REPORT OF EXAMINATION

OF

PROASSURANCE INDEMNITY COMPANY, INC.

BIRMINGHAM, ALABAMA

AS OF

DECEMBER 31, 2010

PARTICIPATION:

SOUTHEASTERN ZONE
ALABAMA

NORTHEASTERN ZONE
DISTRICT OF COLUMBIA

MIDWEST ZONE
MICHIGAN
WISCONSIN

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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF JEFFERSON

Mary B. Packard, CPA, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of ProAssurance Indemnity Company, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of ProAssurance Indemnity Company, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Mary B. Packard
Examiner-in-Charge

Subscribed and sworn before me by Mary B. Packard on this 30th day of March.

(SEAL)

(Signature of Notary Public)

My commission expires 4/28/13.

ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
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DEPUTY COMMISSIONER
CHARLES M. ANGELL (acting)
CHIEF OF STAFF
RAGAN INGRAM
CHIEF EXAMINER
RICHARD L. FORD
STATE FIRE MARSHAL
EDWARD S. PAULK
GENERAL COUNSEL
REYN NORMAN

March 30, 2012

Honorable Jim L. Ridling, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your authorizations and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination has been made of the affairs and financial condition of

PROASSURANCE INDEMNITY COMPANY, INC.

at its home office located at 100 Brookwood Place, Birmingham, Alabama 35209, as of December 31, 2010. The Report of Examination is submitted herewith. Where the description "Company" or "PRA Indemnity" appears herein without qualification, it will be understood to indicate ProAssurance Indemnity Company, Inc.

SCOPE OF EXAMINATION

The Company was last examined for the four-year period ended December 31, 2006 by examiners from Alabama and the District of Columbia. The current examination covers the intervening period from the date of the last examination through December 31, 2010, and was conducted by examiners from Alabama, representing the Southeastern Zone, NAIC. The examination was conducted as a coordinated examination with the following affiliated companies: ProAssurance Specialty Insurance Company, Inc. (PRA Specialty) of Birmingham, Alabama, ProAssurance National Capital Insurance Company (PRA National Capital) of Washington, D.C., ProAssurance Casualty Company PRA Casualty) of Okemos, Michigan, and ProAssurance Wisconsin Insurance Company (PRA Wisconsin) of Madison, Wisconsin. Where deemed appropriate, transactions subsequent to 2010 were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the *Code of Alabama, 1975*, as amended, the Alabama Insurance Department regulations, bulletins and directives and in accordance with the procedures and guidelines promulgated by the NAIC, as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The five companies were examined as a consolidated group, and the examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the companies as of December 31, 2010, and to identify prospective risks by obtaining information about the companies, including the corporate governance of holding company, ProAssurance Corporation (PRA Corp.), by identifying and assessing inherent risks within the companies and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

The five companies' annual statements for each year under examination (2007 through 2010) were compared with or reconciled to the corresponding general ledger account balances.

An examination of PRA Corp.'s information systems (IS) was started prior to the financial examination and continued into the financial examination. The scope of this examination was developed using Exhibit C of the NAIC 2010 Financial

Condition Examiner's Handbook and ISACA Cobit 4.1 domains: (1) Monitor & Evaluate, (2) Plan & Organize, (3) Acquire & Implement, and (4) Deliver & Support. The objectives of the examination included (a) identify IT inherent and prospective risks, (b) analyze mitigating controls, (c) determine residual IT Risks, (d) identify non-compliance with regulatory criteria, and (e) provide regulatory and corporate management follow-up recommendations. See "**ACCOUNTS AND RECORDS**" on page 25 for further discussion of the IS examination.

Alabama performed a separate market conduct examination concurrently with the financial examination. The examination included a review of PRA Indemnity's territory and plan of operation, management and operations, claims, complaint handling, marketing and sales, agents' licensing, underwriting and rating, and privacy standards. See "**MARKET CONDUCT ACTIVITIES**" on page 20 for further discussion of the market conduct examination.

PRA Corp. maintains an Internal Audit (IA) Department, which is charged with performing the internal audit function for all companies within the holding company system. The IA Department is subject to oversight by PRA Corp.'s Audit Committee which is comprised of all outside directors. Reports generated by the IA Department were made available to the examiners and were used in the examination as deemed appropriate. In addition, the IA Department is responsible for the testing and documentation of all processes, the risks for each, and all mitigating controls over those risks as required by Sarbanes-Oxley (SOX) 404. The examiners reviewed the processes tested and requested the workpapers for specific ones which had been identified as significant to the key activities and sub-activities being examined. The workpapers were provided and were utilized where deemed appropriate.

Ernst & Young, LLP was the certified public accountants (CPAs) for all five companies for all years under examination. The examiners reviewed the CPAs' workpapers for all years, copies of which were incorporated into the examination as deemed appropriate.

A signed certificate of representation for PRA Indemnity was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2010.

ORGANIZATION AND HISTORY

The Company was incorporated as a mutual insurance company under the laws of the State of Alabama on October 1, 1976, and commenced business on April 15,

1977. The Company was organized under the auspices of the Medical Association of the State of Alabama, hereinafter referred to as the "Association."

The restated Articles of Incorporation provided that the primary purpose of the Company shall be to provide for the professional liability insurance needs of Alabama physicians. The articles further provide that the Company could pursue other valid corporate purposes, as long as those purposes did not thwart or preclude the advancement of the Company's primary purpose. The other purposes included writing of other lines of property and casualty insurance or lines of insurance as the Company may from time to time be legally authorized to write. Other usual and customary purposes for a property and casualty insurance company were included in the Company's authority to do business.

The Board adopted a Plan of Conversion, which was filed with the Alabama Commissioner of Insurance on December 29, 1989. The members of the Company approved the Plan of Conversion of March 15, 1991. On September 11, 1991, the Company converted from a mutual insurance company controlled by its policyholders to a stock company controlled by its stockholder.

In 1993, the Company started the process of repurchasing its stock on the open market. During that year, the Company purchased treasury stock for $3,885,619. On the 1994 Annual Statement, the Company listed the treasury stock as $3,846,669, less than in 1993, but the amount increased in 1995 to $7,230,931.

On January 1, 1994, the Company purchased all outstanding stock of West Virginia Hospital Insurance Company, which was the start of the Company's expansion of its business into other states. This was in an effort to increase the volume of its professional liability insurance business.

