

FITCH AFFIRMS PROASSURANCE'S RATINGS; OUTLOOK STABLE

Fitch Ratings-Chicago-14 June 2016: Fitch Ratings has affirmed ProAssurance Corporation's (PRA) Long-Term Issuer Default Rating (IDR) at 'A-'. Fitch has also affirmed the Insurer Financial Strength (IFS) ratings of PRA's primary insurance operating companies (listed below) at 'A'. The Rating Outlook for all ratings is Stable.

KEY RATING DRIVERS

The rating affirmation considers the solid capital position of PRA's operating subsidiaries, as well as their consistent profitability, low financial leverage, and strong reserve experience. In addition, PRA has a track record of prudent use of capital, claims management, and reserve processes. These characteristics are generally supportive of a higher rating per Fitch guidelines.

Offsetting these positives is the company's historical concentration of operations in the volatile medical professional liability (MPLI) line of business. Recent acquisitions, particularly of Eastern Insurance and Syndicate 1729 both done in 2014, have diversified premiums such that as of year-end 2015 PRA derived approximately 40% of premiums from non-MPLI business.

While there are potential benefits from a more diversified product mix, there is also uncertainty regarding the ultimate operating success of PRA's venture into workers' compensation. Successful integration of recent acquisitions with favorable underwriting performance across each major segment going forward would be a credit positive.

PRA reported a calendar year GAAP combined ratio of 94.5% as March 31, 2016 which was worse than the 91.1% posted for similar period prior year. Calendar year combined ratios for the past several years have benefited from large favorable loss reserve development. While favorable development typically indicates reserve strength it can mask deterioration in current calendar year underwriting results.

On an accident year basis the company reported a 113.7% combined ratio for full year 2015 a deterioration from the 108.1% combined ratio for full year 2014. Fitch believes that current loss ratio estimates incorporate a reasonable but conservative view for future claims reserves. PRA is likely to continue to report significant but declining favorable reserve development going forward.

MPLI follows a unique underwriting cycle to other commercial insurance lines. Industry premium volumes are shrinking due to fundamental market changes and price competition. Health care providers are moving from independent and smaller group practices towards employment with hospitals and large medical groups. This shift is changing purchase and coverage preferences for MPLI. Large groups are more likely to self-insure and use captive or alternative risk programs, reducing demand for primary MPLI coverage.

The MPLI market includes many monoline MPLI writers that experienced strong capital growth in the last hard market and have limited underwriting opportunities outside of MPLI. Efforts to deploy capital by MPLI specialists is dampening market pricing and will restrict any potential for improving market conditions going forward.

As of March 31, 2016 PRA's stated financial leverage was 15%; however, Fitch adjusts debt by the \$100 million under its revolving credit agreement which Fitch views as operating debt resulting in

financial leverage of 11%. Fixed charge coverage was 9.7x as of March 31, 2016 compared to of 13.2x at March 31, 2015. PRA's IDR is based on PRA maintaining financial leverage below 15% and maintaining strong interest coverage and holding company liquidity.

Within Fitch's rating rationale are multiple rating triggers. If PRA were to materially deviate from any of these items, especially for an extended period, the ratings could be affected.

RATING SENSITIVITIES

The following is a list of triggers that could lead to a downgrade of the debt rating and IDR:

- A sustained increase in financial leverage above 15%;
- A sustained reduction in earnings based interest coverage below 12x.

The following is a list of triggers that could lead to a downgrade of all ratings:

- An increase in financial leverage above 25% or decline in operating earnings-based coverage below 7x;
- Material adverse reserve development;
- An increase in the company's GAAP operating leverage of 1.0x or higher;
- A Prism capital model score below 'Strong' (currently 'Extremely Strong').

The following is a list of triggers that could lead to an upgrade:

- An improvement in market position size/scale while maintaining profitability.

FULL LIST OF RATING ACTIONS

Fitch affirmed the following ratings with a Stable Outlook:

ProAssurance Corporation

- IDR at 'A-'.
- \$250 million 5.3% senior unsecured debt due 2023 'BBB+'.

Fitch has affirmed the IFS rating of the following companies at 'A' with a Stable Outlook:

- Allied Eastern Indemnity Company;
- Eastern Alliance Insurance Company;
- Eastern Advantage Assurance Company;
- Medmarc Casualty Insurance Company;
- Noetic Specialty Insurance Company;
- PACO Assurance Company, Inc.
- Podiatry Insurance Company of America;
- ProAssurance Casualty Company
- ProAssurance Indemnity Company, Inc.;
- ProAssurance Specialty Insurance Company.

Contact:

Primary Analyst
Gerald Glombicki, CPA

Director
+1-312-606-2354
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Secondary Analyst
James Auden, CFA
Managing Director
+1-312-368-3146

Committee Chairperson
Mark Rouck, CFA, CPA
Senior Director
+1-312-368-2085

Media Relations: Hannah James, New York, Tel: + 1 646 582 4947, Email:
hannah.james@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 17 May 2016)
https://www.fitchratings.com/creditrating/reports/report_frame.cfm?rpt_id=881564

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE 'WWW.FITCHRATINGS.COM'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.