REPORT OF
ASSOCIATION EXAMINATION

OF

THE MEDICAL ASSURANCE COMPANY, INC.

BIRMINGHAM, ALABAMA

AS OF

DECEMBER 31, 2006

PARTICIPATION:

SOUTHEASTERN ZONE
ALABAMA

NORTHEASTERN ZONE
DISTRICT OF COLUMBIA
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EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
COUNTY OF Jefferson

Mary B. Packard, being first duly sworn, upon her oath

deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the
State of Alabama;

That an examination was made of the affairs and financial condition of The Medical Assurance

That the following 29 pages constitute the report thereon to the Commissioner of Insurance of
the State of Alabama.

And that the statements, exhibits, and data therein contained are true and correct to the best of
her knowledge and belief.

Mary B. Packard
Examiner-in-Charge

Subscribed and sworn to before the undersigned authority this 1st day of October, 2007

Tonia M. King
(Signature of Notary Public)

Tonia M. King
(Print Name)

in and for the State of Alabama.

My Commission expires 6-20-08
October 1, 2007

Honorable Mary Jo Hudson, Director, Chairman, Examination Oversight Task Force
Ohio Department of Insurance
2100 Stella Court
Columbus, Ohio 43215-1067

Honorable Thomas E. Hampton, Commissioner, Secretary, Northeastern Zone
Department of Insurance, Securities and Banking
Government of the District of Columbia
810 First Street, N.E., Suite 701
Washington, DC 20002

Honorable Julie McPeak, Executive Director, Secretary, Southeastern Zone
Kentucky Office of Insurance
Post Office Box 517
Frankfort, Kentucky 40602-0517

Honorable Walter Bell, Commissioner
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Dear Directors and Commissioners:

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

THE MEDICAL ASSURANCE COMPANY, INC.

at its home office located at 100 Brookwood Place, Birmingham, Alabama 35209, as of December 31, 2006. The Report of Examination is submitted herewith. Where the description “Company” or “TMAC” appears herein without qualification, it will be understood to indicate The Medical Assurance Company, Inc.
SCOPE OF EXAMINATION

The Company was last examined for the five-year period ended December 31, 2002 by examiners from Alabama, representing the Southeastern Zone, NAIC and from Missouri, representing the Midwestern Zone, NAIC. The current examination covers the intervening period from the date of the last examination through December 31, 2006 and was conducted by examiners from Alabama, representing the Southeastern Zone, NAIC and from the District of Columbia, representing the Northeastern Zone, NAIC. The examination was conducted concurrently with the examinations of affiliates, Red Mountain Casualty Insurance Company, Inc. (RMCI), Woodbrook Casualty Insurance, Inc. (WCI), both of Birmingham, Alabama, and NCRIC, Inc. (NCRIC) of the District of Columbia. Where deemed appropriate, transactions subsequent to 2006 were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department’s regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, and a general review of records and files pertaining to operations, administrative practices and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2006, as shown in the Financial Statements contained herein. However, the discussion of assets and liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the Insurance Department’s rules and regulations or other insurance laws or rules, or which was deemed to require comments or recommendations.

A Company office copy of the filed Annual Statement for the year 2006 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a review of the Company’s plan of operation, territory, policy forms and underwriting practices, advertising, claims payments, policyholder complaints and compliance with agents’ licensing requirements in the State of Alabama.

The Company’s accounts were examined by Ernst & Young, LLP, certified public accountants (CPAs), for each of the four years under examination. Audit reports, management letters and audit workpapers were made available to the examiners and were used where deemed appropriate in the completion of this examination. The Company does not maintain an internal audit department; however, its ultimate parent, ProAssurance Corporation (PRA), does maintain an internal audit department, which services the parent and its subsidiaries.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attests to having valid title to all assets, except as disclosed in the Annual Statement, and to the nonexistence of material unrecorded liabilities as of December 31, 2006.
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.

At a special member's meeting held on January 20, 1987, the Company amended its Certificate of Incorporation to change its name from "Mutual Assurance Society of Alabama" to "Mutual Assurance, Inc."

In 1989, the Board of Directors of the Company authorized the development of a plan to convert the Company from a mutual insurer to a stock insurer. The three primary reasons for the conversion to a stock company were:

I. As a stock company, the Company would enjoy greater access to the capital markets. Any increase in capital would help reduce the Company's reliance on the reinsurance markets and enhance its operational and financial independence.

II. By converting into a stock company, the Company could provide its members, who have contributed to the surplus of the company but who would otherwise forfeit all interest in the company upon their death or retirement, value for their interest in the company in the form of either stock or cash; and

III. Conversion would provide the Company additional methods of attracting, retaining and compensating qualified management in the form of incentive compensation or otherwise.

In December 1989, the Board adopted a Plan of Conversion, which was filed with the Alabama Commissioner of Insurance on December 29, 1989. An amended and restated Plan of Conversion was adopted by the Board and filed with the Alabama Commissioner of Insurance on May 23, 1990. The amended and restated plan was approved by the Commissioner of Insurance on June 25, 1990, after a public hearing thereon. The members of the Company approved the Plan of Conversion of March 15, 1991. The amended and restated Plan of Conversion provided for the conversion of the Company to a stock insurer through the issuance of shares of stock to certain current and former policyholders of the Company in exchange for their share of the equity in the Company.