Effective January 1, 1995, the Company purchased 51.7% of the outstanding capital voting stock of Physicians Insurance Company of Indiana (PIC-Ind.). On May 1, 1995, the Company purchased additional shares of PIC-Ind. stock for a total of 99% of the outstanding capital voting stock. Effective July 16, 1995, the Company acquired the recurring medical professional insurance book of business of Physicians Insurance Company of Ohio (PIC-Ohio) and its subsidiary, the Professionals Insurance Company (PIC).

The Company formed a Delaware corporation, MAIC Holdings, Inc. (MAIC) to serve as a holding corporation for the Company and other subsidiaries. On August 31, 1995, the two companies consummated an Agreement and Plan of Exchange, which generally provided that each share of common stock of the

Company, par value $1 per share, would be exchanged for one share of common stock in MAIC, par value $1 per share. MAIC's common stock succeeded the Company's common stock for trading on the NASDAQ/NMS under the trading symbol "MAIC."

On October 5, 1999, the Company changed its name from Mutual Assurance, Inc. to The Medical Assurance Company, Inc. At the May 18, 2000 Board meeting, the directors voted to liquidate and dissolve PROActive Insurance Corporation and its parent, MAI Corporation, a Delaware corporation, a wholly owned subsidiary of the Company, upon the transfer of the PROActive stock to the Company. On September 18, 2000, the Company and Medical Assurance of Indiana merged together with the Company being the surviving corporation. On October 18, 2000, the Company merged with Medical Assurance of Missouri, and the Company was the surviving corporation.

On June 22, 2000, MAI, the Company's parent, entered into an Agreement to Consolidate with Professionals Group, Inc. (PGI), which provided for the formation of ProAssurance Corporation (PRA Corp.), a new holding company of MAI and PGI. On June 27, 2001, MAI's shares were exchanged for those of PRA Corp. as provided in the agreement. PGI's shares were acquired in part through the issuance of PRA Corp. stock and in part through the payment of cash. The Company paid its parent a $45,000,000 dividend, which was used to purchase PGI's shares.

May 16, 2007, Medical Assurance, Inc. and Professionals Group, Inc. merged into PRA Professional Liability Group, Inc., the new immediate parent of the Company.

December 31, 2008, the Company changed its name from The Medical Assurance Company, Inc. to ProAssurance Indemnity Company, Inc. December 31, 2008, Woodbrook Casualty Insurance, Inc. merged into PRA Indemnity.

Effective November 30, 2010, American Physicians Insurance Company became an affiliate of the Company.

The Company's authorized capital at December 31, 2010, consisted of 1,000 shares of $0 par value per share common stock for total authorized capital of $8,846,429. At December 31, 2010, there were 1,000 shares issued and outstanding and paid in and contributed surplus was $205,553,769.

MANAGEMENT AND CONTROL

Stockholder

At December 31, 2010, the Company was a stock corporation with control vested in its stockholder. The Company was a wholly owned subsidiary of PRA Professional Liability Group, Inc., a Delaware holding corporation, which was wholly owned by ProAssurance Corporation (PRA Corp.), a Delaware stock corporation and the ultimate parent company.

Board of Directors

Members elected to the Board of Directors by the sole shareholder of the Company as of December 31, 2010, in accordance with the By-Laws of the Company and serving at December 31, 2010 were as follows:

Director/Residence	Office
William Stancil Starnes Birmingham, Alabama	Chairman
Victor Thomas Adamo Birmingham, Alabama	Vice Chairman
Howard Harley Friedman Timonium, Maryland	Director, President and Chief Underwriting Officer
Darryl Keith Thomas Hoover, Alabama	Director, Senior Vice President and Chief Claims Officer
Edward Lewis Rand, Jr. Birmingham, Alabama	Director, Senior Vice President and Treasurer

Committees

The Company had the following committees at year-end 2010:

Executive Committee

The Executive Committee consisted of the following members:

Victor Thomas Adamo
Howard Harley Friedman
Darryl Keith Thomas

Investment Committee

The Investment Committee consisted of the following members:

Victor Thomas Adamo	Edward Lewis Rand, Jr.
Howard Harley Friedman	Darryl Keith Thomas.

Officers

The following officers were elected by the Board of Directors and were serving at December 31, 2010:

Officer	Title
William Stancil Starnes	Chairman
Victor Thomas Adamo	Vice Chairman
Howard Harley Friedman	President, Chief Underwriting Officer
Jeffrey Lynn Bowlby	Senior Vice President
Frank Berry O'Neil	Senior Vice President
Edward Lewis Rand, Jr.	Senior Vice President, Treasurer
Hayes Vance Whiteside, M.D.	Senior Vice President
Darryl Keith Thomas	Senior Vice President, Chief Claims Officer, Assistant Secretary
Kathryn Anne Neville	Vice President, Secretary
Kelly Bounds Brewer	Vice President, Assistant Treasurer
Jeffrey Patton Lisenby	Vice President, Assistant Secretary, Assistant Treasurer
Philip Rhett Plugge	Controller

There were 34 additional Vice Presidents and five Assistant Vice Presidents approved.

Conflicts of Interest

The Company adopted a Statement of Policy on Conflicts of Interest, which was approved by the Board of Directors at a meeting held September 28, 1978, which required that Conflict of Interest Statements be signed every year by directors, officers and other employees.

All conflict of interest statements were complete for all years under review.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws, were amended and restated on December 9, 2008, to reflect the change in the Company's name from The Medical Assurance Company, Inc. to ProAssurance Indemnity Company, Inc. and the merger of Woodbrook Casualty Insurance, Inc. into the Company. The documents were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations.

Minutes of meetings of the stockholder and Board of Directors were reviewed for the period under examination. The minutes appeared to be complete with regard to recording actions taken on matters before the respective bodies for deliberation and action.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company

The Company is subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company is registered with the Alabama Department of Insurance as joint registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company as joint registrant. A review of the Company's filings during the period under review did not disclose any omissions in them.

