteriorate and result in significant losses. Ratings published by the NRSROs are one of the tools used to evaluate the credit worthiness of our securities. The ratings reflect the subjective opinion of the rating agencies as to the credit worthiness of the securities, and therefore, we may be subject to additional credit exposure should the rating prove to be unreliable.

We also have exposure to credit risk related to our receivables from reinsurers. Our receivables from reinsurers (with regard to both paid and unpaid losses) approximated $259 million at December 31, 2015 and $244 million at December 31, 2014. We monitor the credit risk associated with our reinsurers using publicly available financial and rating agency data.

Equity Price Risk

At December 31, 2015 the fair value of our equity investments, excluding our equity investments in bond investment funds as discussed below, was $246 million. These equity securities are subject to equity price risk, which is defined as the potential for loss in fair value due to a decline in equity prices. The weighted average beta of this group of securities was 0.94. Beta measures the price sensitivity of an equity security or group of equity securities to a change in the broader equity market, in this case the S&P 500 Index. If the value of the S&P 500 Index increased by 10%, the fair value of these securities would be expected to increase by 9.4% to $269 million. Conversely, a 10% decrease in the S&P 500 Index would imply a decrease of 9.4% in the fair value of these securities to $223 million. The selected hypothetical changes of plus or minus 10% do not reflect what could be considered the best or worst case scenarios and are used for illustrative purposes only.

Our equity investments include equity investments in certain bond investment funds which are not significantly subject to equity price risk, and thus we have excluded these investments from the above analysis. Furthermore, these bond fund investments are primarily held by the segregated portfolio cells of our Eastern Re insurance subsidiary and changes in the fair value of these investments, when realized, primarily accrue to the preferred stockholders of the related portfolio cell.

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

The Supplementary Financial Information required by Item 302 of Regulation S-K is included in Note 18 of the Notes to Consolidated Financial Statements of ProAssurance and its subsidiaries.

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

Not Applicable.

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ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal year ended December 31, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective.
Disclosure controls and procedures are defined in Exchange Act Rule 13a-15(e) and include the Company’s controls and other procedures that are designed to ensure that information, required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control–Integrated Framework issued by the COSO (2013 Framework). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015 and that there was no change in the Company's internal controls during the fiscal year then ended, other than as described below, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.
Management has re-designed a change management process for prioritizing and testing technology changes for financially significant systems. The revised process was the result of a deficiency identified by management during our 2015 assessment of internal controls over financial reporting. The deficiency related to the design and operating effectiveness of information technology general controls for certain information systems that are relevant to the preparation of the Company’s consolidated financial statements. In particular, the deficiency related to the controls that are intended to ensure that all changes affecting financially significant applications are authorized, tested and implemented appropriately. As part of the identification of this deficiency, significant testing was performed and it was determined this deficiency had no impact on the Company's consolidated financial statements.
Ernst & Young LLP, an independent registered public accounting firm, has audited the effectiveness of our internal controls over financial reporting as of December 31, 2015 as stated in their report which is included elsewhere herein.

ITEM 9B. OTHER INFORMATION

None.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of ProAssurance Corporation

We have audited ProAssurance Corporation and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). ProAssurance Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, ProAssurance Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of changes in capital, income and comprehensive income and cash flows for each of the three years in the period ended December 31, 2015, of ProAssurance Corporation and subsidiaries and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Birmingham, Alabama

February 23, 2016

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT.

The information required by this Item regarding executive officers is included in Part I of the Form 10-K in accordance with Instruction 3 of the Instructions to Paragraph (b) of Item 401 of Regulation S-K.

The information required by this Item regarding directors is incorporated by reference pursuant to General Instruction G (3) of Form 10-K from ProAssurance's definitive proxy statement for the 2016 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 15, 2016.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10-K from ProAssurance's definitive proxy statement for the 2016 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 15, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10-K from ProAssurance's definitive proxy statement for the 2016 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 15, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10-K from ProAssurance's definitive proxy statement for the 2016 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 15, 2016.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this Item is incorporated by reference pursuant to General Instruction G (3) of Form 10-K from ProAssurance's definitive proxy statement for the 2016 Annual Meeting of its Stockholders to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or about April 15, 2016.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

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

Report of Registered Public Accounting Firm
Consolidated Balance Sheets – December 31, 2015 and 2014
Consolidated Statements of Changes in Capital – years ended December 31, 2015, 2014 and 2013
Consolidated Statements of Income and Comprehensive Income – years ended December 31, 2015, 2014 and 2013
Consolidated Statements of Cash Flows – years ended December 31, 2015, 2014 and 2013
Notes to Consolidated Financial Statements

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

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

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

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

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SIGNATURES

Pursuant to the requirements of Section 13 of 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this the 23th day of February 2016.

PROASSURANCE CORPORATION

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

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

Name	Title	Date
/S/ W. STANCIL STARNES, J.D.	Chairman of the Board, Chief Executive Officer	February 23, 2016
W. Stancil Starnes, J.D.	(Principal Executive Officer) and President	
/S/ EDWARD L. RAND, JR. Edward L. Rand, Jr.	Chief Financial Officer	February 23, 2016
/S/ KELLY B. BREWER Kelly B. Brewer	Chief Accounting Officer	February 23, 2016
/S/ SAMUEL A. DI PIAZZA, JR. Samuel A. Di Piazza, Jr.	Director	February 23, 2016
/S/ ROBERT E. FLOWERS, M.D. Robert E. Flowers, M.D.	Director	February 23, 2016
/S/ M. JAMES GORRIE M. James Gorrie	Director	February 23, 2016
/S/ WILLIAM J. LISTWAN, M.D. William J. Listwan, M.D.	Director	February 23, 2016
/S/ JOHN J. MCMAHON John J. McMahon	Director	February 23, 2016
/S/ ANN F. PUTALLAZ, PH.D. Ann F. Putallaz, Ph.D.	Director	February 23, 2016
/S/ FRANK A. SPINOSA, D.P.M. Frank A. Spinosa, D.P.M.	Director	February 23, 2016
/S/ Ziad R. Haydar, M.D. Ziad R. Haydar, M.D.	Director	February 23, 2016
/S/ THOMAS A. S. WILSON, JR., M.D. Thomas A. S. Wilson, Jr., M.D.	Director	February 23, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of ProAssurance Corporation

