PROASSURANCE CORP
Form 10-Q
November 06, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
ý Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2018 or
¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 0-16533
ProAssurance Corporation
(Exact Name of Registrant as Specified in Its Charter)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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	¨
Emerging growth company	¨		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
As of October 31, 2018, there were 53,636,174 shares of the registrant's common stock outstanding.

Table of Contents

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
AOCI	Accumulated other comprehensive income (loss)
ASU	Accounting Standards Update
BEAT	Base erosion anti-abuse tax
Board	Board of Directors of ProAssurance Corporation
BOLI	Business owned life insurance
Council of Lloyd's	The governing body for Lloyd's of London
CODM	Chief Operating Decision Maker
DPAC	Deferred policy acquisition costs
Eastern Re	Eastern Re, LTD, S.P.C.
EBUB	Earned but unbilled premium
FAL	Funds at Lloyd's
FASB	Financial Accounting Standards Board
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GAAP	Generally accepted accounting principles in the United States of America
GNMA	Government National Mortgage Association
HCPL	Healthcare professional liability
IBNR	Incurred but not reported
Inova Re	Inova Re, LTD, S.P.C.
IRS	Internal Revenue Service
LIBOR	London Interbank Offered Rate
LLC	Limited liability company
Lloyd's	Lloyd's of London market
LP	Limited partnership
LPT	Loss portfolio transfer
Medical technology liability	Medical technology and life sciences products liability
NAIC	National Association of Insurance Commissioners
NAV	Net asset value
NOL	Net operating loss
NRSRO	Nationally recognized statistical rating organization
NYSE	New York Stock Exchange
OCI	Other comprehensive income (loss)
OTTI	Other-than-temporary impairment
PCAOB	Public Company Accounting Oversight Board
Revolving Credit Agreement	ProAssurance's $250 million revolving credit agreement
ROE	Return on equity
SAP	Statutory accounting principles
SEC	Securities and Exchange Commission
SPA	Special Purpose Arrangement
SPC	Segregated portfolio cell
Specialty P&C	Specialty Property and Casualty
Syndicate 1729	Lloyd's of London Syndicate 1729

Table of Contents

Term	Meaning
Syndicate 6131	Lloyd's of London Syndicate 6131, a Special Purpose Arrangement with Lloyd's of London Syndicate 1729
Syndicate Credit Agreement	Unconditional revolving credit agreement with the Premium Trust Fund of Syndicate 1729
TCJA	Tax Cuts and Jobs Act H.R.1 of 2017
U.K.	United Kingdom of Great Britain and Northern Ireland
VIE	Variable interest entity

Table of Contents

Caution Regarding Forward-Looking Statements

Any statements in this Form 10-Q that are not historical facts are specifically identified as forward-looking statements. These statements are based upon our estimates and anticipation of future events and are subject to significant risks, assumptions 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-Q 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 and tax rate environment;
resolution of uncertain tax matters and changes in tax laws, including the impact of the TCJA;
changes in laws or government regulations regarding financial markets or market activity that may affect 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 and/or changes in the U.S. political climate that may affect healthcare policy or our business;
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;
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;

Table of Contents

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;
guaranty funds and other state assessments;
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, assumptions and uncertainties that could arise from our membership in the Lloyd's market and our participation in Lloyd's Syndicates 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 which the management of Syndicate 1729 and Syndicate 6131 have little ability to control, such as a decision to not approve the business plan of Syndicate 1729 or Syndicate 6131, 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 a Lloyd's Syndicate to distribute and market its products;
rating agencies could downgrade their ratings of Lloyd's as a whole; and
Syndicate 1729 and Syndicate 6131 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 or Syndicate 6131'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 our Form 10-K and other documents we file with the SEC, such as our current reports on Form 8-K and our regular reports on Form 10-Q.

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.