Dividends to Stockholders

The Company paid dividends to its immediate parent, PRA Professional Liability Group, Inc. during the following years under examination:

2010	$145,000,000
2009	$125,000,000
2008	$128,300,000
2007	None

Management and Service Agreements

Consolidated Tax Allocation Agreement

The consolidated tax allocation agreement executed on December 1, 2010, by and between ProAssurance Corporation (PRA Corp.) and the following subsidiaries (hereinafter referred to as "member" or "members"); succeeded the agreement dated April 17, 2009, as amended July 1, 2009:

- PRA Professional Liability Group, Inc.
- ProAssurance Group Services Corporation
- American Physicians Service Group, Inc.
- ProAssurance Indemnity Company, Inc.
- IAO, Inc. (d/b/a ProAssurance Agency)
- ProAssurance Casualty Company
- ProAssurance Specialty Insurance Company, Inc.
- American Insurance Management Corp.
- PRA Services Corporation
- ProAssurance Wisconsin Insurance Company
- ProAssurance National Capital Insurance Company
- ProAssurance Mid-Continent Underwriters, Inc.
- Podiatry Insurance Company of America
- PACO Assurance Company, Inc.
- PRA Group Holdings, Inc.
- PICA Management Resources, Inc.
- PICA Group Services, Inc.
- American Physicians Management Consulting, Inc.
- APS Insurance Services, Inc.
- APS Investment Services, Inc.
- American Physicians Insurance Company
- APS Professional Liability Insurance Agency, Inc.
- American Physicians Insurance Agency, Inc.
- APS Capital Corporation
- APS Financial Corporation
- APMC Financial Services, Inc.

PRA Corp. allocates the consolidated tax liability among the members in accordance with the ratio for which that portion of the consolidated taxable income attributable to each member having taxable income bears to the consolidated taxable income. Each member will pay all amounts due to PRA Corp. within thirty days of the notice date. In lieu of actual payments, adjustments to intercompany payables and receivables will be made if such exist.

Any member having losses or tax credits in a given year, resulting in reduced taxes for the other members, will be reimbursed by the members receiving the tax reduction. Generally, reimbursement for the tax benefit of losses or tax credits will be made in the form of a reduction to intercompany payables. If the tax benefit exceeds the intercompany payable, an actual cash payment will be made. Payments for additional tax amounts; reimbursement for overpayments; or adjustments for underpayments will be made within thirty days of the notice date. Changes in the amount of a member's tax liability and the reimbursement payment will be considered an intercompany liability or receivable and not a dividend or surplus contribution.

This agreement contained standard provisions regarding indemnification, severability and the ability to amend the agreement.

This agreement is effective until terminated by the mutual agreement of all the members. In the event any member ceases to be affiliated with the group, this agreement is automatically terminated as to that corporation.

Expense Allocation Agreement

Effective, May 1, 2009, this agreement was by and between ProAssurance Corporation (PRA Corp.) and the following subsidiaries (hereinafter referred to as "company" or "companies"):

- PRA Professional Liability Group, Inc.
- ProAssurance Indemnity Company. Inc.
- IAO, Inc. (d/b/a ProAssurance Agency)
- Medical Assurance of Indiana Agency, Inc.
- Mutual Assurance Agency of Ohio, Inc.
- ProAssurance Group Services Corporation
- ProAssurance Casualty Company
- ProAssurance Specialty Insurance Company, Inc.
- American Insurance Management Corporation
- ProNational Insurance Agency, Inc.
- Physicians Protective Plan, Inc.
- PRA Services Corporation
- NCRIC Corporation
- ProAssurance National Capital Insurance Company
- National Capital Insurance Brokerage, Ltd.
- NCRIC Insurance Agency, Inc.

- NCRIC Physicians Organization, Inc.
- ProAssurance Wisconsin Insurance Company
- Professional Service Network, Inc.
- PSA of Wisconsin, Inc.
- PMC of Wisconsin, Inc.
- Mid-Continent General Agency, Inc.
- Podiatry Insurance Company of America
- PACO Assurance Company, Inc.
- PICA Management Resources, Inc.
- PICA Group Services, Inc.

Direct expenses are allocated to the company incurring the expense while indirect expenses are allocated during each accounting period based on an estimate. This estimate will be allocated in a fair and reasonable method in conformity with customary insurance accounting practices and applied consistently. Expenses for each calendar quarter will be settled within thirty days after the end of the calendar quarter.

The agreement contained the standard provisions regarding severability and the ability to amend. The agreement will remain in-force for subsequent calendar years unless amended or modified by all parties involved.

On July 1, 2009, the agreement was amended to include PRA Group Holdings, Inc. as a party to this agreement. As a result, there was a change to the participants as follows:

- NCRIC Physicians Organization was dissolved
- NCRIC Corporation was merged into PRA Professional Liability Group, Inc.
- PRA Group Holdings, Inc. was formed by, and as a subsidiary of, PRA Corp.
- PMC of Wisconsin, Inc. and PSA of Wisconsin, Inc. were merged with Professional Services Network, Inc.
- MCGA, Corp. was merged into PRA Professional Liability Group, Inc.
- Professional Service Network, Inc. was merged into PRA Group Holdings, Inc.

Management Services Agreement

Effective, May 1, 2009 this agreement was by and between ProAssurance Corporation (PRA Corp.) and the following subsidiaries (hereinafter referred to as "company" of "companies"):

- PRA Professional Liability Group, Inc.
- ProAssurance Indemnity Company, Inc.
- IAO, Inc. (d/b/a ProAssurance Agency)
- Medical Assurance of Indiana Agency, Inc.
- Mutual Assurance Agency of Ohio, Inc.
- ProAssurance Group Services Corporation
- ProAssurance Casualty Company
- ProAssurance Specialty Insurance Company, Inc.
- American Insurance Management Corporation
- ProNational Insurance Agency, Inc.
- Physicians Protective Plan, Inc.
- PRA Service Corporation
- NCRIC Corporation
- ProAssurance National Capital Insurance Company
- National Capital Insurance Brokerage, Ltd.
- NCRIC Insurance Agency, Inc.
- NCRIC Physicians Organization, Inc.
- ProAssurance Wisconsin Insurance Company
- Professional Service Network, Inc.
- PSA of Wisconsin, Inc.
- PMC of Wisconsin, Inc.
- Mid-Continent General Agency, Inc.
- Podiatry Insurance Company of America
- PACO Assurance Company, Inc.
- PICA Management Resources, Inc.
- PICA Group Services, Inc.

PRA Indemnity was responsible for providing the following management services to all parties involved:

- Accounting Services, Financial Statements, and Tax Returns
- Underwriting
- Reinsurance
- Sales and Service
- Claims Administration

- Information Systems
- Administrative and Other Services
- Human Resources Administration
- Risk Management

PRA Indemnity may: perform any service using the personnel of any of the parties to the agreement; delegate the performance of any service to any of the parties; or engage consultants, advisors, investment managers and other third parties as deemed necessary and appropriate to perform any service.

Direct and indirect expenses incurred are allocated as prescribed in the *Expense Allocation Agreement* on page 10 where this was documented. PRA Indemnity will not charge any management fee, commission or overrides for functioning as the service manager.