On September 11, 1991, the Company converted from a mutual insurance company controlled by its policyholders to a stock company controlled by its stockholder. The Articles of
Incorporation were restated and amended on May 11, 1994, “to state more specifically the purposes for which the Corporation is organized.” The last amendment to the By-laws was August 27, 1992, whereby Article II, Section 12 and Article III, Section 14 were added to that document.

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), a new holding company of MAI and PGI. On June 27, 2001, MAI’s shares were exchanged for those of PRA as provided in the agreement. PGI’s shares were acquired in part through the issuance of PRA 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.
The Company's authorized capital at December 31, 2006, consisted of 12,000,000 shares of $1 par value per share common stock for total authorized capital of $12,000,000. At December 31, 2006, there were 8,846,429 shares issued and outstanding.

At December 31, 2006, paid in and contributed surplus was $205,553,769.

**MANAGEMENT AND CONTROL**

**Stockholder**

At December 31, 2006, the Company was a stock corporation with control vested in its stockholder. The Company was a wholly owned subsidiary of Medical Assurance, Inc. (MAI), a Delaware holding corporation, which was wholly owned by ProAssurance Corporation (PRA), a Delaware stock corporation and the ultimate parent company. Effective May 16, 2007, MAI was merged into an affiliate, PRA Professional Liability Group, Inc., a new holding company incorporated under the laws of the State of Delaware.

**Board of Directors**

Members elected to the Board of Directors by the sole shareholder of the Company as of December 31, 2006, in accordance with the By-Laws of the Company and serving at December 31, 2006 were as follows:

<table>
<thead>
<tr>
<th>Director/Address</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aubrey Derrill Crowe, M.D.*</td>
<td>Chairman</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
</tr>
<tr>
<td>Victor Thomas Adamo</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
</tr>
<tr>
<td>Paul Richard Butrus</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
</tr>
<tr>
<td>Howard Harley Friedman</td>
<td>Director, President and Chief Underwriting Officer</td>
</tr>
<tr>
<td>Timonium, Maryland</td>
<td></td>
</tr>
<tr>
<td>Darryl Keith Thomas</td>
<td>Director, Chief Claims Officer</td>
</tr>
<tr>
<td>Hoover, Alabama</td>
<td></td>
</tr>
<tr>
<td>Edward Lewis Rand, Jr.</td>
<td>Director, Senior Vice President</td>
</tr>
<tr>
<td>Birmingham, Alabama</td>
<td></td>
</tr>
</tbody>
</table>

*Retired effective June 30, 2007. See "SUBSEQUENT EVENTS" for further detail.
Committees

The Company had the following committees at year-end 2006:

Executive Committee

The Executive Committee consisted of the following members: Aubrey Derrill Crowe, M.D., Victor Thomas Adamo, Howard Harley Friedman and Darryl Keith Thomas.

Investment Committee

The Investment Committee consisted of the following members: Aubrey Derrill Crowe, M.D., Victor Thomas Adamo, Edward Lewis Rand, Jr., Howard Harley Friedman and Darryl Keith Thomas.

Officers

The following officers were elected by the Board of Directors and were serving at December 31, 2006:

<table>
<thead>
<tr>
<th>Officer</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aubrey Derrill Crowe, M.D.*</td>
<td>Chairman</td>
</tr>
<tr>
<td>Howard Harley Friedman</td>
<td>President, Chief Underwriting Officer</td>
</tr>
<tr>
<td>Victor Thomas Adamo</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>Paul Richard Butrus</td>
<td>Vice Chairman</td>
</tr>
<tr>
<td>James Joseph Morello</td>
<td>Senior Vice President and Treasurer</td>
</tr>
<tr>
<td>Jeffrey Lynn Bowby</td>
<td>Senior Vice President</td>
</tr>
<tr>
<td>Frank Berry O’Neil</td>
<td>Senior Vice President</td>
</tr>
<tr>
<td>Edward Lewis Rand, Jr.</td>
<td>Senior Vice President</td>
</tr>
<tr>
<td>Hayes Vance Whiteside, M.D.</td>
<td>Senior Vice President</td>
</tr>
<tr>
<td>Darryl Keith Thomas</td>
<td>Chief Claims Officer</td>
</tr>
<tr>
<td>Kathryn Anne Neville</td>
<td>Secretary</td>
</tr>
<tr>
<td>Larry Keith Chamblee*</td>
<td>Assistant Treasurer</td>
</tr>
<tr>
<td>Randy Powell Hutto</td>
<td>Assistant Controller</td>
</tr>
<tr>
<td>Jeffrey Patton Lisenby</td>
<td>Assistant Secretary</td>
</tr>
</tbody>
</table>


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 with the exception of one executive in 2004. This executive was hired in November 2004 and did not sign his first
Conflict of Interest statement until March 31, 2005. The executive did, however, sign the Employee Handbook acknowledgment form dated November 11, 2004 acknowledging his receipt and understanding of the Company’s policies. One of the policies in the handbook addresses the Conflict of Interest.

CORPORATE RECORDS

The Articles of Incorporation and By-Laws, as amended, 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 did not pay any dividends during the period covered by this examination.

Management and Service Agreements

2006 Management Agreement

This agreement was entered into by the ProAssurance Corporation (PRA) and its subsidiaries effective January 1, 2006. The agreement was for one year with automatic renewals for subsequent calendar years.