We have audited the accompanying consolidated balance sheets of ProAssurance Corporation and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of changes in capital, income and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ProAssurance Corporation and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), ProAssurance Corporation’s and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young, LLP

Birmingham, Alabama
February 23, 2016

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

	December 31, 2015	December 31, 2014
Assets		
Investments		
Fixed maturities, available for sale, at fair value; amortized cost, $2,722,063 and $3,055,477, respectively	$2,760,287	$3,145,027
Equity securities, trading, at fair value; cost, $319,320 and $283,107, respectively	322,353	314,482
Short-term investments	119,236	131,259
Business owned life insurance	57,213	56,381
Investment in unconsolidated subsidiaries	311,908	276,501
Other investments, $30,611 and $28,958 at fair value, respectively, otherwise at cost or amortized cost	79,133	86,057
Total Investments	3,650,130	4,009,707
Cash and cash equivalents	241,100	197,040
Premiums receivable	217,034	202,528
Receivable from reinsurers on paid losses and loss adjustment expenses	9,249	6,494
Receivable from reinsurers on unpaid losses and loss adjustment expenses	249,350	237,966
Prepaid reinsurance premiums	34,050	32,115
Deferred policy acquisition costs	44,388	38,790
Deferred tax asset, net	15,097	—
Real estate, net	38,470	39,799
Intangible assets	92,462	100,733
Goodwill	210,725	210,725
Other assets	106,108	93,263
Total Assets	$4,908,163	$5,169,160
Liabilities and Shareholders’ Equity		
Liabilities		
Policy liabilities and accruals		
Reserve for losses and loss adjustment expenses	$2,005,326	$2,058,266
Unearned premiums	362,066	345,828
Reinsurance premiums payable	30,114	17,451
Total Policy Liabilities	2,397,506	2,421,545
Deferred tax liability, net	—	18,818
Other liabilities	202,303	320,853
Debt	350,000	250,000
Total Liabilities	2,949,809	3,011,216
Shareholders’ Equity		
Common shares, par value $0.01 per share, 100,000,000 shares authorized, 62,503,255 and 62,297,214 shares issued, respectively	625	623
Additional paid-in capital	365,399	359,577
Accumulated other comprehensive income (loss), net of deferred tax expense (benefit) of $12,972 and $31,342, respectively	23,855	58,204
Retained earnings	1,988,035	1,991,704
Treasury shares, at cost, 9,402,697 shares and 5,763,388 shares, respectively	(419,560)	(252,164)
Total Shareholders’ Equity	1,958,354	2,157,944

Total Liabilities and Shareholders’ Equity	$4,908,163	$5,169,160

See accompanying notes.

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2013	$619	$341,780	$ 145,380	$1,782,857	$(56)	$2,270,580
Common shares reacquired	—	—	—	—	(32,454)	(32,454)
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	2,940	—	—	1,145	4,085
Share-based compensation	—	9,242	—	—	—	9,242
Net effect of restricted and performance shares issued and stock options exercised	2	(4,068)	—	—	—	(4,066)
Dividends to shareholders	—	—	—	(64,777)	—	(64,777)
Other comprehensive income (loss)	—	—	(85,719)	—	—	(85,719)
Net income	—	—	—	297,523	—	297,523
Balance at December 31, 2013	621	349,894	59,661	2,015,603	(31,365)	2,394,414
Common shares reacquired	—	—	—	—	(222,360)	(222,360)
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	2,639	—	—	1,561	4,200
Share-based compensation	—	10,056	—	—	—	10,056
Net effect of restricted and performance shares issued and stock options exercised	2	(3,012)	—	—	—	(3,010)
Dividends to shareholders	—	—	—	(220,464)	—	(220,464)
Other comprehensive income (loss)	—	—	(1,457)	—	—	(1,457)
Net income	—	—	—	196,565	—	196,565
Balance at December 31, 2014	623	359,577	58,204	1,991,704	(252,164)	2,157,944
Common shares reacquired	—	—	—	—	(169,793)	(169,793)
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	1,232	—	—	2,397	3,629
Share-based compensation	—	9,166	—	—	—	9,166
Net effect of restricted and performance shares issued and stock options exercised	2	(4,576)	—	—	—	(4,574)
Dividends to shareholders	—	—	—	(119,866)	—	(119,866)
Other comprehensive income (loss)	—	—	(34,349)	—	—	(34,349)
Net income	—	—	—	116,197	—	116,197
Balance at December 31, 2015	$625	$365,399	$ 23,855	$1,988,035	$(419,560)	$1,958,354

See accompanying notes.

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

	Year Ended December 31		
	2015	2014	2013
Revenues			
Net premiums earned	$694,149	$699,731	$527,919
Net investment income	108,660	125,557	129,265
Equity in earnings (loss) of unconsolidated subsidiaries	3,682	3,986	7,539
Net realized investment gains (losses):			
Other-than-temporary impairment (OTTI) losses	(19,917)	(1,475)	(71)
Portion of OTTI losses recognized in other comprehensive income before taxes	4,572	268	—
Net impairment losses recognized in earnings	(15,345)	(1,207)	(71)
Other net realized investment gains (losses)	(26,294)	15,861	67,975
Total net realized investment gains (losses)	(41,639)	14,654	67,904
Other income	7,227	8,398	7,551
Total revenues	772,079	852,326	740,178
Expenses			
Losses and loss adjustment expenses	456,862	379,232	243,015
Reinsurance recoveries	(46,151)	(16,148)	(18,254)
Net losses and loss adjustment expenses	410,711	363,084	224,761
Underwriting, policy acquisition and operating expenses	217,064	211,311	147,817
Segregated portfolio cells dividend expense (income)	853	1,842	—
Interest expense	14,596	14,084	2,755
Total expenses	643,224	590,321	375,333
Gain on acquisition	—	—	32,314
Income before income taxes	128,855	262,005	397,159
Provision for income taxes			
Current expense (benefit)	28,652	58,645	74,977
Deferred expense (benefit)	(15,994)	6,795	24,659
Total income tax expense (benefit)	12,658	65,440	99,636
Net income	116,197	196,565	297,523
Other comprehensive income (loss), after tax, net of reclassification adjustments	(34,349)	(1,457)	(85,719)
Comprehensive income	$81,848	$195,108	$211,804
Earnings per share:			
Basic	$2.12	$3.32	$4.82
Diluted	$2.11	$3.30	$4.80

Weighted average number of common shares outstanding:			
Basic	54,795	59,285	61,761
Diluted	55,017	59,525	62,020
Cash dividends declared per common share	$2.24	$3.86	$1.05

See accompanying notes.