Annually, the Board of Directors for each company will review and approve the scope of services to be provided and PRA Indemnity will report to each company the allocation of expenses as prescribed in the expense allocation agreement. The allocation of expenses is subject to the review and approval of the Board of Directors for each company. This agreement contained standard provisions regarding the ability to amend and severability.

The agreement is automatically renewable for subsequent calendar years unless amended or modified by the parties to the agreement.

On July 1, 2009, the agreement was amended to include PRA Group Holdings, Inc., as a member to the agreement. As a result, there was a change to the participants as follows:

- NCRIC Physicians Organization, Inc. was dissolved
- NCRIC Corporation was merged into PRA Professional Liability Group, Inc.
- PRA Group Holdings, Inc. was formed by, and as a subsidiary of, PRA Corp.
- PMC of Wisconsin, Inc. and PSA of Wisconsin, Inc. were merged with Professional Services Network, Inc.
- MCGA, Corp. was merged into PRA Professional Liability Group, Inc.
- Professional Service Network, Inc. was merged into PRA Group Holdings, Inc.

Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 2010.

ProAssurance
Treated Fairly

ProAssurance Corporation

A Delaware Holding Corporation / FEIN: 63-1261433

PRA Professional Liability Group, Inc.

A Delaware Holding Corporation (100%)
FEIN: 01-0874962

PACO Assurance Company, Inc.
An Illinois Stock Insurance Company (100%)
FEIN:36-3998471 / NAIC: 10222

Podiatry Insurance Company of America
An Illinois Stock Insurance Company (100%)
FEIN: 58-1403235 / NAIC: 14460

PICA Management Resources, Inc.
A Tennessee Corporation (100%)
FEIN: 62-1668162

PICA Group Services, Inc.
A Tennessee Corporation (100%)
FEIN: 62-1668160

ProAssurance Casualty Company
f/k/a **ProNational Insurance Company**
A Michigan Stock Insurance Corporation (100%)
FEIN: 38-2317569 / NAIC: 38954

ProAssurance General Insurance Company, Ltd.
f/k/a **Professionals National Insurance Co., Ltd.**
Domiciled in Bermuda (100%)
Company Registration No: EC-27597

ProAssurance Indemnity Company, Inc.
f/k/a **The Medical Assurance Company, Inc.**
An Alabama Stock Insurance Corporation (100%)
FEIN: 63-0720042 / NAIC: 33391

ProAssurance National Capital Insurance Company
f/k/a **NCRIC, Inc.**
A District of Columbia Stock Insurance Company (100%)
FEIN: 52-1194407 / NAIC: 41149

ProAssurance Specialty Insurance Company, Inc.
f/k/a **Red Mountain Casualty Insurance Company, Inc.**
An Alabama Stock Insurance Corporation (100%)
FEIN: 36-3990058 / NAIC: 10179

ProAssurance Wisconsin Insurance Company
f/k/a **Physicians Insurance Co of Wisconsin, Inc.**
A Wisconsin Stock Insurance Corporation (100%)
FEIN: 39-1567580 / NAIC: 23400

American Insurance Management Corp.
An Indiana Corporation and Attorney in Fact for
American Medical Insurance Exchange (100%)
FEIN: 35-1749301

American Medical Insurance Exchange
Domiciled in Indiana
FEIN: 35-1756545 / NAIC: 31402

ProAssurance Mid-Continent Underwriters, Inc.
A Texas Corporation (100%)
FEIN: 76-0205255

IAO, Inc. d/b/a ProAssurance Agency
An Alabama Insurance Agency (100%)
FEIN: 63-0725911

PRA Group Holdings, Inc.
A Delaware Holding Corporation (100%)
FEIN: 27-0386608

PRA Services Corporation
A Michigan Corporation (100%)
FEIN: 38-2684456

ProAssurance Group Services Corporation
An Alabama Corporation (100%)
FEIN: 63-1285505

American Physicians Service Group, Inc.
A Texas Corporation (100%)
FEIN: 75-1458323

APS Insurance Services, Inc.
A Delaware Corporation (100%)
FEIN: 74-2692427

American Physicians Insurance Company
A Texas Stock Insurance Company (100%)
FEIN: 75-1517531 / NAIC: 32557

APS Professional Liability Insurance Agency, Inc.
A Texas Corporation (100%)
FEIN: 13-2838900

American Physicians Insurance Agency, Inc.
A Texas Corporation (100%)
FEIN: 75-1212528

American Physicians Management Consulting, Inc.
A Texas Corporation (100%)
FEIN: 42-1563806

APMC Financial Services, Inc.
A Texas Corporation (100%)
FEIN: 57-1169213

APS Investment Services, Inc.
A Delaware Corporation (100%)
FEIN: 74-2881896

APS Capital Corporation
A Delaware Corporation (100%)
FEIN: 20-2541581

APS Financial Corporation
A Colorado Corporation (100%)
FEIN: 74-2324164

Effective 11/30/10

FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by Chubb Group of Insurance Companies, which met the suggested minimum requirements of the NAIC *Financial Condition Examiners Handbook*. The bond covered acts of dishonesty by employees and/or in a trade or loan; forgery and alteration; extended forgery; counterfeit money; and computer systems.

In addition to the fidelity bond, the Company maintained the following coverages to protect itself against hazards to which it may be exposed:

- Commercial Property
- Comprehensive General Liability
- Commercial Umbrella
- Excess Umbrella
- Flood Coverage - all locations
- Worker Compensation
- Business Auto
- International Liability Policy
- Trustee & Fiduciary Bond
- Directors & Officers
- Error & Omissions
- Corporate Travel Accident
- Employment Practice Liability
- Pension Plan Bond
- Cyber Security Coverage

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees of its own. The Company is part of a consolidated group of companies for which employees of ProAssurance Group Services Corporation (PRA Group Services), an affiliate, provide services. PRA Group Services sponsors a defined contribution plan for these employees and allocates amounts to the Company based on gross written premiums.

Under the PRA Group Services' defined contribution plan, eligible employees receive a base contribution of five percent of eligible wages. In addition, the Plan provides for matching contributions to the plan of up to five percent of eligible employees' salary. The Company's expense allocated under the Agreement for the defined contribution plan for the year ended December 31, 2010 was approximately $2,946,254.

The Company is also a participant in the ProAssurance Corporation (PRA Corp.) stock ownership plan for full-time and part-time employees who have completed minimum service requirements. The plan allows eligible officers, directors, and employees of PRA Corp. and its subsidiaries to purchase shares of PRA Corp.'s common stock through cash deposits deducted from compensation or by depositing previously owned shares. The Plan will provide matching shares using a matching formula in proportion to the employee's contribution. After service requirements are met, the matching shares are vested and transferred to the employee. Effective January 1, 2011, employees are no longer permitted to deposit shares into the plan.