TABLE OF CONTENTS

Table of Contents

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

	September 30, 2018	December 31, 2017
Assets		
Investments		
Fixed maturities, at fair value; cost or amortized cost, $2,192,705 and $2,257,188, respectively	$ 2,165,117	$ 2,280,242
Equity investments, at fair value; cost, $494,157 and $425,942, respectively	523,768	470,609
Short-term investments	204,573	432,126
Business owned life insurance	63,638	62,113
Investment in unconsolidated subsidiaries	390,738	330,591
Other investments, $32,868 and $52,301 at fair value, respectively, otherwise at cost or amortized cost	35,798	110,847
Total Investments	3,383,632	3,686,528
Cash and cash equivalents	87,559	134,495
Premiums receivable	283,687	238,085
Receivable from reinsurers on paid losses and loss adjustment expenses	9,533	7,317
Receivable from reinsurers on unpaid losses and loss adjustment expenses	332,555	335,585
Prepaid reinsurance premiums	51,437	39,916
Deferred policy acquisition costs	56,250	50,261
Deferred tax asset, net	17,962	9,930
Real estate, net	31,307	31,975
Intangible assets, net	78,320	82,952
Goodwill	210,725	210,725
Other assets	110,475	101,428
Total Assets	$ 4,653,442	$ 4,929,197
Liabilities and Shareholders' Equity		
Liabilities		
Policy liabilities and accruals		
Reserve for losses and loss adjustment expenses	$ 2,099,827	$ 2,048,381
Unearned premiums	444,998	398,884
Reinsurance premiums payable	54,174	37,726
Total Policy Liabilities	2,598,999	2,484,991
Other liabilities	179,534	437,600
Debt less debt issuance costs	288,014	411,811
Total Liabilities	3,066,547	3,334,402
Shareholders' Equity		
Common shares, par value $0.01 per share, 100,000,000 shares authorized, 62,987,485 and 62,824,523 shares issued, respectively	630	628
Additional paid-in capital	384,638	383,077
Accumulated other comprehensive income (loss), net of deferred tax expense (benefit) of ($5,224) and $5,218, respectively	(20,107)	14,911
Retained earnings	1,639,743	1,614,186
Treasury shares, at cost, 9,367,545 shares and 9,367,502 shares, respectively	(418,009)	(418,007)
Total Shareholders' Equity	1,586,895	1,594,795
Total Liabilities and Shareholders' Equity	$ 4,653,442	$ 4,929,197

See accompanying notes.

Table of Contents

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

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2017	$ 628	$383,077	$ 14,911	$1,614,186	$(418,007)	$1,594,795
Cumulative-effect adjustment- ASU 2016-01 adoption*	—	—	—	8,334	—	8,334
Cumulative-effect adjustment- ASU 2018-02 adoption*	—	—	3,416	(3,416)	—	—
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	1,350	—	—	(2)	1,348
Share-based compensation	—	4,083	—	—	—	4,083
Net effect of restricted and performance shares issued	2	(3,872)	—	—	—	(3,870)
Dividends to shareholders	—	—	—	(50,868)	—	(50,868)
Other comprehensive income (loss)	—	—	(38,434)	—	—	(38,434)
Net income	—	—	—	71,507	—	71,507
Balance at September 30, 2018	$ 630	$384,638	$ (20,107)	$1,639,743	$(418,009)	$1,586,895

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2016	$ 627	$376,518	$ 17,399	$1,824,088	$(419,930)	$1,798,702
Cumulative-effect adjustment- ASU 2016-09 adoption	—	425	—	(276)	—	149
Common shares issued for compensation and effect of shares reissued to stock purchase plan	—	1,873	—	—	2	1,875
Share-based compensation	—	7,110	—	—	—	7,110
Net effect of restricted and performance shares issued	1	(5,331)	—	—	—	(5,330)
Dividends to shareholders	—	—	—	(49,598)	—	(49,598)
Other comprehensive income (loss)	—	—	8,060	—	—	8,060
Net income	—	—	—	89,922	—	89,922
Balance at September 30, 2017	$ 628	$380,595	$ 25,459	$1,864,136	$(419,928)	$1,850,890

* See Note 1 for discussion of accounting guidance adopted during the period.
See accompanying notes.

Table of Contents

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenues				
Net premiums earned	$206,070	$192,303	$616,819	$555,559
Net investment income	23,266	23,729	67,677	69,592
Equity in earnings (loss) of unconsolidated subsidiaries	5,228	4,164	12,247	8,489
Net realized investment gains (losses):				
OTTI losses	(86)	—	(490)	(419)
Portion of OTTI losses recognized in other comprehensive income before taxes	—	—	—	248
Net impairment losses recognized in earnings	(86)	—	(490)	(171)
Other net realized investment gains (losses)	12,459	7,749	3,141	18,981
Total net realized investment gains (losses)	12,373	7,749	2,651	18,810
Other income	2,388	510	7,155	4,581
Total revenues	249,325	228,455	706,549	657,031
Expenses				
Net losses and loss adjustment expenses	147,605	129,356	439,120	364,058
Underwriting, policy acquisition and operating expenses				
Operating expense	35,213	32,606	101,634	102,062
DPAC amortization	26,631	24,505	77,178	70,044
Segregated portfolio cells dividend expense (income)	5,255	2,891	9,787	14,076
Interest expense	3,599	4,124	11,262	12,402
Total expenses	218,303	193,482	638,981	562,642
Income before income taxes	31,022	34,973	67,568	94,389
Provision for income taxes				
Current expense (benefit)	(1,637)	13,690	(4,140)	12,111
Deferred expense (benefit)	1,431	(7,666)	201	(7,644)
Total income tax expense (benefit)	(206)	6,024	(3,939)	4,467
Net income	31,228	28,949	71,507	89,922
Other comprehensive income (loss), after tax, net of reclassification adjustments	(3,964)	(605)	(38,434)	8,060
Comprehensive income (loss)	$27,264	$28,344	$33,073	$97,982
Earnings per share				
Basic	$0.58	$0.54	$1.33	$1.68
Diluted	$0.58	$0.54	$1.33	$1.68
Weighted average number of common shares outstanding:				
Basic	53,620	53,413	53,585	53,377
Diluted	53,773	53,614	53,735	53,586
Cash dividends declared per common share	$0.31	$0.31	$0.93	$0.93