It was determined that by combining certain portions of the insurance operations, the companies could operate more effectively and efficiently. It was decided that the Company would be responsible for the coordination and delivery of the management services to be provided, including but not limited to the following:

- Accounting Services, Financial Statements and Tax Returns
- Underwriting Services
- Marketing and Sales
- Claims Administration
• Reinsurance
• Information Systems Services
• Administrative Services
• Legal Services
• Actuarial Service
• Risk Management

Services may be performed using the personnel of any of the companies party to the agreement or through the use of consultants, advisors, investment managers, and other third parties as reasonably required to perform the services referenced above. The direct or indirect expenses incurred shall be allocated as determined by the Expense Allocation Agreement that was entered into simultaneously with this agreement. The Company should not charge any management fee, commission or override for performing the services set forth in the agreement.

2006 Expense Allocation Agreement

The agreement is between ProAssurance Corporation (PRA) and its subsidiaries and was effective January 1, 2006. The agreement will continue in-force unless amended or modified in writing by all of the companies involved. The agreement defines the types of expenses involved (direct and indirect) and establishes the method of allocating these expenses.

Direct expenses are defined as those expenses arising from services performed by employees of the companies or outside vendors that can be identified as being applicable to one specific company. Direct expenses will be allocated to the company incurring the expenses.

Indirect expenses are defined as those expenses arising from services performed for the benefit of one or more companies, and cannot be identified as applicable to one company. These expenses will be allocated during each accounting period on a closely estimated basis and in a fair and reasonable method in conformity with customary insurance accounting practices. The method will be consistently applied.

All expenses will be settled on a quarterly basis.

2006 Consolidated Tax Allocation Agreement

The agreement, dated August 1, 2006, is between ProAssurance Corporation (PRA) and its subsidiaries (Group). The agreement succeeds the Consolidated Tax Allocation Agreement dated September 1, 2005 between PRA and its subsidiaries and the Tax Sharing Agreement dated August 15, 2005 between Physicians Insurance Company of Wisconsin, Inc. and its subsidiaries. The agreement should continue until terminated by the mutual agreement of the members. Any amendments, modifications, or supplements to this agreement shall be in writing and shall be executed by a duly appointed representative of each of the members.

A consolidated federal income tax return shall be filed under the terms of Section 1501, et seq. of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations. Pursuant to Regulation Section 1.1552-1(c), PRA elects to allocate the consolidated tax liability of the Group among the members in accordance with the ratio of each member’s taxable income to the
consolidated taxable income. This calculation shall be made pursuant to Regulation Section 1.1552-1(a)(1). Each member would pay this amount on the date the liability was due had it not been consolidated, or soon thereafter. In lieu of actual payments, adjustments to the intercompany receivables or payables will be made if any exists.

If any member’s losses or tax credits resulted in reduced taxes for the other members, then the member who experienced the loss would receive a reduction to its intercompany payable by the members experiencing the benefit. The payment would be calculated by allocating to each benefiting member an additional tax liability in an amount equal to 100 percent of the excess, if any, of the (1) separate return tax liability of each benefiting member for the taxable year over (2) the tax liability allocated to the benefiting members under this agreement. This additional tax liability shall be paid or adjustments made to the intercompany balances of the member experiencing the loss on the ratio of separate return tax benefit divided by the total tax benefit of all members who experienced a loss. If the tax credit exceeds the intercompany payable of the member who experienced the loss, then an actual cash payment will be made. The additional tax amount owed by each benefiting member or adjustment to intercompany balances should be made on the date this amount was due had it not been consolidated, or soon thereafter.

If any member owes another member an amount in addition to its liability, then the overpayment amount would be repaid or readjusted on the date or dates the amount would have been paid to the Internal Revenue Service (IRS) had the member filed a separate return, or as soon thereafter as possible.

If any member owes another member an amount less than its liability, then the member would pay or adjust the intercompany balance of the member due the payment on the date or dates the amount would have been required by the IRS had the member filed a separate return, or as soon thereafter as possible.

Subsequent changes in a member’s tax liability and the reimbursement payment shall be considered an intercompany liability or receivable and not a dividend or surplus contribution, until the adjustment is made.

2004 Furniture Lease

This lease is between ProAssurance Group Services Corporation (lessor) and the Company (lessee). The agreement was effective October 1, 2004 through September 11, 2011. The lease may be terminated before the end if it is mutually agreed upon or if the lessee fails to pay two consecutive payments.

The lessee agrees to pay lease payment in the amount equal to the amount of the Generally Accepted Accounting Principles (GAAP) depreciation expense, payable in quarterly installments due on or before thirty days after the end of the calendar quarter.

The lessee is responsible for all maintenance and repairs of the leased furniture. Insurance in the amount of $2,000,000 will be maintained by the lessee with an insurance company acceptable to the lessor. The lessee assumes all risks of loss or damage to any portion of the furniture leased.
not covered by insurance. All replacements, repairs or substitutions shall be at the cost of the lessee.

After the term has expired, the lessee has the option to buy the leased furniture for $1,000,000, provided all payments have been made. The furniture can be purchased during the term period, provided the lessor is provided with written notification of the lessee’s intentions. If this option is taken, the purchase price will be the carrying value of the furniture. If the lease is terminated early for any reason, the furniture must be returned in good condition with the exception of reasonable wear and tear.

**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, 2006.
FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured on a financial institution bond issued by The Cincinnati Insurance Company of Cincinnati, Ohio, which met the suggested minimum requirements of the NAIC Financial Condition Examiners Handbook. The bond covered forgery or alteration, securities, trading loss, computer system fraud and extortion.