The Company's expense for the stock ownership plan was approximately $1,214,421 for the year ended December 31, 2010. These expenses were higher than the 2009 expenses of $360,850, due to the termination of the plan and the acceleration of vesting the benefits. PRA Corp. replaced the existing plan with a new plan with substantially similar features, which was effective January 1, 2011. The 2011 expenses will be allocated using the same methodology as the 2010 plan, and are expected to be minimal in 2011. The expenses will increase over a three-year period before stabilizing to reflect the vesting feature of the new plan.

PRA Group Services also allocates expenses to the Company for various health insurance and other benefits offered to its employees. PRA Group Services provides group health and dental benefits for eligible full-time and part-time regular employees and their eligible dependents. In addition, PRA Group Services provides life and long-term disability insurance to its eligible full-time regular employees.

SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authorities at December 31, 2010, as required or permitted by law.

States and Territories	Book Value	Fair Value
Alabama	$ 2,620,317	$ 2,589,745
Georgia	86,328	85,321
Louisiana	100,000	100,000
Massachusetts	553,516	547,059
Mississippi	49,930	49,848
Missouri	1,010,548	998,759
Nevada	594,876	611,766
New Mexico	101,563	100,378
North Carolina	553,516	547,059
Oregon	152,344	150,567
Virginia	275,099	278,416
TOTAL	**$ 6,098,037**	**$ 6,058,918**

FINANCIAL CONDITION/GROWTH OF THE COMPANY

	Admitted Assets	Liabilities	Capital & Surplus	Premiums Earned
2010*	$1,703,770,398	$1,131,064,083	$572,706,315	$210,939,244
2009	$1,770,923,637	$1,167,605,593	$603,318,044	$220,521,326
2008	$1,818,241,172	$1,251,986,050	$566,255,122	$240,654,600
2007	$1,881,391,252	$1,311,976,817	$569,414,436	$273,072,971
2006*	$1,720,534,720	$1,291,399,227	$429,135,493	$305,329,707

***Per Examination**

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

States	Premiums	States	Premiums
Alabama	$ 72,850,862	Montana	$ 5,421
Arizona	968,913	Nevada	98,690
Arkansas	4,765,701	North Carolina	149,798
California	32,254	Ohio	54,667,106
Colorado	249,576	Oklahoma	6,593,139
District of Columbia	58,808	South Carolina	2,450,983
Florida	35,573	Tennessee	5,691,533
Georgia	2,893,035	Texas	1,405,204
Indiana	28,954,301	Virginia	10,722,240
Kansas	3,903,611	Washington	82,128
Maryland	8,682,506	West Virginia	1,388,430
Missouri	12,881,530	Wyoming	616,219
	Total Premiums Written		**$ 220,147,561**

LOSS EXPERIENCE

The following are the accident year percentages of losses and loss expenses incurred to premiums earned, net of ceded reinsurance for each year under examination.

2007	2008	2009	2010
79.5%	83.7%	80.4%	84.9%

In addition, the following are the One Year Loss Development and the Two Year Loss Development for each year under examination.

($000 Omitted)	2007	2008	2009	2010
One Year Loss	$ (108,779)	$ (122,872)	$ (120,594)	$ (101,927)
Two Year Loss	$ (190,111)	$ (234,619)	$ (241,415)	$ (222,885)

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company is a property and casualty insurer, offering professional liability insurance and related liability for physicians, surgeons, dentists, hospitals, clinics and others engaged in the delivery of health care in Alabama and other regional states.

The Company markets its professional liability products in Alabama through direct marketing. The Company utilizes brokers and independent agents outside the state of Alabama.

Territory

As of December 31, 2010, the Company was licensed to transact business in 44 states and districts as shown below:

Alabama	Idaho	Missouri	Rhode Island
Alaska	Illinois	Montana	South Carolina
Arizona	Indiana	Nebraska	South Dakota
Arkansas	Iowa	Nevada	Tennessee
California	Kansas	New Mexico	Texas
Colorado	Kentucky	North Carolina	Utah
Delaware	Louisiana	North Dakota	Virginia
District of Columbia	Maryland	Ohio	Washington
Florida	Massachusetts	Oklahoma	West Virginia
Georgia	Michigan	Oregon	Wisconsin
Hawaii	Minnesota	Pennsylvania	Wyoming

Policy Forms and Underwriting

As of December 31, 2010, the Company was offering medical professional liability insurance on a claims-made basis to physicians, dentists, podiatrists, allied health professionals, healthcare facilities, and lawyers. The Company did not have any rate changes since the previous examination period. The Company's Alabama rates were approved by the Alabama Department of Insurance on January 27, 2003 and became effective February 1, 2003. The Company's underwriting duties are performed in the home office and regional offices.

Rate Calculation

The Company's policies are rated in the Company's claims and data processing software, by an actuarial formula for computing each policy. The process is motivated by individual risk selection and its pricing decisions are focused on achieving rate adequacy. The policy premium is based on the following factors:

- **Risk Types** - Rates are dependent;
- **Base Rates** - Risk is a person such as physician/surgeon, dentist, or paramedical employee, the system uses variable data elements (term dates, issue Company, state, territory, premium class, coverage type, coverage limits, claims made year of maturity)
- **Paramedical Employee Factors**
- **Organization Risk Types**
- **Multi-state Premium Calculations**
- **Factors Affecting Base Rates** (existence of coverage components, proration, exposure change adjustment, manuscript endorsements); and
- **Tail Rating**

Rating Factors

The rating factors that were verified included: classification, territory, and limits of liability. The examiners selected a sample of eighty-six new business policies that were issued during the examination period. During the review of the sample, it was determined the policies were rated in accordance with the rates and underwriting guidelines filed with the Alabama Department of Insurance. It was also established that the Company appropriately and consistently applied premium class, territory ratings, specialty codes and specialty code numbers assigned to the groups for each of the policies selected. There were no exceptions noted during the review.

Marketing and Sales

A review was made of the Company's advertising materials used during the examination period. The Company's advertisements included the Company's name and address and identified what policy was being advertised. The advertisements did not misrepresent policy benefits forms or conditions, make unfair or incomplete comparisons with other policies, or make false, deceptive or misleading statements or representations.