See accompanying notes.

Table of Contents

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

	Nine Months Ended September 30	
	2018	2017
Operating Activities		
Net income	$71,507	$89,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	16,544	21,024
(Increase) decrease in cash surrender value of BOLI	(1,525)	(1,518)
Net realized investment (gains) losses	(2,651)	(18,810)
Share-based compensation	4,145	7,110
Deferred income tax expense (benefit)	201	(7,644)
Policy acquisition costs, net of amortization (net deferral)	(5,989)	(4,882)
Equity in (earnings) loss of unconsolidated subsidiaries	(12,247)	(8,489)
Distributed earnings from unconsolidated subsidiaries	23,906	20,150
Other	490	(548)
Other changes in assets and liabilities:		
Premiums receivable	(45,602)	(39,206)
Reinsurance related assets and liabilities	5,741	(45,401)
Other assets	(1,961)	1,188
Reserve for losses and loss adjustment expenses	51,446	47,270
Unearned premiums	46,114	49,446
Other liabilities	(3,725)	8,569
Net cash provided (used) by operating activities	146,394	118,181
Investing Activities		
Purchases of:		
Fixed maturities, available for sale	(717,119)	(449,717)
Fixed maturities, trading	(33,086)	—
Equity investments	(169,160)	(127,916)
Other investments	(22,557)	(35,445)
Funding of qualified affordable housing project tax credit partnerships	(74)	(394)
Investment in unconsolidated subsidiaries	(54,496)	(30,530)
Proceeds from sales or maturities of:		
Fixed maturities, available for sale	809,095	599,374
Equity investments	138,423	116,833
Other investments	21,853	16,479
Return of invested capital from unconsolidated subsidiaries	48,545	27,214
Net sales or maturities (purchases) of short-term investments	227,513	141,538
Unsettled security transactions, net change	(4,273)	(10,935)
Purchases of capital assets	(7,672)	(8,620)
Purchases of intangible assets	—	(2,984)
Repayments (advances) under Syndicate Credit Agreement	(878)	(3,698)
Other	(1,331)	953
Net cash provided (used) by investing activities	234,783	232,152

Continued on the following page.

Table of Contents

	Nine Months Ended September 30	
	2018	2017
Continued from the previous page.		
Financing Activities		
Borrowings (repayments) under Revolving Credit Agreement	(123,000)	(48,000)
Repayments of Mortgage Loans	(1,047)	—
Dividends to shareholders	(299,894)	(298,704)
Capital contribution received from (return of capital to) external segregated portfolio cell owners	(267)	2,989
Other	(3,905)	(4,960)
Net cash provided (used) by financing activities	(428,113)	(348,675)
Increase (decrease) in cash and cash equivalents	(46,936)	1,658
Cash and cash equivalents at beginning of period	134,495	117,347
Cash and cash equivalents at end of period	$87,559	$119,005
Significant Non-Cash Transactions		
Dividends declared and not yet paid	$16,622	$16,558

See accompanying notes.

1. Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements include the accounts of ProAssurance Corporation and its consolidated subsidiaries (ProAssurance, PRA or the Company). The financial statements have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation, consisting of normal recurring adjustments, have been included. ProAssurance's results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The accompanying Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes contained in ProAssurance's December 31, 2017 report on Form 10-K. In connection with its preparation of the Condensed Consolidated Financial Statements, ProAssurance evaluated events that occurred subsequent to September 30, 2018 for recognition or disclosure in its financial statements and notes to financial statements.