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

- Corporate Accident Liability
- Publicly Traded Blue Chip Liability
- Commercial Automobile Liability
- Commercial Excess and Umbrella Liability
- International Blanket Accident Liability
- International Commercial Liability
- International General Liability
- International Workers’ Compensation Liability
- Property Insurance Liability
- Workers’ Compensation Liability
- Pension Retirement Liability
- Directors and Officers Liability
- Errors and Omissions Liability

The coverages and limits carried by the Company were reviewed during the course of the examination and appeared to adequately protect the Company’s interest at the examination date.

EMPLOYEE AND AGENT WELFARE

The Company had no employees. All services were provided to the Company by employees of ProAssurance Group Services Corporation. Expenses were allocated in accordance with the Expense Allocation Agreement that is discussed under “HOLDING COMPANY AND AFFILIATE MATTERS” section of this report under the caption “Management and Service Agreements.”
SCHEDULE OF SPECIAL DEPOSITS

The Company maintained the following deposits with the respective statutory authorities at December 31, 2006, as required or permitted by law.

<table>
<thead>
<tr>
<th>States and Territories</th>
<th>Book Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>$ 2,633,097</td>
<td>$ 2,620,015</td>
</tr>
<tr>
<td>Georgia</td>
<td>86,256</td>
<td>85,777</td>
</tr>
<tr>
<td>Louisiana</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>558,129</td>
<td>555,027</td>
</tr>
<tr>
<td>Mississippi</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Missouri</td>
<td>1,014,780</td>
<td>1,009,140</td>
</tr>
<tr>
<td>Nevada</td>
<td>600,118</td>
<td>597,281</td>
</tr>
<tr>
<td>New Mexico</td>
<td>100,917</td>
<td>100,914</td>
</tr>
<tr>
<td>North Carolina</td>
<td>558,129</td>
<td>555,027</td>
</tr>
<tr>
<td>Oregon</td>
<td>152,217</td>
<td>151,371</td>
</tr>
<tr>
<td>Virginia</td>
<td>275,034</td>
<td>273,754</td>
</tr>
<tr>
<td>Aggregate Alien and Other</td>
<td>24,974,079</td>
<td>24,974,079</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$ 31,072,756</strong></td>
<td><strong>$ 31,042,385</strong></td>
</tr>
</tbody>
</table>

FINANCIAL CONDITION/GROWTH OF THE COMPANY

<table>
<thead>
<tr>
<th></th>
<th>Admitted Assets</th>
<th>Liabilities</th>
<th>Capital &amp; Surplus</th>
<th>Premiums Earned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006*</td>
<td>$1,720,534,720</td>
<td>$1,291,399,227</td>
<td>$429,135,493</td>
<td>$305,329,707</td>
</tr>
<tr>
<td>2005</td>
<td>1,570,706,676</td>
<td>1,242,042,841</td>
<td>328,663,835</td>
<td>303,101,343</td>
</tr>
<tr>
<td>2004</td>
<td>1,391,536,612</td>
<td>1,114,628,009</td>
<td>276,908,603</td>
<td>317,853,635</td>
</tr>
<tr>
<td>2003</td>
<td>1,169,148,062</td>
<td>930,408,096</td>
<td>238,739,966</td>
<td>274,032,910</td>
</tr>
<tr>
<td>2002*</td>
<td>947,066,045</td>
<td>766,243,156</td>
<td>180,823,300</td>
<td>185,456,783</td>
</tr>
</tbody>
</table>

*Per Examination
SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

<table>
<thead>
<tr>
<th>States</th>
<th>Premiums</th>
<th>States</th>
<th>Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>$ 101,120,215</td>
<td>Maryland</td>
<td>$ 1,778,950</td>
</tr>
<tr>
<td>Arkansas</td>
<td>5,405,217</td>
<td>Minnesota</td>
<td>4,000</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>255,000</td>
<td>Missouri</td>
<td>23,287,136</td>
</tr>
<tr>
<td>Florida</td>
<td>416,497</td>
<td>North Carolina</td>
<td>276,529</td>
</tr>
<tr>
<td>Georgia</td>
<td>4,215,228</td>
<td>Ohio</td>
<td>100,761,061</td>
</tr>
<tr>
<td>Hawaii</td>
<td>240</td>
<td>Oklahoma</td>
<td>2,108,666</td>
</tr>
<tr>
<td>Illinois</td>
<td>1,849</td>
<td>Tennessee</td>
<td>6,132,646</td>
</tr>
<tr>
<td>Indiana</td>
<td>39,070,859</td>
<td>Texas</td>
<td>5,939,874</td>
</tr>
<tr>
<td>Kansas</td>
<td>5,463,997</td>
<td>Virginia</td>
<td>15,721,441</td>
</tr>
</tbody>
</table>

Total Premiums Written $ 311,959,405

LOSS EXPERIENCE

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

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>78.3%</td>
<td>82.2%</td>
<td>85.1%</td>
<td>81.1%</td>
</tr>
</tbody>
</table>

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

($000 Omitted) | 2003  | 2004  | 2005  | 2006  |
---------------|-------|-------|-------|-------|
One Year Loss  | ($3,185) | ($373) | ($17,255) | ($80,168) |
Two Year Loss  | $21,802 | $668  | ($10,067) | ($95,182) |

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 and others engaged in the delivery of health care in Alabama and other regional states. At December 31, 2006, the Company insured a total of 16,747 physicians, 1,764 dentists, 223 hospitals and clinics, and 188 allied health workers in the states where it is licensed.