The Company's policies are marketed on its website, which are as follows: medical professional liability, hospital professional liability, dental professional liability and legal professional liability insurance policies. Potential customers visiting the website are informed of the states and jurisdictions of where the products are sold. Interested users have the option of selecting their coverage type, state, and county in order to find an agent or sales representative, who will assist them in applying for coverage.

The Company utilized independent agents to market its Medical Professional Liability products in most states; however, agents are not permitted to use the Company's name or logo without permission from the Company. The Company utilized direct marketing in Alabama.

Claims Review

The examiners reviewed denied and closed without payment claims as well as settled and paid claims for the examination period. Based on a sample of eighty-two denied and closed without payment claims, it was determined that the claims were appropriately denied or settled based on policy provisions. Also, a sample of seventy-six settled and paid claims were reviewed for compliance with Alabama Laws and Regulations and compliance with policy provisions, timeliness of payments and adequacy of documentation. No discrepancies were found. The claim payment checks were received by the claimant in a timely manner, and changes to the reserves were properly maintained.

Policyholder Complaints

During the examination period, there were a total of 14 complaints in the Company's complaint register. The register included complaints for the following states: Alabama, Florida, Georgia, Indiana, Maryland, Ohio, North Carolina, Virginia, and West Virginia. Alabama had 3 complaints which were reviewed, and it was determined the Company's responses fully addressed the issues raised and the complaints were appropriately resolved within the required timeframe. The Company recorded all complaints (both consumer direct and from the Department of Insurance), and they recorded the required information in the complaint register. Based on the review of the Company's complaint procedures, it was determined the Company had a sufficient method for the distribution of obtaining and recording responses to complaints. The Company's telephone number and address were provided to the policyholders for consumer inquiries and/or complaints.

Producers' Licensing

The Company utilized direct (in house) producers to market and to solicit its business in Alabama. The examiner reviewed the producer's licensing requirements in the State of Alabama and determined that the Company was paying commissions to properly licensed producers and agencies in Alabama.

Privacy Standards

The examiners reviewed the Company's Privacy Procedures and determined the following:

1. The Company provides new employees with a copy of the Employee Handbook which contains the Code of Ethics. Also, included in the Code of Ethics is the Company's general policy on Confidential Information as well as its requirements under HIPAA. All employees are expected to comply with all federal and state laws and regulations applicable to the Company's businesses and policies. The employees are required to sign the Employee Handbook Acknowledgment Form.

2. The Company has safeguards in its data system to prevent unauthorized access to nonpublic and personal information.

3. The Company sends an initial privacy notice with every new policy and at renewal.

4. The Company does not disclose any nonpublic information, which includes personal health and financial information, on its policyholders unless required by law. For this reason, the Company does not need to provide opt-out statements to its policyholders.

Overall, the examiners determined the Company was following its own privacy procedures and standards contained in ALA. ADMIN. CODE 482-1-122 (2001).

REINSURANCE

Reinsurance Assumed

As of December 31, 2010, the Company had one current assumed reinsurance treaty with Allied World Assurance Company, Ltd., for which the Company assumed $104,000 in premiums. The Company continued to record reserves on other assumed treaties which are in run-off.

Reinsurance Ceded

As of December 31, 2010, a reinsurance program was in place that provided coverage on an excess-of-loss basis where the Company and its affiliates, ProAssurance Casualty Company (PRA Casualty), ProAssurance National Capital Insurance Company (PRA National Capital), ProAssurance Wisconsin Insurance Company (PRA Wisconsin) and ProAssurance Specialty Insurance Company, Inc. (PRA Specialty) were the reinsureds. Multiple reinsurers participated on each layer, including both authorized and unauthorized reinsurers.

The program consisted of two coverage layers. On the first layer coverage ($4 million excess of $1 million limits), the reinsureds retained a quota share participation of 4.5% versus 4% on the expiring 2009 treaty. On the second layer ($11 million excess of $5 million), the reinsureds did not retain a participation share versus 5% on the expiring 2009 treaty. If any policy was insured with coverages above $16 million, facultative reinsurance was arranged; however, this happened infrequently.

Major participants in the program included Hannover Ruckversicherungs AG (Hannover), Aspen Insurance, UK Ltd. (Aspen), Transatlantic Reinsurance Company (Transatlantic) and Everest Reinsurance Company (Everest). Scor Reinsurance Company (Scor), Odyssey American Reinsurance Corporation (Odyssey) and Swiss Reinsurance America Corporation (Swiss Re) joined the program in 2010 as new participants with small percentage shares. No reinsurer left the program in 2010.

In addition, at December 31, 2010, an excess cession treaty was in effect between the Company and its affiliates, PRA Casualty, PRA Wisconsin and PRA National Capital, and the following reinsurers: American Safety Reinsurance Limited, Aspen, Scor, Hannover, and six syndicates with Underwriters at Lloyds, London, England. The treaty covered medical professional liability policies as respects to practitioners employed at community based hospitals and other specified groups, and the policies were underwritten in Madison, Wisconsin by PRA Wisconsin. The reinsureds retained the first $1,000,000 of each loss or $3,000,000 in the aggregate, and then retained 10% of $5,000,000 of each loss. The reinsureds retained all paid losses and loss adjusted expenses in excess of the maximum Loss Ratio of 500% or $25,000,000, whichever is the lesser. The reinsurers' limits were 90% of $5,000,000 each loss in excess of $1,000,000 each loss. The treaty was effective October 1, 2010.

Also at December 31, 2010, a lawyers professional liability first excess treaty was in effect between the Company and its affiliates, PRA Casualty, PRA Wisconsin, PRA National Capital and PRA Specialty, and the following reinsurers: Aspen and seven syndicates with Underwriters at Lloyds, London, England. The treaty covered all policies classified as lawyers professional liability that were produced and underwritten by the reinsureds, ProLawyer Insurance LLC, or Grayhawk General Agency, Inc. The reinsureds retained the first $1,000,000 of loss. The reinsurers' limits under Section A were $4,000,000 in excess of $1,000,000 and under Section B, the reinsurers indemnified the reinsureds for 90% of all extra contractual obligations and losses in excess of policy limits for ceded policies only. The treaty was effective July 1, 2010.

In 2007, the Company entered into a Stop-Loss agreement as reinsurer with PRA Wisconsin as the reinsured. The covered line of business was all net loss of the reinsured which it paid on or after January 1, 2007, from all covered claims. The reinsured retained the first $185,365,390 and 100% in excess of $220,365,390. The reinsurer's limits included the amount of the net loss resulting from the covered claims paid by the reinsured on or after January 1, 2007 excess of an aggregate retention of $185,365,390 and an aggregate limit not to exceed $35,000,000. The agreement was terminated November 1, 2011.