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

	Year Ended December 31		
	2015	2014	2013
Operating Activities			
Net income	$116,197	$196,565	$297,523
Adjustments to reconcile income to net cash provided by operating activities:			
Amortization, net of accretion	28,963	32,638	31,295
Depreciation	7,437	6,956	4,538
Gain on acquisition	—	—	(32,314)
(Increase) decrease in cash surrender value of BOLI	(2,032)	(2,007)	(1,960)
Net realized investment (gains) losses	41,639	(14,654)	(67,904)
Share-based compensation	9,166	10,056	9,242
Deferred income taxes	(15,994)	6,795	24,659
Policy acquisition costs, net amortization (net deferral)	(5,598)	10	(5,820)
Equity in earnings of unconsolidated subsidiaries, excluding income distributions received	(3,650)	29	(7,242)
Other	252	(8,784)	(3,014)
Other changes in assets and liabilities, excluding effect of business combinations:			
Premiums receivable	(14,506)	(15,136)	(6,105)
Receivable from reinsurers on paid losses and loss adjustment expenses	(2,755)	3,263	2,601
Receivable from reinsurers on unpaid losses and loss adjustment expenses	(11,384)	27,114	15,625
Prepaid reinsurance premiums	(1,935)	(5,672)	(849)
Other assets	(10,458)	36,924	9,582
Reserve for losses and loss adjustment expenses	(52,940)	(167,747)	(179,677)
Unearned premiums	16,238	10,097	(1,740)
Reinsurance premiums payable	12,663	(26,377)	(13,269)
Other liabilities	657	5,932	(36,569)
Net cash provided (used) by operating activities	111,960	96,002	38,602

Continued on following page.

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	Year Ended December 31		
	2015	2014	2013
Continued from previous page			
Investing Activities			
Purchases of:			
Fixed maturities, available for sale	$(580,577)	$(645,114)	$(519,161)
Equity securities, trading	(271,608)	(119,865)	(87,604)
Other investments	(33,366)	(25,109)	(34,699)
Funding of qualified affordable housing tax credit limited partnerships	(12,477)	(8,611)	(63,489)
Investment in unconsolidated subsidiaries	(61,444)	(52,295)	(19,228)
Proceeds from sales or maturities of:			
Fixed maturities, available for sale	886,886	703,828	970,708
Equity securities, trading	236,476	134,005	123,645
Other investments	33,638	19,942	2,352
Distributions from unconsolidated subsidiaries	28,017	5,428	14,632
Net sales or maturities (purchases) of short-term investments	11,932	140,411	(176,092)
Cash received in (paid in) acquisition	—	35,013	22,780
Deposit made for future acquisition	—	—	(205,244)
Unsettled security transactions, net change	2,339	(2,953)	205
Funds at Lloyd's in support of Syndicate 1729, returned (deposited)	—	8,690	(8,699)
(Increase) decrease in restricted cash	—	78,000	(78,000)
Purchases of capital assets	(9,524)	(2,883)	(5,847)
Other	(2,505)	(1,507)	(4,062)
Net cash provided (used) by investing activities	227,787	266,980	(67,803)
Financing Activities			
Proceeds from debt	—	—	250,000
Borrowing under revolving credit agreement	100,000	—	—
Repayment of debt	—	—	(127,183)
Repurchase of common stock	(172,772)	(222,360)	(29,089)
Excess tax benefit from share-based payment arrangements	494	2,702	2,128
Dividends to shareholders	(217,626)	(71,252)	(46,375)
Other	(5,783)	(4,415)	(9,448)
Net cash provided (used) by financing activities	(295,687)	(295,325)	40,033
Increase (decrease) in cash and cash equivalents	44,060	67,657	10,832
Cash and cash equivalents at beginning of period	197,040	129,383	118,551
Cash and cash equivalents at end of period	$241,100	$197,040	$129,383
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for income taxes, net of refunds	$42,784	$22,968	$117,107
Cash paid during the year for interest	$13,996	$13,408	$913
Significant non-cash transactions			
Deposit transferred as consideration for acquisition	$—	$205,244	$153,700
Dividends declared and not yet paid	$69,447	$167,744	$18,532

See accompanying notes.

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ProAssurance Corporation and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015

1. Accounting Policies

Organization and Nature of Business

ProAssurance Corporation (ProAssurance, PRA or the Company), a Delaware corporation, is an insurance holding company primarily for wholly owned specialty property and casualty insurance entities including an entity that is the majority capital provider to Syndicate 1729 at Lloyd's of London. Risks insured are primarily liability risks located within the United States. As described in more detail in Note 15, ProAssurance operates in four reportable segments: Specialty P&C, Workers' Compensation, Lloyd's Syndicate, and Corporate.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of ProAssurance Corporation and its wholly-owned subsidiaries. Investments in entities where ProAssurance holds a greater than minor interest but does not hold a controlling interest are accounted for using the equity method. All significant intercompany accounts and transactions are eliminated in consolidation. ProAssurance subsidiaries located in the U.K. are reported on a quarter delay due to timing issues regarding the availability of information, except there is no delay related to subsidiary investments managed in the U.S. as that information is available on an earlier schedule.