The Company markets its professional liability products in Alabama through employees of the Company. Outside the state of Alabama, the Company utilizes brokers and independent agents.
**Territory**

At December 31, 2006, the Company was licensed to transact business in 44 states and districts as shown below:

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

**Policy Forms and Underwriting Practices**

At December 31, 2006, the Company was issuing Medical Malpractice liability policies. The Company’s Alabama rates and underwriting guidelines were approved by the ALDOI on January 27, 2003 and became effective February 1, 2003. There were no physician and surgeon rate filings or changes in the Company’s rates for 2004-2006 in Alabama. The Company’s underwriting duties are performed in the home office and regional offices.

**Rate Calculation**

The examiners obtained an explanation for how the rates are calculated from the Company’s underwriting intranet system. The Company’s policies are rated in Oasis, the Company’s claims and data processing software, by an actuarial formula for computing each policy. The policy premium is determined by several factors such as: risk types, base rates, six variable data elements (state, territory, premium class, coverage type, coverage limits and claims made year of maturity), paramedical employee factors, organizations’ risk types, factors affecting base rates, coverage components, pro-ration, exposure change adjustment, manuscript endorsements and tail rating.

**Rating Factors**

The rating factors verified included: class code, territory code, deductible factors and increased limit factors for a sample of fifty new policies issued during the exam period. This information was verified in order to determine that policies were rated in accordance with the rates and underwriting guidelines filed with the ALDOI. From the sample reviewed, it was determined that the Company appropriately applied premium class codes, territory ratings, specialty codes and specialty code numbers assigned for groups, physicians and allied health professionals are in accordance with the rates filed with ALDOI for the period. The Company appropriately and consistently rated and assigned class codes for each of the policies selected.
Dividends to Policyholders

There were no dividends paid to policyholders during the period covered by this examination.

Advertising and Marketing

A review was made of the Company’s advertising materials used during the period covered by this examination. 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 marketing/business plan addressed specific areas of implementation for outside marketing, focused goals within the Company, and accomplishment of these goals through the development of its employees. The examiners determined that the Company has clearly defined objectives for maintaining and promoting its business. The examiners did not find any evidence of redlining where agents would overserve or underserve an area commonly found in property casualty insurers.

The Company’s policies are marketed on its website. The site described the types of policies it sells: professional liability, health care facility, medical professional liability, managed care liability, dental professional liability, allied health liability and professional office policies. Customers visiting the website are informed of the states and jurisdictions where the Company’s products are marketed and sold. Users are directed to select their state of residence and the type of product they are interested in purchasing. Once the type of policy is selected a listing of agents is disclosed for the customer to contact an agent for further information on purchasing a policy.

Claims Review

The examiners reviewed denied and closed without payment claims and settled and closed claims for the period under review. It was determined that claims were appropriately denied or settled based on policy provision, that claim checks were received by the claimant in a timely manner and that changes to reserves were maintained in the claim files for any changes that were made.

Policyholder Complaints

During the examination period, the Company documented in its complaint register a total of twenty-two complaints for all states of which only one was for Alabama. These complaints were not exclusive to Alabama and included complaints for the following states: Arkansas, Florida, Kansas, Indiana, Missouri, Ohio, Tennessee, and Texas. These complaints were reviewed in order to determine if the Company’s response fully addressed the issues raised and if the complaint was appropriately resolved. The Company’s file documentation was reviewed, and it included correspondence from specific state insurance departments, response to each state insurance department and correspondence to the complainant and/or attorney. The Company responses to state insurance departments, complainants and attorneys were made in accordance with the specific time requirements. The responses were complete, addressed all issues raised and included documentation supporting the Company’s position. The Company’s complaint
files provided complete and appropriate responses in accordance with the Company's policy and contract provisions. It was also determined that the Company provided a clear resolution to the issues identified in the complaint and records were well maintained and organized.

Agents' Licensing

The examiner reviewed the agents' 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 found the following:

1. The Company provides new employees with a copy of the Employee Handbook which contains the Code of Ethics. The Company's policy on Confidential Information in general as well as its requirements under HIPAA are included in the Code of Ethics. The employees are required to sign an acknowledgement form after they have received and reviewed the document.

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

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

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

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

REINSURANCE

Reinsurance Assumed

As of December 31, 2006, the Companies had no assumed reinsurance business; however, assumed reinsurance premium continues to be recorded as a result of the runoff of old assumed programs.
Unaffiliated

Premium audits continue to produce immaterial amounts of additional or returned premium for previous assumed reinsurance business which ended effective June 30, 2003. Loss reserve changes and loss payments will continue on this business.

Affiliated

Loss reserve changes and loss payments will also continue from the intercompany Woodbrook Casualty Insurance, Inc. (WCI) treaty which was terminated, but not commuted, effective December 31, 2003.

Reinsurance Ceded

As of December 31, 2006, the Company’s reinsurance ceded programs provided coverage on an excess-of-loss basis, using two layers of reinsurance. Multiple reinsurers participated on each layer, including both authorized and unauthorized reinsurers. The reinsurance program consists of two coverage layers, $4 million excess of $1 million and $11 million excess of $5 million. 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 Re, Lloyds Syndicate #2791, Transatlantic Reinsurance Company and AXA Re.