Beginning in the third quarter of 2018, ProAssurance operates in five reportable segments as follows: Specialty P&C, Workers' Compensation Insurance, Segregated Portfolio Cell Reinsurance, Lloyd's Syndicates and Corporate. For more information on the Company's segment reporting, including the nature of products and services provided and financial information by segment, refer to Note 13.

Reclassifications

As a result of the third quarter 2018 segment reorganization, prior period segment information in Note 13 has been recast to conform to the Company's current segment reporting (see Note 13 for further information).

Certain other insignificant prior period amounts have been reclassified to conform to the current period presentation.

Accounting Policies

Except as added below, the significant accounting policies followed by ProAssurance in making estimates that materially affect financial reporting are summarized in Note 1 of the Notes to Consolidated Financial Statements in ProAssurance's December 31, 2017 report on Form 10-K.

Retroactive Insurance Contracts

In certain instances, ProAssurance's insurance contracts cover losses both on a prospective basis and retroactive basis and, accordingly, ProAssurance bifurcates the prospective and retroactive provisions of these contracts and accounts for each component separately, where practicable. The prospective provisions of a contract are accounted for consistently with the Company's other insurance contracts as discussed in Note 1 of the Notes to Consolidated Financial Statements in ProAssurance's December 31, 2017 report on Form 10-K.

Under the retroactive provisions of a contract, all premiums received and losses assumed are recognized immediately in earnings at the inception of the contract as all of the underlying loss events occurred in the past. If the estimated losses assumed differ from the premium received related to the retroactive provision of a contract, the resulting difference is deferred and recognized over the estimated claim payment period with the periodic amortization reflected in earnings as a component of net losses and loss adjustment expenses. Deferred gains are included as a component of the reserve for losses and loss adjustment expenses and deferred losses are included as a component of other assets on the Condensed Consolidated Balance Sheet. Subsequent changes to the estimated timing or amount of future loss payments in relation to the losses assumed under retroactive provisions also produce changes in deferred balances. Changes in such estimates are applied retrospectively and the resulting changes in deferred balances, together with periodic amortization, are included in earnings in the period of change.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

Other Liabilities
Other liabilities consisted of the following:

(In thousands)	September 30, 2018	December 31, 2017
SPC dividends payable	$ 54,591	$ 46,925
Unpaid dividends	16,622	267,292
All other	108,321	123,383
Total other liabilities	$ 179,534	$ 437,600

SPC dividends payable are the cumulative undistributed earnings contractually payable to the external cell owners of the SPCs operated by Eastern Re and Inova Re, ProAssurance's Cayman Islands reinsurance subsidiaries.
Unpaid dividends represent common stock dividends declared by ProAssurance's Board that had not yet been paid as of September 30, 2018. Unpaid dividends at December 31, 2017 reflected a special dividend declared in the fourth quarter of 2017 that was paid in January 2018.
Accounting Changes Adopted
Restricted Cash (ASU 2016-18)
Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, the FASB issued guidance related to the classification of restricted cash presented in the statement of cash flows with the objective of reducing diversity in practice. Under the new guidance, entities are required to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts as presented on the statement of cash flows. ProAssurance adopted the guidance as of January 1, 2018. Adoption of the guidance had no material effect on ProAssurance’s results of operations, financial position or cash flows.
Intra-Entity Transfers of Assets Other than Inventory (ASU 2016-16)
Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, the FASB issued guidance which reduces the complexity in accounting standards related to the income tax consequences of intra-entity transfers of assets other than inventory between tax-paying components. A tax-paying component is an individual entity or group of entities that is consolidated for tax purposes. Under the new guidance, entities are required to recognize income tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs instead of delaying recognition until the asset has been sold to an outside party. ProAssurance adopted the guidance as of January 1, 2018. Adoption of the guidance had no material effect on ProAssurance’s results of operations, financial position or cash flows.
Classification of Certain Cash Receipts and Cash Payments (ASU 2016-15)
Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, the FASB issued guidance related to the classification of certain cash receipts and cash payments presented in the statement of cash flows with the objective of reducing diversity in practice. ProAssurance adopted the guidance as of January 1, 2018 and elected to use the cumulative earnings approach for presenting distributions from equity method investees. Adoption of the guidance had no material effect on ProAssurance’s results of operations or financial position; however, ProAssurance reclassified approximately $20.2 million in distributions from unconsolidated subsidiaries from investing activities to operating activities in the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.
Revenue from Contracts with Customers (ASU 2014-09)
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 is 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 adopted the guidance as of January 1, 2018 under the modified retrospective method. Adoption of the guidance had no material effect on ProAssurance’s results of

operations, financial position or cash flows.

Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)

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 methods 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 adopted the guidance as of January 1, 2018 using a modified retrospective application and recorded a cumulative-effect after-tax adjustment of approximately $8.3 million to beginning retained earnings in the Condensed Consolidated Statement of Changes in Capital for the nine months ended September 30, 2018. LPs/LLCs previously reported using the cost method are now reported at fair value with increases in fair value of approximately $5.2 million and $11.1 million recognized as a component of equity in earnings (loss) of unconsolidated subsidiaries on the Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2018, respectively.

Modification Accounting for Employee Share-Based Payment Awards (ASU 2017-09)

Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, the FASB issued guidance which reduces the complexity in accounting standards when there is a change in the terms or conditions of a share-based payment award. The new guidance clarifies that an entity should apply the modification accounting guidance if the value, vesting conditions or classification of the award changes. ProAssurance adopted the guidance as of January 1, 2018. Adoption of the guidance had no material effect on ProAssurance’s results of operations, financial position or cash flows.

Reclassification of Certain Tax Effects from AOCI (ASU 2018-02)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, with early adoption permitted, the FASB issued guidance which permits a reclassification from AOCI to retained earnings for stranded tax effects resulting from the newly enacted federal corporate tax rate from the TCJA. The amount of the reclassification from AOCI to retained earnings will be the difference between the historical corporate tax rate and the newly enacted 21% corporate tax rate on deferred tax items originally established through OCI and not net income. The guidance allows entities to adopt in any interim or annual period for which financial statements have not yet been issued and apply the guidance either (1) in the period of adoption or (2) retrospectively to each period in which the effect of the change in the tax rate is recognized. ProAssurance adopted this guidance as of January 1, 2018 and elected to apply this guidance in the period of adoption using the specific identification method. Using a modified retrospective application, ProAssurance recorded a cumulative-effect adjustment which increased beginning AOCI by approximately $3.4 million and decreased beginning retained earnings by the same amount in the Condensed Consolidated Statement of Changes in Capital for the nine months ended September 30, 2018. Adoption of this guidance had no material effect on ProAssurance's financial position, results of operations or cash flows.

Technical Corrections and Improvements to Financial Instruments - Overall (ASU 2018-03)

Effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years beginning after June 15, 2018, the FASB amended the new standard on recognizing and measuring financial assets and financial liabilities to clarify certain aspects of the guidance. Under the amended guidance, an entity that uses the measurement alternative for equity investments without readily determinable fair values can change its measurement approach to a fair value method through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. Also, entities are required to use the prospective transition approach only for equity investments they elect to measure using the new measurement alternative. Additionally, the guidance clarifies how to apply the measurement alternative and presentation requirements for financial liabilities measured under the fair value option. ProAssurance adopted the guidance as of July 1, 2018 and adoption had no material effect on ProAssurance's financial position, results of operations or cash flows as ProAssurance does not have any equity investments without readily determinable fair values or financial liabilities measured under the fair value option.

Accounting Changes Not Yet Adopted

Leases (ASU 2016-02)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance that requires a lessee to recognize for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. ProAssurance plans to adopt the guidance beginning January 1, 2019 using a modified retrospective application and plans to elect the transition option provided that allows companies to continue to apply legacy GAAP in comparative periods. As of September 30, 2018, ProAssurance is currently in the process of evaluating all of its leases. As the majority of ProAssurance's leases are real estate operating leases and are not considered to be material, adoption of the guidance is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows. In addition, ProAssurance's Revolving Credit Agreement contains a financial covenant regarding permitted leverage ratios based upon Consolidated Funded Indebtedness to Consolidated Total Capitalization; however, ProAssurance does not anticipate that the adoption of this guidance would have a material impact on the covenant. ProAssurance’s Mortgage Loans also contain a financial covenant regarding permitted leverage ratios, principally based upon SAP Consolidated Net Worth; however, as the NAIC is not anticipated to adopt the principles in the FASB guidance around capitalizing operating leases, adoption of the guidance would have no impact on the covenant.

Premium Amortization on Purchased Callable Debt Securities (ASU 2017-08)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance that will require the premium for certain callable debt securities to be amortized over a shorter period than is currently required. Currently amortization is permitted over the contractual life of the instrument and the guidance shortens the amortization to the earliest call date. The purpose of the guidance is to more closely align the amortization period of premiums to expectations incorporated in market pricing on the underlying securities. ProAssurance plans to adopt the guidance beginning January 1, 2019. As ProAssurance amortizes premium on callable debt securities to the earliest call date, adoption of the guidance is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows.