Basis of Presentation

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

Accounting Policies

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

Recognition of Revenues

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

Credit Losses

ProAssurance's premium and agency receivables are exposed to credit losses, but to-date have not experienced any significant amount of credit losses. Recorded allowances for credit losses were less than $1.5 million at both December 31, 2015 and 2014. Neither estimated credit losses or actual credit write-offs exceeded $0.6 million during the years ended December 31, 2015 and 2014.

Earned But Unbilled Premiums

Workers’ compensation premiums are determined based upon the payroll of the insured, the applicable premium rates and, where applicable, an experience based modification factor. An audit of the policyholders’ records is conducted after policy expiration to make a final determination of applicable premiums. Audit premium due from or due to a policyholder as a result of an audit is reflected in net premiums earned when billed. ProAssurance tracks, by policy, the amount of additional premium billed in final audit invoices as a percentage of payroll exposure and uses this information to estimate the probable additional amount that it has earned, but not yet billed, as of the balance sheet date. Changes to the EBUB estimate are included in Net premiums earned in the period recognized. As of December 31, 2015 and 2014, ProAssurance carried EBUB of $3.9 million and $3.4 million, respectively, as a part of Premiums receivable.

Losses and Loss Adjustment Expenses

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

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

Estimating casualty insurance reserves, and particularly long-tailed insurance reserves, is a complex process. Long-tailed insurance is characterized by the extended period of time between collecting the premium for insuring a risk and the ultimate payment of losses. For a high proportion of the risks insured or reinsured by ProAssurance the period of time required to resolve a claim is often five years or more, and claims may be subject to litigation. Estimating losses for these long-tailed claims requires ProAssurance to make and revise judgments and assessments regarding multiple uncertainties over an extended period of time. As a result, reserve estimates may vary significantly from the eventual outcome. Reserve estimates and the assumptions on which these estimates are predicated are regularly reviewed and updated as new information becomes available. Any adjustments necessary are reflected in then current operations. Due to the size of ProAssurance’s reserve for losses, even a small percentage adjustment to these estimates could have a material effect on earnings in the period in which the adjustment is made, as was the case in 2015, 2014 and 2013.

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

Reinsurance Receivables

ProAssurance enters into reinsurance agreements whereby other insurance entities agree to assume a portion of the risk associated with certain policies issued by ProAssurance. In return, ProAssurance agrees to pay a premium to the reinsurer. ProAssurance uses reinsurance to provide capacity to write larger limits of liability, to provide reimbursement for losses incurred under the higher limit coverages we offer, to provide protection against losses in excess of policy limits, and as a mechanism for providing custom insurance solutions.

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

These estimates are based upon management’s estimates of ultimate losses and the portion of those losses that are allocable to reinsurers under the terms of the related reinsurance agreements. Given the uncertainty of the ultimate amounts of losses, these estimates may vary significantly from the eventual outcome. Management regularly reviews these estimates and any adjustments necessary are reflected in the period in which the estimate is changed. Due to the size of the receivable from reinsurers, even a small adjustment to the estimates could have a material effect on ProAssurance’s results of operations for the period in which the change is made.

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

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Investments

Fair Values

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

Fixed Maturities and Equity Securities

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

Available-for-sale securities are carried at fair value, determined as described above. Exclusive of OTTI losses, discussed in a separate section that follows, unrealized gains and losses on available-for-sale securities are included, net of related tax effects, in Shareholders' Equity as a component of AOCI.

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

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

Short-term Investments

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

Other Investments

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

Investments in convertible bond securities are carried at fair value as permitted by the accounting guidance for hybrid financial instruments, with changes in fair value recognized in income as a component of Net realized investment gains (losses) during the period of change. Interest on convertible bond securities is recorded on an accrual basis based on contractual interest rates and is included in Net investment income.

Investment in Unconsolidated Subsidiaries

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

Business Owned Life Insurance

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

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Realized Gains and Losses
Realized investment gains and losses are recognized on the specific identification basis.
Other-than-temporary Impairments
ProAssurance evaluates its available-for-sale investment securities, which at December 31, 2015 and 2014 consisted entirely of fixed maturity securities, on at least a quarterly basis for the purpose of determining whether declines in fair value below recorded cost basis represent other-than-temporary impairment. We consider an OTTI to have occurred:

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

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

- For non-structured fixed maturities (U.S. Treasury securities, obligations of U.S. Government and government agencies and authorities, obligations of states, municipalities and political subdivisions, and corporate debt) the estimate of expected cash flows is determined by projecting a recovery value and a recovery time frame and assessing whether further principal and interest will be received. ProAssurance considers various factors in projecting recovery values and recovery time frames, including the following:
- third party research and credit rating reports;
- the current credit standing of the issuer, including credit rating downgrades, whether before or after the balance sheet date;
- internal assessments and the assessments of external portfolio managers regarding specific circumstances surrounding an investment, which indicate the investment is more or less likely to recover its amortized cost than other investments with a similar structure;
- failure of the issuer of the security to make scheduled interest or principal payments;
- For structured securities (primarily asset-backed securities), ProAssurance estimates the present value of the security's cash flows using the effective yield of the security at the date of acquisition (or the most recent implied rate used to accrete the security if the implied rate has changed as a result of a previous impairment or changes in expected cash flows). ProAssurance considers the most recently available six-month averages of the levels of delinquencies, defaults, severities, and prepayments for the collateral (loans) underlying the securitization or, if historical data is not available, sector based assumptions, to estimate expected future cash flows of these securities.

Exclusive of securities where there is an intent to sell or where it is not more likely than not that the security will be required to be sold before recovery of its amortized cost basis, OTTI for debt securities is separated into a credit component and a non-credit component. The credit component of an OTTI is the difference between the security's amortized cost basis and the present value of its expected future cash flows, while the non-credit component is the remaining difference between the security's fair value and the present value of expected future cash flows. The credit component of the OTTI is recognized in earnings while the non-credit component is recognized in OCI.
Investments in tax credit partnerships are evaluated for OTTI by considering both qualitative and quantitative factors which include: whether the current expected cash flows from the investment, primarily tax benefits, are less than those expected at the time the investment was acquired, and ProAssurance's ability and intent to hold the investment until the recovery of its carrying value.
Investments in LPs/LLCs other than tax credit partnerships are evaluated for impairment by comparing ProAssurance's carrying value to net asset value of ProAssurance's interest as reported by the LP/LLC. Additionally, Management considers the performance of the LP/LLC relative to the market and its stated objectives, cash flows expected from the

interest, and the audited financial statements of the LP/LLC, if available.