The review of the Company's reinsurance treaties disclosed no unusual provisions.

ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained primarily on electronic data processing (EDP) equipment. The Company uses the Oasis system to maintain files on claims and underwriting, including premiums. This system interfaces with the Company's SunSystem general ledger as needed. The Company uses other systems for investments, reinsurance and processing legal firms' invoices.

The Company was audited annually by the independent certified public accounting firm of Ernst & Young, LLP (E&Y), Birmingham, Alabama. E&Y conducted all of the Company's audits for the four-year period under examination.

The actuarial firm of Towers Watson, Atlanta, Georgia, was retained by the Company throughout the examination period and prepared the 2010 Statutory Loss Reserve Opinion and the Statement of Actuarial Opinion. The reserve calculations were verified by Mr. James D. Hurley, ACAS, MAAA, a qualified actuary.

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report were prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2010. Amounts shown in the comparative statements for the years 2007, 2008, 2009 and 2010 were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

Statement of Assets, Liabilities, Surplus and Other Funds (Assets) 27

Statement of Assets, Liabilities, Surplus and Other Funds (Liabilities) 28

Statement of Income 29

ProAssurance Indemnity Company, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2010

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$1,435,785,867	$ 10,654,462	$1,425,131,405
Stocks: Preferred	46,250	-	46,250
Stocks: Common	5,401,774	-	5,401,774
Real estate: Properties occupied by the Company	11,527,596	-	11,527,596
Cash, cash equivalents and short-term investments	65,627,575	1,010,789	64,616,786
Other invested assets	61,582,727	-	61,582,727
Subtotal, cash and invested assets	$1,579,971,789	$ 11,665,251	$1,568,306,538
Investment income due and accrued	16,214,591	192,708	16,021,883
Premium considerations:			
Uncollected premiums and agents' balances in the course of collection	18,583,015	396,479	18,186,536
Deferred premiums, agents' balances and installments booked but deferred and not yet due	29,850,312	-	29,850,312
Reinsurance:			
Amounts recoverable from reinsurers	1,480,730	-	1,480,730
Funds held by or deposited with reinsured companies	10,103	-	10,103
Net deferred tax asset	45,637,874	17,799,628	27,838,246
Guaranty funds receivable or on deposit	97,704	-	97,704
Electronic data processing equipment and software	1,510,078	1,294,634	215,444
Furniture and equipment, including health care delivery assets	150,722	150,722	-
Receivable from parent, subsidiaries and affiliates	1,204,937	-	1,204,937
Other prepaid expenses	1,022,379	1,022,379	-
Cash surrender value of business owned life insurance	39,930,464	-	39,930,464
State premium tax recoverable	570,628	-	570,628
Note Receivables	56,873	-	56,873
TOTAL	$1,736,292,199	$ 32,521,801	$1,703,770,398

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

ProAssurance Indemnity Company, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
For the Year Ended December 31, 2010

LIABILITIES	2010
Losses	$ 353,937,237
Loss adjustment expenses	508,694,395
Commissions payable, contingent commissions and other similar charges	2,980,664
Other expenses	2,942,632
Taxes, licenses and fees	1,403,599
Current federal and foreign income taxes	15,770,342
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $7,205,122)	111,630,687
Advance premiums	4,822,245
Ceded reinsurance premiums payable	90,720,115
Funds held by company under reinsurance treaties	47,000
Amounts withheld or retained by company for account of others	400,468
Provision for reinsurance	864,200
Payable to parent, subsidiaries and affiliates	4,240,653
Payable for securities	32,609,846
TOTAL LIABILITIES	$ 1,131,064,083
CAPITAL AND SURPLUS	
Additional admitted deferred tax assets	$ 12,292,128
Common capital stock	8,846,429
Gross paid in and contributed surplus	205,553,769
Unassigned funds (surplus) (**Note 1**)	346,013,989
Surplus as regards policyholders	$ 572,706,315
TOTAL LIABILITIES, CAPITAL AND SURPLUS	$ 1,703,770,398

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

ProAssurance Indemnity Company, Inc.
Statement of Income
For the Years Ended December 31, 2010, 2009, 2008 and 2007

	2010	2009	2008	2007
Underwriting income				
Premiums earned	$ 210,939,244	$ 220,521,326	$ 240,654,600	$ 273,072,971
Deductions:				
Losses incurred	22,500,180	10,343,472	29,778,348	42,094,810
Loss expenses incurred	46,992,116	46,152,365	44,449,222	60,318,907
Other underwriting expenses incurred	45,182,968	45,369,110	45,272,479	49,005,239
Total underwriting deductions	$ 114,675,264	$ 101,864,947	$ 119,500,049	$ 151,418,956
Net underwriting gain (loss)	**$ 96,263,980**	**$ 118,656,379**	**$ 121,154,551**	**$ 121,654,015**
Investment income				
Net investment income earned	$ 63,529,801	$ 68,616,078	$ 72,171,194	$ 73,699,482
Net realized capital gains (losses)	4,968,133	11,756,238	(17,272,003)	(3,292,490)
Net investment gain (loss)	**$ 68,497,934**	**$ 80,372,316**	**$ 54,899,191**	**$ 70,406,992**
Other income				
Net gain (loss) from agents' or premium balances charged off	$ (48,283)	$ (54,988)	$ (58,647)	$ -
Aggregate write-ins for miscellaneous income	2,422,314	1,622,573	1,951,216	2,071,686
Total other income	**$ 2,374,031**	**$ 1,567,585**	**$ 1,892,569**	**$ 2,071,686**
Net income before dividends and all other federal and foreign income taxes	$ 167,135,945	$ 200,596,280	$ 177,946,311	$ 194,132,693
Federal and foreign income taxes incurred	47,099,009	55,300,695	48,558,756	61,772,269
NET INCOME	**$ 120,036,936**	**$ 145,295,585**	**$ 129,387,555**	**$ 132,360,424**
Capital and Surplus Account				
Surplus as regards policyholders, prior year	$ 603,318,044	$ 566,255,122	$ 569,414,435	$ 441,795,083
Net income	120,036,936	145,295,585	129,387,555	132,360,424
Change in net unrealized capital gains (losses)	4,910,653	6,372,803	(7,469,939)	(2,739,129)
Change in net deferred income tax	561,962	(11,353,661)	(1,499,315)	2,217,468
Change in nonadmitted assets	(9,847,684)	19,624,016	4,547,986	(3,682,411)
Change in provision for reinsurance	(78,000)	1,156,200	174,400	(537,000)
Cumulative effect of changes in accounting principles	-	967,979	-	-
Dividends to stockholders	(145,000,000)	(125,000,000)	(128,300,000)	-
Aggregate write-ins for gains and losses in surplus	(1,195,598)	-	-	-
Change in surplus as regards policyholders	$ (30,611,731)	$ 37,062,922	$ (3,159,313)	$ 127,619,352
Surplus as regards policyholders, December 31, current year	**$ 572,706,313**	**$ 603,318,044**	**$ 566,255,122**	**$ 569,414,435**

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIALS

Note 1 – Unassigned funds (surplus) $346,013,989

The above captioned amount is the same as reported in the 2010 Annual Statement.