The first layer is retrospectively rated, with minimum and maximum premiums based on percentages of the provisional premium. The provisional premium is calculated by applying a specified set of factors to the collected premium for the Company’s primary coverage ($1 million/$3 million limits). From October 1, 2002, through September 30, 2006, the layer was 100% placed with a variety of reinsurers, but beginning October 1, 2006, the Company began to retain a 5% participation in this layer.

The second layer ($11 million excess of $5 million) is flat-rated, also based on a specified set of factors. As of October 1, 2006, the Company started to retain a 2% participation in this layer.

The review of the Company’s reinsurance treaties disclosed no unusual provisions except for the following:

The State of Kansas has a Patients’ Compensation Fund (Fund), and in order to participate in the Fund, physicians must have a policy issued by an admitted carrier. The Company has a policy with physicians employed by a certain hospital in Kansas. The policy has limits of $200,000 per claim/$600,000 annual aggregate, per physician. The Fund picks up the exposure from $200,000 to $1,000,000 on a per-claim basis. The policy is a front for the hospital’s Cayman Island’s captive, Sunflower Assurance, Ltd., and allows the insured physicians access to the Fund. The captive reinsures the Company for 100% of the policy exposure. The reinsurance agreement became effective on April 1, 2004, and continues to be endorsed annually so that the agreement is still in effect. The risk for ceding this business is securitized by a letter of credit that contains acceptable provisions.
ACCOUNTS AND RECORDS

The Company's principal accounting records were maintained primarily on electronic data processing (EDP) equipment. The Company uses a system to maintain files on claims and underwriting, including premiums. This system interfaces with the Company’s general ledger system as needed.

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 Tillinghast-Towers Perrin, Atlanta, Georgia, was retained by the Company throughout the examination period and prepared the 2006 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.

The Company has not completed its Corporate Level Business Continuity Plan. Without a plan, senior management's ability to efficiently respond to contingencies could be impaired.

The Company had seven individuals with access to the production data. Project Managers should not have access to production data. No one should have access to production data all day every day. Access should be limited, and tracking of the use of superuser accounts should be performed and audited.

Record Retention Compliance

The examiners determined that the Company’s record retention policy did not require that the Company maintain all records in accordance with ALA. ADMIN. CODE 482-1-118-.03 (1999), which states: “Every insurer, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer’s financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years.” These items included: petty cash records, audits or adjustments, vendor W-9 forms, payroll records, files for commissions, bonuses, incentives, awards, employee personnel records, affirmative action and EEO files, requests for reasonable accommodation under ADA, records related to FLMA leave, job descriptions, job advertisements, applications and resumes, service requests and risk management files.
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 2006. Amounts shown in the comparative statements for the years 2003, 2004, 2005 and 2006 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 ......................................................... 21

Statement of Income .................................................................................................................. 23

Capital and Surplus .................................................................................................................... 23

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
The Medical Assurance Company, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2006

<table>
<thead>
<tr>
<th>Category</th>
<th>Assets</th>
<th>Nonadmitted Assets</th>
<th>Net Admitted Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$1,475,150,941</td>
<td>$ -</td>
<td>$1,475,150,941</td>
</tr>
<tr>
<td>Stocks: Preferred stocks</td>
<td>4,262,824</td>
<td></td>
<td>4,262,824</td>
</tr>
<tr>
<td>Stocks: Common stocks</td>
<td>3,908,811</td>
<td></td>
<td>3,908,811</td>
</tr>
<tr>
<td>Real estate: Properties occupied by the Company</td>
<td>11,676,864</td>
<td></td>
<td>11,676,864</td>
</tr>
<tr>
<td>Cash, cash equivalents and short-term investments</td>
<td>57,468,258</td>
<td>2,951,356</td>
<td>54,516,902</td>
</tr>
<tr>
<td>Other invested assets</td>
<td>18,047,447</td>
<td></td>
<td>18,047,447</td>
</tr>
<tr>
<td>Receivables for securities</td>
<td>30,950</td>
<td></td>
<td>30,950</td>
</tr>
<tr>
<td>Subtotal, cash and invested assets</td>
<td>$1,570,546,095</td>
<td>$2,951,356</td>
<td>$1,567,594,739</td>
</tr>
<tr>
<td>Investment income due and accrued</td>
<td>14,843,660</td>
<td></td>
<td>14,843,660</td>
</tr>
<tr>
<td>Premium considerations:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Uncollected premiums and agents' balances in the course of collection</td>
<td>46,698,203</td>
<td>876,317</td>
<td>45,821,886</td>
</tr>
<tr>
<td>Deferred premiums, agents' balances and installments booked but deferred and not yet due</td>
<td>17,366,547</td>
<td></td>
<td>17,366,547</td>
</tr>
<tr>
<td>Reinsurance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amounts recoverable from reinsurers</td>
<td>3,100,572</td>
<td></td>
<td>3,100,572</td>
</tr>
<tr>
<td>Funds held by or deposited with reinsured companies</td>
<td>70,448</td>
<td></td>
<td>70,448</td>
</tr>
<tr>
<td>Other amounts receivable under reinsurance contracts</td>
<td>179,404</td>
<td></td>
<td>179,404</td>
</tr>
<tr>
<td>Net deferred tax asset</td>
<td>57,493,698</td>
<td>36,032,865</td>
<td>21,460,833</td>
</tr>
<tr>
<td>Guaranty funds receivable or on deposit</td>
<td>360,869</td>
<td></td>
<td>360,869</td>
</tr>
<tr>
<td>Electronic data processing equipment and software</td>
<td>645,606</td>
<td>388,341</td>
<td>257,265</td>
</tr>
<tr>
<td>Furniture and equipment, including health care delivery assets</td>
<td>420,342</td>
<td>420,342</td>
<td>-</td>
</tr>
<tr>
<td>Receivable from parent, subsidiaries and affiliates</td>
<td>1,148,716</td>
<td></td>
<td>1,148,716</td>
</tr>
<tr>
<td>Other prepaid expenses</td>
<td>747,868</td>
<td>747,868</td>
<td>-</td>
</tr>
<tr>
<td>Cash surrender value of business owned life insurance</td>
<td>47,019,514</td>
<td></td>
<td>47,019,514</td>
</tr>
<tr>
<td>State premium tax recoverable</td>
<td>1,310,267</td>
<td></td>
<td>1,310,267</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$1,761,951,809</td>
<td>$41,417,089</td>
<td>$1,720,534,720</td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
The Medical Assurance Company, Inc.
Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
For the Year Ended December 31, 2006