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

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

Foreign Currency

The functional currency of all ProAssurance foreign subsidiaries is the U.S. Dollar.

Cash and Cash Equivalents

For purposes of the consolidated balance sheets and statements of cash flows, ProAssurance considers all demand deposits and overnight investments to be cash equivalents.

Restricted Cash

Restricted cash represents cash balances which are not available for immediate or general use. Restricted cash activity in 2014 and 2013 related entirely to a collateral deposit which supported our Lloyd's Syndicate segment.

Deferred Policy Acquisition Costs; Ceding Commission Income

Costs that vary with and are directly related to the successful production of new and renewal premiums (primarily premium taxes, commissions and underwriting salaries) are deferred to the extent they are recoverable against unearned premiums and are amortized as related premiums are earned. Unearned ceding commission income is reported as an offset to DPAC. Ceding commission earned is reported as an offset to DPAC amortization.

Income Taxes/Deferred Taxes

ProAssurance files a consolidated federal income tax return. Tax-related interest and penalties are recognized as components of tax expense.

ProAssurance evaluates tax positions taken on tax returns and recognizes positions in the financial statements when it is more likely than not that the position will be sustained upon resolution with a taxing authority. If recognized, the benefit is measured as the largest amount of benefit that has a greater than fifty percent probability of being realized. Uncertain tax positions are reviewed each period by considering changes in facts and circumstances, such as changes in tax law, interactions with taxing authorities and developments in case law, and adjustments would be made if considered necessary. No such adjustments were made during the years ended December 31, 2015, 2014 or 2013. Adjustments to unrecognized tax benefits may affect income tax expense and the settlement of uncertain tax positions may require the use of cash.

Deferred federal income taxes arise from the recognition of temporary differences between the basis of assets and liabilities determined for financial reporting purposes and the basis determined for income tax purposes. ProAssurance's temporary differences principally relate to loss reserves, unearned premium, compensation accruals, intangibles, DPAC, unrealized investment gains (losses), and basis differentials in fixed assets and investments. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be in effect when such benefits are realized. ProAssurance reviews its deferred tax assets quarterly for impairment. If management determines that it is more likely than not that some or all of a deferred tax asset will not be realized, a valuation allowance is recorded to reduce the carrying value of the asset. In assessing the need for a valuation allowance, management is required to make certain judgments and assumptions about the future operations of ProAssurance based on historical experience and information as of the measurement date regarding reversal of existing temporary differences, carryback capacity, future taxable income, including its capital and operating characteristics, and tax planning strategies.

Changes in tax laws and rates could also affect recorded deferred tax assets and liabilities in the future. Management is not aware of any such changes that would have a material effect on the Company's results of operations, cash flows or financial position.

Real Estate

Real Estate balances are reported at cost or, for properties acquired in business combinations, estimated fair value on the date of acquisition, less accumulated depreciation. Real estate principally consists of properties in use as corporate offices. Depreciation is computed over the estimated useful lives of the related property using the straight-line method. Excess office capacity is leased or made available for lease; rental income is included in other income and real estate expenses are included in underwriting, policy acquisition and operating expenses.

Real estate accumulated depreciation was approximately $24.2 million and $23.0 million at December 31, 2015 and 2014, respectively. Real estate depreciation expense for each of the years ended December 31, 2015, 2014 and 2013 was $1.5 million.

Intangible Assets

Intangible assets with definite lives, primarily consist of agency and policyholder relationships, are amortized over the estimated useful life of the asset; those with indefinite lives, primarily state licenses, are not amortized. All intangible assets are evaluated for impairment on an annual basis. The following table provides additional information regarding ProAssurance's intangible assets.

	Gross Carrying Value		Accumulated Amortization		Amortization Expense		
	December 31		December 31		Year Ended December 31		
(In millions)	2015	2014	2015	2014	2015	2014	2013
Intangible Assets							
Non-amortizable	$25.8	$25.8					
Amortizable	94.0	96.2	$27.3	$21.2	$8.3	$10.3	$5.3
Total Intangible Assets	$119.8	$122.0					

Aggregate amortization expense for intangible assets is estimated to be $8.1 million for the year ended December 31, 2016 and $5.6 million for each of the years ended December 31, 2017, 2018, 2019 and 2020.

Goodwill

Goodwill is recognized in conjunction with acquisitions as the excess of the purchase consideration for the acquisition over the fair value of identifiable assets acquired and liabilities assumed. The fair value of identifiable assets and liabilities, and thus goodwill, is subject to redetermination within a measurement period of up to one year following completion of an acquisition.

ProAssurance evaluates the carrying value of goodwill at the reporting unit level annually as of October 1st. For ProAssurance, reporting units are consistent with the reportable segments identified in Note 15. If, at any time during the year, events occur or circumstances change that would more likely than not reduce the fair value below the carrying value, an additional evaluation of goodwill is made.

ProAssurance is permitted to conduct a qualitative assessment to determine whether it is necessary to perform a two-step quantitative goodwill impairment test but periodically elects to perform a quantitative impairment assessment. A quantitative goodwill impairment test for both the Specialty P&C and Workers' Compensation units was performed as of October 1, 2015.

In the first step of the quantitative impairment test, the fair value of each reporting unit is compared to its carrying amount. In the 2015 evaluation, Management determined the fair value of each ProAssurance reporting unit using an equal weighting of fair values derived from the income approach and the market approach. Under the income approach, Management estimated the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections were based on Management's estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used was based on the weighted average cost of capital adjusted for the relevant risk associated with business specific characteristics and the uncertainty related to the reporting unit's ability to execute on the projected cash flows. Under the market approach, Management estimated the fair value based on market multiples of revenue and earnings derived from comparable publicly traded companies with operating and investment characteristics similar to the reporting unit. Management weighted the fair values derived from the market approach depending on the level of comparability of these publicly traded companies to the reporting unit.