Derivatives and Hedging (ASU 2017-12)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance to improve financial reporting of hedging relationships to better portray the entity's risk management activities in the consolidated financial statements. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness and requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. ProAssurance plans to adopt the guidance beginning January 1, 2019. ProAssurance's derivative instrument at September 30, 2018 is not designated as a hedging instrument; therefore, adoption is not expected to have a material effect on ProAssurance's results of operations, financial position or cash flows.

Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07)

Effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years, the FASB issued guidance which reduces the complexity in accounting for nonemployee share-based payment awards. The new guidance substantially aligns the accounting for nonemployee share-based payment awards with the accounting guidance for employee share-based payment awards with certain exceptions, including the inputs used in estimating the fair value of the nonemployee awards and the period of time and pattern of expense recognition. ProAssurance plans to adopt the guidance as of January 1, 2019. Adoption of the guidance is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows.

Improvements to Financial Instruments - Credit Losses (ASU 2016-13)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that replaces the incurred loss impairment methodology, which delays recognition of credit losses until a probable loss has been incurred, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new guidance, credit losses are required to be recorded through an allowance for credit losses account and the income statement reflects the measurement for newly recognized financial assets, as well as increases or decreases of expected credit losses that have taken place during the period. Credit losses on available-for-sale fixed maturity securities will be measured in a manner similar to current GAAP, although the new guidance requires that credit losses be presented as an allowance, rather than as a write-down of the asset, limited to the amount by which the fair value is below amortized cost. In addition, this guidance could impact ProAssurance's receivables from reinsurers; however, ProAssurance has not historically experienced material credit losses due to the financial condition of a reinsurer. ProAssurance plans to adopt the guidance beginning January 1, 2020 and is in the process of evaluating the effect the new guidance would have on its results of operations and financial position.

Simplifying the Test for Goodwill Impairment (ASU 2017-04)

Effective for the fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that simplifies the requirements to test goodwill for impairment for business entities that have goodwill reported in their financial statements. The guidance eliminates the second step of the impairment test which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. In addition, the guidance also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment. ProAssurance plans to adopt the guidance beginning January 1, 2020. Adoption is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows.

Changes to the Disclosure Requirements for Fair Value Measurement (ASU 2018-13)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB issued guidance that eliminates, modifies and adds certain disclosure requirements related to fair value measurements. The new guidance eliminates the requirements to disclose the transfers between Level 1 and Level 2 of the fair value hierarchy, the policy for the timing of transfers between levels of the fair value hierarchy and the valuation process for Level 3 fair value measurements while it modifies existing disclosure requirements related to measurement uncertainty and the requirement to disclose the timing of liquidation of an investee's assets for investments in certain entities that calculate NAV. The new guidance also adds requirements to disclose changes in unrealized gains and losses included in OCI for recurring Level 3 fair value measurements as well as the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. An entity is permitted to early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until the guidance is effective. As of September 30, 2018, ProAssurance has elected to early adopt the provisions that eliminate and modify certain disclosure requirements within Note 2 on a retrospective basis and adoption of these certain provisions had no material effect on ProAssurance’s results of operations, financial position or cash flows as it affected disclosures only. ProAssurance plans to adopt the additional disclosure requirements beginning January 1, 2020 and adoption is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows.

Intangibles - Goodwill and Other-Internal-Use Software (ASU 2018-15)

Effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, the FASB amended the new standard regarding accounting for implementation costs in cloud computing arrangements. The amended guidance substantially aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ProAssurance plans to adopt the guidance beginning January 1, 2020. Adoption is not expected to have a material effect on ProAssurance’s results of operations, financial position or cash flows.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

2. 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 September 30, 2018 and December 31, 2017 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.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

	September 30, 2018 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	$—	$125,072	$—	$125,072
U.S. Government-sponsored enterprise obligations	—	35,882	—	35,882
State and municipal bonds	—	310,188	—	310,188
Corporate debt, multiple observable inputs	2,367	1,229,540	—	1,231,907
Corporate debt, limited observable inputs	—	—	9,405	9,405
Residential mortgage-backed securities	—	187,460	—	187,460
Agency commercial mortgage-backed securities	—	13,544	—	13,544
Other commercial mortgage-backed securities	—	31,411	—	31,411
Other asset-backed securities	—	180,307	7,159	187,466
Fixed maturities, trading				
Corporate debt	—	32,782	—	32,782
Equity investments				
Financial	77,159	—	—	77,159
Utilities/Energy	59,460	—	—	59,460
Consumer oriented	58,478	—	—	58,478
Industrial	50,776	—	—	50,776
Bond funds	211,513	—	—	211,513
All other	45,966	—	—	45,966
Short-term investments	171,061	33,512	—	204,573
Other investments	—	32,862	6	32,868
Other assets	—	2,852	—	2,852
Total assets categorized within the fair value hierarchy	$676,780	$2,215,412	$16,570	2,908,762
Assets carried at NAV, which approximates fair value and which are not categorized within the fair value hierarchy, reported as a part of:				
Equity investments				20,416
Investment in unconsolidated subsidiaries				287,575
Total assets at fair value				$3,216,753