<table>
<thead>
<tr>
<th>LIABILITIES</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses (Note 2)</td>
<td>$ 430,641,021</td>
</tr>
<tr>
<td>Reinsurance payable on paid losses and loss adjustment expenses</td>
<td>1,906,734</td>
</tr>
<tr>
<td>Loss adjustment expenses (Note 2)</td>
<td>630,729,678</td>
</tr>
<tr>
<td>Commissions payable, contingent commissions and other similar charges</td>
<td>4,639,685</td>
</tr>
<tr>
<td>Other expenses</td>
<td>7,532,961</td>
</tr>
<tr>
<td>Taxes, licenses and fees</td>
<td>1,114,745</td>
</tr>
<tr>
<td>Current federal and foreign income taxes</td>
<td>11,838,629</td>
</tr>
<tr>
<td>Unearned premiums (after deducting unearned premiums for ceded reinsurance of $11,354,821)</td>
<td>128,225,641</td>
</tr>
<tr>
<td>Advance premiums</td>
<td>4,026,606</td>
</tr>
<tr>
<td>Ceded reinsurance premiums payable</td>
<td>66,490,099</td>
</tr>
<tr>
<td>Funds held by company under reinsurance treaties</td>
<td>263,000</td>
</tr>
<tr>
<td>Amounts withheld or retained by company for account of others</td>
<td>604,491</td>
</tr>
<tr>
<td>Provision for reinsurance</td>
<td>1,579,800</td>
</tr>
<tr>
<td>Payable to parent, subsidiaries and affiliates</td>
<td>1,484,939</td>
</tr>
<tr>
<td>Payable for securities</td>
<td>321,202</td>
</tr>
<tr>
<td>Aggregate write-ins for liabilities: Other</td>
<td>(4)</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$ 1,291,399,227</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CAPITAL AND SURPLUS</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Common capital stock</td>
<td>$ 8,846,429</td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>205,553,769</td>
</tr>
<tr>
<td>Unassigned funds (surplus) (Note 3)</td>
<td>214,735,295</td>
</tr>
<tr>
<td>TOTAL CAPITAL AND SURPLUS</td>
<td>$ 429,135,493</td>
</tr>
<tr>
<td>TOTAL LIABILITIES, CAPITAL AND SURPLUS</td>
<td>$ 1,720,534,720</td>
</tr>
</tbody>
</table>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF.
The Medical Assurance Company, Inc.
Statement of Income
For the Years Ended December 31, 2006, 2005, 2004 and 2003

Underwriting income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums earned</td>
<td>$305,329,707</td>
<td>$303,101,343</td>
<td>$317,853,635</td>
<td>$274,032,910</td>
</tr>
<tr>
<td>Deductions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses incurred</td>
<td>28,798,475</td>
<td>76,593,153</td>
<td>109,228,045</td>
<td>124,147,798</td>
</tr>
<tr>
<td>Loss expenses incurred</td>
<td>148,080,213</td>
<td>161,709,054</td>
<td>186,129,509</td>
<td>129,216,969</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td>48,732,507</td>
<td>41,317,438</td>
<td>40,600,704</td>
<td>39,189,578</td>
</tr>
<tr>
<td>Total underwriting deductions</td>
<td>$225,611,195</td>
<td>$279,619,645</td>
<td>$335,418,258</td>
<td>$292,554,345</td>
</tr>
<tr>
<td>Net underwriting gain (loss)</td>
<td>$79,718,512</td>
<td>$23,481,698</td>
<td>$(17,564,623)</td>
<td>$(18,521,435)</td>
</tr>
</tbody>
</table>

Investment income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net investment income earned</td>
<td>$62,853,779</td>
<td>$49,319,710</td>
<td>$38,847,130</td>
<td>$31,645,243</td>
</tr>
<tr>
<td>Net realized capital gains (losses)</td>
<td>$(947,157)</td>
<td>612,877</td>
<td>1,551,376</td>
<td>2,548,563</td>
</tr>
<tr>
<td>Net investment gain (loss)</td>
<td>$62,006,622</td>
<td>$49,932,587</td>
<td>$40,398,506</td>
<td>$34,193,806</td>
</tr>
</tbody>
</table>