Estimating the fair value of a reporting unit is judgmental in nature and involved the use of significant estimates and assumptions by Management. These estimates and assumptions included revenue growth rates and operating margins used to calculate projected future cash flows, risk adjusted discount rates, future economic and market conditions and the determination of appropriate comparable publicly traded companies. In addition, Management made certain judgments and assumptions in allocating shared assets and liabilities to individual reporting units to determine the carrying amount of each reporting unit.

If the fair value of a reporting unit exceeds the carrying amount of the net assets assigned to that reporting unit, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than its carrying amount, then the second step of the goodwill impairment test is performed which measures the amount of impairment loss, if any. In the second step, the reporting unit's assets, including any unrecognized intangible assets, liabilities and non-controlling interests are measured at fair value in a hypothetical analysis to calculate the implied fair value of goodwill for the reporting unit in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit's goodwill is less than its carrying amount, the difference is recorded as an impairment loss.

As of October 1, 2015, the most recent evaluation date, Management concluded that the fair value of each ProAssurance reporting unit exceeded the carrying value of the reporting unit, and deemed it unnecessary to perform further testing for impairment.

Other Liabilities

Other liabilities at December 31, 2015 and 2014 consisted of the following:

(In millions)	2015	2014
SPC dividends payable	$16.7	$15.8
Liability for unpaid dividends	69.4	167.7
Remaining other liabilities	116.2	137.4
Total Other liabilities	$202.3	$320.9

SPC dividends payable are the cumulative undistributed earnings contractually payable to the external preferred shareholders of SPCs operated by ProAssurance's Cayman Islands subsidiary, Eastern Re.

Unpaid dividends represents common stock dividends declared by ProAssurance's Board of Directors that had not yet been paid. Unpaid dividends at both December 31, 2015 and 2014 included a special dividend declared in the fourth quarter period that was paid in January of the following year.

Treasury Stock

Treasury shares are reported at cost, and are reflected on the Consolidated Balance Sheets as an unallocated reduction of total equity.

Share-Based Payments

Compensation cost for share-based payments is measured based on the grant-date fair value of the award, recognized over the period in which the employee is required to provide service in exchange for the award. Excess tax benefits (tax deductions realized in excess of the compensation costs recognized for the exercise of the awards, multiplied by the incremental tax rate) are reported as financing cash inflows.

Subsequent Events

ProAssurance evaluates events that occurred subsequent to December 31, 2015, for recognition or disclosure in its Consolidated Financial Statements.

Accounting Changes Adopted

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

Effective for fiscal years beginning after December 15, 2014, the FASB issued guidance which changes the requirements for reporting discontinued operations. Under the new guidance, reporting entities are required to report disposals of business components only if the disposal represents a strategic shift in the entity's operations that will have a major effect on the entity's operations and financial results. The new guidance expands disclosure requirements for reported discontinued operations and requires disclosure of pre-tax profit or loss attributable to significant disposals that are not reported as discontinued operations. ProAssurance adopted the guidance effective January 1, 2015. Adoption of the guidance had no effect on ProAssurance's results of operations or financial position.

Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)

Effective for fiscal years beginning after December 15, 2015, the FASB issued guidance which removed the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The guidance also revised disclosure requirements for investments measured or eligible to be measured at fair value using the net asset value per share practical expedient. ProAssurance adopted the guidance as of June 30, 2015 as early adoption is permitted. Adoption of the guidance had no effect on ProAssurance's results of operations or financial position as it affected disclosures only.

Accounting Changes Not Yet Adopted

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

Effective for fiscal years beginning after December 15, 2015, the FASB issued guidance for share-based payments in which the terms of the award provide that a performance target can be achieved after completion of the requisite service period. The new guidance provides that compensation cost for such awards should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ProAssurance plans to adopt the guidance beginning January 1, 2016. Adoption of the guidance is expected to have no effect on ProAssurance's results of operations or financial position as ProAssurance has no awards with performance targets extending beyond the requisite service period.

Revenue from Contracts with Customers

Effective for fiscal years beginning after December 15, 2017, the FASB issued guidance related to revenue from contracts with customers. The core principle of the new guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ProAssurance plans to adopt the guidance beginning January 1, 2018. As the majority of ProAssurance's revenues come from insurance contracts which fall under the scope of other FASB standards, adoption of the guidance is expected to have no material effect on ProAssurance's results of operations or financial position.

Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

Effective for fiscal years ending after December 15, 2016 and interim periods beginning after December 15, 2016, the FASB issued guidance that establishes principles and definitions related to management's evaluation of whether there is substantial doubt about the organization's ability to continue as a going concern. For each interim and annual reporting period, the new guidance requires management to evaluate the organization's ability to meet its obligations as they are due within one year of the date the financial statements are issued and requires disclosure when there is substantial doubt regarding the organization's ability to continue as a going concern. ProAssurance plans to adopt the guidance on its effective date. Adoption is expected to have no effect on ProAssurance's results of operations or financial position.

Simplifying the Presentation of Debt Issuance Costs

Effective for fiscal years beginning after December 15, 2015, the FASB issued guidance related to the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Related guidance issued by the SEC permits issuance costs associated with line-of-credit arrangements to be presented as an asset and subsequently amortized proportionally over the term of the arrangement. ProAssurance plans to adopt the guidance beginning January 1, 2016. Adoption of the guidance is not expected to have a material effect on ProAssurance's results of operations or financial position.

Amendments to the Consolidation Analysis

Effective for fiscal years beginning after December 15, 2015, the FASB issued additional guidance regarding the consolidation of legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The new standard modifies the evaluation of whether or not entities are VIEs and the consolidation analysis of entities involved with VIEs, particularly those having fee arrangements and related party relationships. ProAssurance is in the process of evaluating the effect, if any, of the new guidance on its results of operations and financial position and plans to adopt the guidance beginning January 1, 2016. Adoption of the guidance is not expected to have a material effect on ProAssurance's results of operations or financial position.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

Effective for fiscal years beginning after December 15, 2015, the FASB issued additional guidance regarding accounting for cloud computing arrangements. Under the new guidance, customers participating in cloud computing arrangements that include a software license should account for the software license element of the arrangement consistent with the acquisition of other software licenses. Customers should account for cloud computing arrangements that do not include a software license as a service contract, following existing guidance for service contracts. ProAssurance is in the process of evaluating the effect that the use of the new method would have on its results of operations and financial position and plans to adopt the guidance beginning January 1, 2016. Adoption of the guidance is not expected to have a material effect on ProAssurance's results of operations or financial position.