	December 31, 2017 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	$—	$133,627	$—	$133,627
U.S. Government-sponsored enterprise obligations	—	20,956	—	20,956
State and municipal bonds	—	632,243	—	632,243
Corporate debt, multiple observable inputs	2,371	1,151,084	—	1,153,455
Corporate debt, limited observable inputs	—	—	13,703	13,703
Residential mortgage-backed securities	—	196,789	1,055	197,844
Agency commercial mortgage-backed securities	—	10,742	—	10,742
Other commercial mortgage-backed securities	—	15,961	—	15,961
Other asset-backed securities	—	97,780	3,931	101,711
Equity investments				
Financial	76,051	—	—	76,051
Utilities/Energy	54,388	—	—	54,388
Consumer oriented	54,529	—	—	54,529
Industrial	53,936	—	—	53,936
Bond funds	156,563	—	—	156,563
All other	75,142	—	—	75,142
Short-term investments	404,204	27,922	—	432,126
Other investments	607	31,155	409	32,171
Other assets	—	1,731	—	1,731
Total assets categorized within the fair value hierarchy	$877,791	$2,319,990	$19,098	3,216,879
Assets carried at NAV, which approximates fair value and which are not categorized within the fair value hierarchy, reported as a part of:				
Investment in unconsolidated subsidiaries				210,759
Other investments				20,130
Total assets at fair value				$3,447,768

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 adjusted, if necessary. There were no material changes to the values supplied by the pricing services during the three and nine months ended September 30, 2018 and 2017.

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, 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 to permit assessment of the reliability of the quotes; unreliable quotes were not considered in quoted averages.

Residential and commercial mortgage-backed 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.

Short-term investments were securities maturing within one year, carried at fair value which approximated the cost of the securities due to their short-term nature.

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.

Other assets consisted of an interest rate cap derivative instrument, which is discussed in Note 9, valued using a model which considers the volatilities from other instruments with similar maturities, strike prices, durations and forward yield curves.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

Level 3 Valuations
Below is a summary description of the valuation methodologies used as well as quantitative information regarding securities in the Level 3 category, by security type:
Level 3 Valuation Methodologies
Corporate debt, 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 September 30, 2018, 79% of the securities were rated and the average rating was BBB+. At December 31, 2017, 84% of the securities were rated and the average rating was BBB+.
Residential mortgage-backed and 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. 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 September 30, 2018, 60% of the securities were rated and the average rating was AAA. At December 31, 2017, 21% of the securities were rated and the average rating was AAA.
Other investments consisted of convertible securities for which limited observable inputs were available at September 30, 2018 and December 31, 2017. The securities were valued internally based on expected cash flows, including the expected final recovery, discounted at a yield that considered the lack of liquidity and the financial status of the issuer.
Quantitative Information Regarding Level 3 Valuations

($ in thousands)	Fair Value at September 30, 2018	December 31, 2017	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Corporate debt, limited observable inputs	$9,405	$13,703	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Residential mortgage-backed and other asset-backed securities	$7,159	$4,986	Market Comparable Securities	Comparability Adjustment	0% - 5% (2.5%)
			Discounted Cash Flows	Comparability Adjustment	0% - 5% (2.5%)
Other investments	$6	$409	Discounted Cash Flows	Comparability Adjustment	0% - 10% (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.

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

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.