There were no material adjustments made, and the immaterial items were not material in the aggregate.

The following schedule presents a reconciliation of the unassigned funds per the Company's filed statement to this examination's findings:

Unassigned funds (surplus) per Company		$346,013,989
Examination increase/ (decrease) to assets:	0	
Total increase/ (decrease) to assets		0
Examination (increase)/decrease to liabilities:	0	
Total (increase)/decrease to liabilities:		0
Unassigned funds (surplus) per Examination		$346,013,989

CONTINGENT LIABILITIES AND PENDING LITIGATION

The Company has committed to invest additional funds in partnerships carried on Schedule BA. One partnership is the Morgan Keegan PE FOF II (Morgan Keegan) and the other is New Capital Private equity Fund 2, LLP (New Capital). The amounts committed are $1,750,000 and $1,244,464, respectively. While the timing of the additional investment for Morgan Keegan is uncertain, the General Partner expects capital to be drawn down from Investors over a four to six year period commencing at inception of the fund in 2007, or sometime in 2011 – 2013 the commitment will be fulfilled. The timing for additional investments is also uncertain for New Capital, but the General Partner expects capital to be drawn down within the defined investment period which continues until January 2014.

In addition, the Company has committed to invest $44,070,000 in twelve Low Income Housing Tax Credits (LIHTC) Limited Partnerships accounted for under SSAP No. 93. The Company has an outstanding commitment of $32,610,000 to the investments. The reason for purchasing the LIHTC is to utilize the tax credits and losses related to Section 42 of the Internal Revenue Code. The Company funded LIHTC totaling $1,924,000 and $9,536,000 in 2009 and 2010, respectively. The majority of the $32,610,000 balance is due over the next two years. The remaining years of unexpired tax credits range between twelve and fourteen years and the required holding period for all is approximately eighteen years.

The review of contingent liabilities and pending litigation included an inspection of representations made by management to the Company's independent certified public accountants regarding the Company and its affiliates, a review of the report on litigation and claims made by the Company's counsel to the Company's independent certified public accountants, a review of the report to the examiners on pending litigation made by Company's counsel, and a general review of the Company's records and files conducted during the course of the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

SUBSEQUENT EVENTS

On January 11, 2011, the Company and its affiliate, ProAssurance Casualty Company, (collectively called the "Company") entered into a casualty quota share reinsurance agreement with Ascension Health Insurance, Ltd. (Reinsurer), a Cayman Islands domiciled insurance company to cover medical professional liability insurance policies written by the Company on physicians or other medical care providers who are on staff with, contracted with, employed by or otherwise affiliated with a member entity of the Reinsurer. The reinsurance percentages include (A) 75% on policies written directly by the Reinsurer prior to April 1, 2011; (B) 25% on policies written by the Company prior to January 1, 2011; and (C) 50% on policies not previously written by either per (A) and (B). The reinsurance premiums shall be the reinsurance percentages applied to the New Written Premiums. The agreement may be terminated at any time upon 365 days written prior notice by either party, provided that the effective date of the termination is not earlier than three years after the effective date of the agreement. However, both the Company and the Reinsurer may terminate the agreement immediately upon written notice for three specific reasons stated in the agreement.

On May 25, 2011, at its 2011 Annual Meeting, the Board of Directors (Board) ratified the Expense Allocation Agreement, the Management Services Agreement and the Tax Allocation Agreement to include American Physicians Insurance Company (APIC) and its affiliates.

On June 29, 2011, PRA Indemnity's Sole Shareholder and its Board approved the merger between PRA Indemnity and an affiliate, APIC with PRA Indemnity being the surviving company. The merger was effective September 30, 2011.

At the August 25, 2011 Board meeting, the Board granted authority to the officers of the Company to: (a) determine if and when, making or receiving either a capital contribution or a short term intercompany loan would be the most efficient and cost effective way to resolve current cash flow needs of an affiliate; (b) to enter into such transactions. The Board resolved that the amount of the capital contribution or short-term intercompany loans may not exceed $1,000,000 in the aggregate, without specific Board approval of the transaction.

At the September 29, 2011 Board meeting, the Board approved an ordinary dividend of $120 million to PRA Professional Liability Group, Inc., immediate parent, not to be paid before October 11, 2011 or after October 31, 2011.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company complied with the prior recommendations.

IMPORTANT POINTS, COMMENTS AND RECOMMENDATIONS

There were no important points, comments or recommendations reported.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the officers and employees of the Company during the course of this examination.

The customary insurance examination procedures, as recommended by the NAIC have been followed to the extent appropriate in connection with the verification and valuation of assets and determination of liabilities set forth in this report.

In addition to the undersigned, the following examiners, representing the respective Departments of Insurance, participated in certain phases of this examination:

Alabama Department of Insurance (Lead State):

Lori Brock, CFE	Robert Thompson
Toni Bean, CFE	Charles Turner, CISA
Mora Perkins, MCM	

Michigan Office of Financial and Insurance Regulation:

Abigail L. Perry, CFE	Mark Laccetti, CPA
Jennifer Cox	

District of Columbia Department of Insurance, Securities and Banking:

David C. Schleit, CFE, CPA	Chauvin Alleman, CFE

Wisconsin Office of the Commissioner of Insurance:

DuWayne Kottwitz	Ana Careaga
Angelita Romaker	Victoria Chi, CISA, CISM

Merlinos & Associates, Inc. was contracted to perform the actuarial portions of this examination. The actuaries were as follows:

Suejeudi (Sue) Buehler, FCAS, MAAA	Rebecca Freitag, ACAS, MAAA
Jeremy Hoch, ACAS, MAAA	

Respectfully submitted,

Mary B. Packard

Mary B. Packard, CFE, CPA
Examiner-in-Charge
State of Alabama Department of Insurance
Southeastern Zone, NAIC