Disclosures about Short-Duration Contracts

Effective for fiscal years beginning after December 15, 2015 and interim periods within fiscal years beginning after December 15, 2016, the FASB issued guidance that requires insurance entities that issue short-duration contracts to provide detailed disclosures relative to the reserve for losses and loss adjustment expenses in annual reporting periods and a roll-forward of the reserve for losses and loss adjustment expenses in interim reporting periods. The guidance also requires disclosures regarding significant changes in the methodologies and assumptions used to calculate the reserve for losses and loss adjustment expenses, including reasons for and the effects of such changes. ProAssurance plans to adopt the guidance beginning January 1, 2016. Adoption of the guidance is not expected to have a material effect on ProAssurance's results of operations or financial position as it affects disclosures only.

Simplifying the Accounting for Measurement-Period Adjustments

Effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years, the FASB issued guidance that requires an acquirer to recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. An acquirer must also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. ProAssurance plans to adopt the guidance beginning January 1, 2016. Adoption of the guidance is not expected to have a material effect on ProAssurance's results of operations or financial position.

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Recognition and Measurement of Financial Assets and Financial Liabilities
Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, the FASB issued guidance that requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The new guidance also specifies that an entity use the exit price notion when measuring the fair value of financial instruments for disclosure purposes and present financial assets and liabilities by measurement category and form of financial asset. Other provisions of the new guidance include: revised disclosure requirements related to the presentation in comprehensive income of changes in the fair value of liabilities; elimination, for public companies, of disclosure requirements relative to the method(s) and significant assumptions underlying fair values disclosed for financial instruments measured at amortized cost; and simplified impairment assessments for equity investments without readily determinable fair values. ProAssurance plans to adopt the guidance beginning January 1, 2018. Adoption of the guidance is not expected to have a material effect on ProAssurance’s results of operations or financial position.

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2. Business Combinations
All entities acquired in 2014 and 2013 were accounted for in accordance with GAAP relating to Business Combinations. No entities were acquired during 2015.
On January 1, 2014, ProAssurance completed the acquisition of Eastern by purchasing 100% of its outstanding common shares for cash of $205 million. Eastern is based in Lancaster, Pennsylvania and specializes in workers' compensation insurance and reinsurance products and services, including alternative market solutions. ProAssurance incurred a nominal amount of expenses related to the purchase during the year ended December 31, 2015 and approximately $2.2 million and $0.9 million during the years ended December 31, 2014 and 2013, respectively. These expenses were included as a part of operating expenses in the periods incurred.
On January 1, 2013, ProAssurance completed the acquisition of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc), through a sponsored demutualization. Medmarc is based in Chantilly, Virginia and provides medical technology liability insurance for medical technology and life sciences companies and also provides legal professional liability insurance. ProAssurance acquired Medmarc for cash of $153.7 million, including the funding of future policy credits for eligible members of $7.5 million. ProAssurance incurred expenses related to the purchase of approximately $2.6 million during the year ended December 31, 2013. These expenses were included as a part of 2013 operating expenses.
For the Medmarc acquisition, the purchase consideration was less than the estimated fair value of the net assets acquired resulting in a gain on the acquisition of $32.3 million. ProAssurance believes it was able to acquire Medmarc for less than the fair value of its net assets due to Medmarc's declining premium base and its small capital position relative to other insurers in the medical technology and life sciences products liability market.
The following table provides Pro Forma Consolidated Results for the years ended December 31, 2014 and 2013 as if the Eastern transaction had occurred on January 1, 2013. ProAssurance Actual Consolidated Results have been adjusted by the following, including tax effects, to reflect the Pro Forma Consolidated Results below. Medmarc actual results are included in ProAssurance consolidated results for 2014 and 2013; accordingly, the Pro Forma Consolidated Results below do not include any adjustments associated with the Medmarc acquisition.

- For the year ended December 31, 2013, ProAssurance 2013 Actual Consolidated Results, which did not include Eastern, have been adjusted to include Eastern's 2013 operating results. ProAssurance Actual Consolidated Results for the year ended December 31, 2014 included Eastern's operating results (Revenue of $202.2 million and Net income of $9.1 million).
- Certain costs included in ProAssurance Actual Consolidated Results for the year ended December 31, 2014 have been reported in the Pro Forma Consolidated Results as if the costs had been incurred for the year ended December 31, 2013. Such costs include direct transaction costs and certain compensation costs directly related to the integration of Eastern operations. There was a nominal amount of compensation costs related to the acquisition of Eastern in 2015.
- Net income for the year ended December 31, 2013 was reduced to reflect the net effect from amortization of intangible assets and debt security premiums and accretion of discounts recorded as a part of the Eastern purchase price allocation. No such adjustments were necessary for the period ended December 31, 2014 as actual results already include amortization and accretion associated with the Eastern transaction.

(In thousands)	Year Ended December 31, 2014			Year Ended December 31, 2013		
	ProAssurance Pro Forma Consolidated Results		ProAssurance Actual Consolidated Results	ProAssurance Pro Forma Consolidated Results		ProAssurance Actual Consolidated Results
Revenue	$852,326		$852,326	$926,873		$740,178
Net income	$197,527	*	$196,565	$297,149	*	$297,523

* Includes adjustments related to Eastern of $1.0 million in 2014 and $0.4 million in 2013.