	September 30, 2018			
	Level 3 Fair Value Measurements – Assets			
(In thousands)	Corporate Debt	Asset-backed Securities	Other investments	Total
Balance June 30, 2018	$8,380	$ 9,420	$ 5	$17,805
Total gains (losses) realized and unrealized:				
Included in earnings, as a part of:				
Net investment income	(37)	1	—	(36)
Net realized investment gains (losses)	—	—	1	1
Included in other comprehensive income	(12)	15	—	3
Purchases	2,000	—	—	2,000
Sales	(926)	—	—	(926)
Transfers in	—	—	—	—
Transfers out	—	(2,277)	—	(2,277)
Balance September 30, 2018	$9,405	$ 7,159	$ 6	$16,570
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$ —	$ —	$—

	September 30, 2018			
	Level 3 Fair Value Measurements – Assets			
(In thousands)	Corporate Debt	Asset-backed Securities	Other investments	Total
Balance December 31, 2017	$13,703	$ 4,986	$ 409	$19,098
Total gains (losses) realized and unrealized:				
Included in earnings, as a part of:				
Net investment income	(111)	2	—	(109)
Net realized investment gains (losses)	(8)	—	(37)	(45)
Included in other comprehensive income	(140)	(126)	—	(266)
Purchases	8,005	16,678	—	24,683
Sales	(5,475)	(185)	(366)	(6,026)
Transfers in	2,627	—	—	2,627
Transfers out	(9,196)	(14,196)	—	(23,392)
Balance September 30, 2018	$9,405	$ 7,159	$ 6	$16,570
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$ —	$ —	$—

Table of Contents
ProAssurance Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)
September 30, 2018

	September 30, 2017			
	Level 3 Fair Value Measurements – Assets			
(In thousands)	Corporate Debt	Asset-backed Securities	Other investments	Total
Balance June 30, 2017	$17,849	$ 3,005	$ 5	$20,859
Total gains (losses) realized and unrealized:				
Included in earnings, as a part of:				
Net investment income	(52)	—	—	(52)
Included in other comprehensive income	(18)	(45)	—	(63)
Purchases	1	580	—	581
Sales	(858)	—	—	(858)
Transfers in	989	—	423	1,412
Transfers out	(2,948)	—	—	(2,948)
Balance September 30, 2017	$14,963	$ 3,540	$ 428	$18,931
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$ —	$ —	$—

	September 30, 2017			
	Level 3 Fair Value Measurements – Assets			
(In thousands)	Corporate Debt	Asset-backed Securities	Other investments	Total
Balance December 31, 2016	$14,810	$ 3,007	$ 3	$17,820
Total gains (losses) realized and unrealized:				
Included in earnings, as a part of:				
Net investment income	(125)	—	—	(125)
Net realized investment gains (losses)	13	—	(124)	(111)
Included in other comprehensive income	(296)	(47)	140	(203)
Purchases	11,890	580	—	12,470
Sales	(4,418)	—	(912)	(5,330)
Transfers in	999	—	1,321	2,320
Transfers out	(7,910)	—	—	(7,910)
Balance September 30, 2017	$14,963	$ 3,540	$ 428	$18,931
Change in unrealized gains (losses) included in earnings for the above period for Level 3 assets held at period-end	$—	$ —	$ —	$—

Transfers

Transfers shown in the preceding Level 3 tables were as of the end of the quarter in which the transfer occurred. All transfers were to or from Level 2.

All transfers during the three and nine months ended September 30, 2018 and 2017 related to securities held for which the level of market activity for identical or nearly identical securities varies from period to period. The securities were valued using multiple observable inputs when those inputs were available; otherwise the securities were valued using limited observable inputs.

Fair Values Not Categorized

At September 30, 2018 and December 31, 2017, certain LPs/LLCs and investment funds measure fund assets at fair value on a recurring basis and provide a NAV for ProAssurance's interest. The carrying value of these interests is based on the NAV provided and was considered to approximate the fair value of the interests. For investment in unconsolidated subsidiaries, ProAssurance recognizes any changes in the NAV of its interests in equity in earnings (loss) of unconsolidated subsidiaries during the period of change. In accordance with GAAP, the fair value of these investments was not classified within the fair value hierarchy. The amount of ProAssurance's unfunded commitments related to these investments as of September 30, 2018 and fair values of these investments as of September 30, 2018 and December 31, 2017 was as follows:

	Unfunded Commitments	Fair Value	
(In thousands)	September 30, 2018	September 30, 2018	December 31, 2017
Equity investments:			
Mortgage fund (1)*	None	$20,416	$ —
Investment in unconsolidated subsidiaries:			
Private debt funds (2)	$19,918	23,736	42,206
Long equity fund (3)	None	6,899	7,847
Long/short equity funds (4)	None	27,927	31,352
Non-public equity funds (5)	$73,795	113,669	100,062
Multi-strategy fund of funds (6)	None	9,447	9,100
Credit funds (7)	$8,916	29,485	6,561
Long/short commodities fund (8)	None	13,686	13,025
Strategy focused funds (9)	$29,693	62,726	606
		287,575	210,759
Other investments:			
Mortgage fund (1)*	See above	—	20,130
Total investments carried at NAV		$307,991	$ 230,889