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3. Fair Value Measurement

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

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

Fair values of assets measured at fair value on a recurring basis as of December 31, 2015 and December 31, 2014 are shown in the following tables. Where applicable, the tables also indicate the fair value hierarchy of the valuation techniques utilized to determine those fair values. For some assets, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When this is the case, the asset is categorized based on the level of the most significant input to the fair value measurement. Assessments of the significance of a particular input to the fair value measurement require judgment and consideration of factors specific to the assets being valued.

	December 31, 2015			
	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	$—	$123,892	$—	$123,892
U.S. Government-sponsored enterprise obligations	—	26,334	—	26,334
State and municipal bonds	—	940,635	—	940,635
Corporate debt, multiple observable inputs	2,362	1,274,824	—	1,277,186
Corporate debt, limited observable inputs	—	—	14,500	14,500
Residential mortgage-backed securities	—	238,387	—	238,387
Agency commercial mortgage-backed securities	—	10,999	—	10,999
Other commercial mortgage-backed securities	—	30,134	—	30,134
Other asset-backed securities	—	97,463	757	98,220
Equity securities				
Financial	67,764	—	—	67,764
Utilities/Energy	41,050	—	—	41,050
Consumer oriented	56,470	—	—	56,470
Industrial	48,305	—	—	48,305
Bond funds	76,316	—	—	76,316
All other	18,239	14,209	—	32,448
Short-term investments	86,271	32,965	—	119,236
Other investments	3,478	27,133	—	30,611
Total assets categorized within the fair value hierarchy	$400,255	$2,816,975	$15,257	3,232,487
LP/LLC interests carried at NAV which approximates fair value. These interests, reported as a part of Investment in unconsolidated subsidiaries, are not categorized within the fair value hierarchy.				162,624
Total assets at fair value				$3,395,111

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	December 31, 2014			
	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	$—	$166,512	$—	$166,512
U.S. Government-sponsored enterprise obligations	—	39,563	—	39,563
State and municipal bonds	—	1,057,590	5,025	1,062,615
Corporate debt, multiple observable inputs	—	1,404,020	—	1,404,020
Corporate debt, limited observable inputs	—	—	13,081	13,081
Residential mortgage-backed securities	—	276,056	—	276,056
Agency commercial mortgage-backed securities	—	15,493	—	15,493
Other commercial mortgage-backed securities	—	51,063	—	51,063
Other asset-backed securities	—	111,855	4,769	116,624
Equity securities				
Financial	79,341	—	—	79,341
Utilities/Energy	25,629	—	—	25,629
Consumer oriented	65,670	—	—	65,670
Industrial	55,460	—	—	55,460
Bond funds	55,196	—	—	55,196
All other	33,186	—	—	33,186
Short-term investments	131,199	60	—	131,259
Other investments	6,050	22,908	—	28,958
Total assets categorized within the fair value hierarchy	$451,731	$3,145,120	$22,875	3,619,726
LP/LLC interests carried at NAV which approximates fair value. These interests, reported as a part of Investment in unconsolidated subsidiaries, are not categorized within the fair value hierarchy.				133,250
Total assets at fair value				$3,752,976

The fair values for securities included in the Level 2 category, with the few exceptions described below, were developed by one of several third party, nationally recognized pricing services, including services that price only certain types of securities. Each service uses complex methodologies to determine values for securities and subject the values they develop to quality control reviews. Management selected a primary source for each type of security in the portfolio and reviewed the values provided for reasonableness by comparing data to alternate pricing services and to available market and trade data. Values that appeared inconsistent were further reviewed for appropriateness. Any value that did not appear reasonable was discussed with the service that provided the value and would have been adjusted, if necessary. No such adjustments were necessary in 2015 or 2014.

Level 2 Valuations

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

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

U.S. Government-sponsored enterprise obligations were valued using pricing models that consider current and historical market data, normal trading conventions, credit ratings, and the particular structure and characteristics of the security being valued, such as yield to maturity, redemption options, and contractual cash flows. Adjustments to model inputs or model results were included in the valuation process when necessary to reflect recent regulatory, government or corporate actions or significant economic, industry or geographic events affecting the security's fair value.

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

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

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

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

Equity securities were securities not traded on an exchange on the valuation date. The securities were valued using the most recently available quotes for the securities.

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

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

Level 3 Valuations

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

Level 3 Valuation Processes

- Level 3 securities are priced by the Chief Investment Officer.
- Level 3 valuations are computed quarterly. Prices are evaluated quarterly against prior period prices and the expected change in price.
- ProAssurance Level 3 securities are primarily NRSRO rated debt instruments for which comparable market inputs are commonly available for evaluating the securities in question. Valuation of these debt instruments is not overly sensitive to changes in the unobservable inputs used.

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Level 3 Valuation Methodologies

State and municipal bonds consisted of auction rate municipal bonds valued internally using either published quotes for similar securities or values produced by discounted cash flow models using yields currently available on fixed rate securities with a similar term and collateral, adjusted to consider the effect of a floating rate and a premium for illiquidity.

Corporate debt with limited observable inputs consisted of corporate bonds valued using dealer quotes for similar securities or discounted cash flow models using yields currently available for similar securities. Similar securities are defined as securities of comparable credit quality that have like terms and payment features. Assessments of credit quality were based on NRSRO ratings, if available, or were subjectively determined by Management if not available. At December 31, 2015, 83% of the securities were rated; the average rating was A-. At December 31, 2014, 80% of the securities were rated; the average rating was A-.

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

Quantitative Information Regarding Level 3 Valuations

(In millions)	Fair Value at December 31, 2015	December 31, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
State and municipal bonds	$—	$5.0	Market Comparable Securities	Comparability Adjustment	0% - 10% (5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 10% (5%)
Corporate debt with limited observable inputs	$14.5	$13.1	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Other asset-backed securities	$0.8	$4.8	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)

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

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Fair Value Measurements - Level 3 Assets

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

	December 31, 2015 Level 3 Fair Value Measurements – Assets					
(In thousands)	U.S. Government-sponsored Enterprise Obligations	State and Municipal Bonds	Corporate Debt	Asset-backed Securities	Equity Securities and Other Investments	Total
Balance December 31, 2014	$—	$5,025	$13,081	$ 4,769	$ —	$22,875
Total gains (losses) realized and unrealized:						