Other income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous income</td>
<td>$2,425,290</td>
<td>$1,845,440</td>
<td>$2,055,895</td>
<td>$1,895,837</td>
</tr>
<tr>
<td>Net income before federal and foreign income taxes</td>
<td>144,150,424</td>
<td>75,259,725</td>
<td>24,889,778</td>
<td>17,568,208</td>
</tr>
<tr>
<td>Federal and foreign income taxes incurred</td>
<td>$44,914,441</td>
<td>$21,231,555</td>
<td>$7,335,165</td>
<td>$5,849,570</td>
</tr>
</tbody>
</table>

NET INCOME

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$99,235,983</td>
<td>$54,028,170</td>
<td>$17,554,613</td>
<td>$11,718,638</td>
</tr>
</tbody>
</table>

Capital and Surplus Account

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus as regards policyholders, prior year</td>
<td>$328,663,835</td>
<td>$276,908,603</td>
<td>$238,739,966</td>
<td>$193,334,647</td>
</tr>
<tr>
<td>Net income</td>
<td>99,235,983</td>
<td>54,028,170</td>
<td>17,554,613</td>
<td>11,718,638</td>
</tr>
<tr>
<td>Change in net realized capital gains (losses)</td>
<td>(176,730)</td>
<td>1,313,520</td>
<td>(20,636)</td>
<td>1,697,071</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td>(438,622)</td>
<td>1,087,833</td>
<td>2,911,097</td>
<td>8,517,868</td>
</tr>
<tr>
<td>Change in nonadmitted assets</td>
<td>228,025</td>
<td>(2,977,892)</td>
<td>(2,066,037)</td>
<td>5,493,195</td>
</tr>
<tr>
<td>Change in provision for reinsurance</td>
<td>1,623,000</td>
<td>(1,696,400)</td>
<td>(210,400)</td>
<td>3,338,200</td>
</tr>
<tr>
<td>Surplus adjustments: Paid in</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Correction in prior period error in premiums due</td>
<td></td>
<td></td>
<td></td>
<td>(5,359,653)</td>
</tr>
<tr>
<td>Rounding</td>
<td>2</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in surplus as regards policyholders</td>
<td>$100,471,658</td>
<td>$51,755,232</td>
<td>$38,168,637</td>
<td>$45,405,319</td>
</tr>
<tr>
<td>Surplus as regards policyholders, December 31, current year</td>
<td>$429,135,493</td>
<td>$328,663,835</td>
<td>$276,908,603</td>
<td>$238,739,966</td>
</tr>
</tbody>
</table>

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

Note 1 – Bonds $1,136,082,893

The above captioned amount is the same as reported in the 2006 Annual Statement.

The Company reported $249,936 for private placements in Schedule D - Part 1A - Section 1 - Quality and Maturity Distribution of Bonds Owned at December 31, 2006. A review of Schedule D - Part 1 noted a substantial amount of private placements. The Company provided corrected information, and the Company had $30,808,020 in private placements at December 31, 2006. The discrepancy was the result of the accounting service provider not “flagging” private placements.

It was noted that the Company had forty investments with subprime exposures. The fair values and par values of the investments totaled $34,465,587 and $36,197,013, respectively. Standard & Poors rated ten bonds AAA, two bonds AA+, one bond AA and A each. Five bonds were rated BBB, four bonds BBB-, one bond BB+, three bonds BB, four bonds B and one B-. Two bonds were rated CCC, two bonds D, and four bonds were not rated.

Note 2 – Losses $425,602,479

Loss adjustment expenses $568,014,546

The above captioned amounts are the same as reported in the 2006 Annual Statement.

The actuarial report and exhibits did not explain the basis of selected ultimate losses that were used to calculate reserves. The selections resulted in reserves that differed significantly from the pure actuarial indications. In the consulting actuary’s opinion, the cautious approach was a material assumption that the opinion actuary is required to disclose in the reserve study.

Note 3 – Unassigned funds (surplus) $114,263,637

The above captioned amount is the same as reported in the 2006 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 $114,263,637

Examination increase/(decrease) to assets: 0

Total increase/(decrease) to assets

Examination (increase)/decrease to liabilities: 0

Total (increase)/decrease to liabilities

Unassigned funds (surplus) per Examination $114,263,637
CONTINGENT LIABILITIES AND PENDING LITIGATION

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

The following two agreements were effective subsequent to the exam period:

Management and Service Agreement

This agreement effective January 1, 2007 was signed and entered into by ProAssurance Corporation (PRA) and its subsidiaries on August 1, 2006. The companies determined that by combining certain portions of its insurance operations, they could operate more effectively and efficiently.

It was determined that the Company would be responsible for the coordination and delivery of the management services to be provided, including but not limited to the following:

- accounts receivable and accounts payable
- investment management
- preparation and filing of financial statements and tax returns
- reviewing applications for policies of insurance
- making decisions on coverage
- following-up with applicants for additional information
- working with reinsurers to arrange appropriate reinsurance for each Company
- selling and promoting the policies of insurance issued by each Company
- invoicing policies*
- mailing applications to insured’s*
- collecting premiums*
- marketing policies to prospective*
- reviewing, processing, investigating, adjusting and settling or resisting all claims in accordance with each Company’s policy and procedures
- establishing loss reserves for each claim as deemed necessary in accordance with each Company’s policy and procedures
- providing all information systems service requirements
- preparing business plans
- actuarial services

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• assisting in the arrangement of appropriate insurance for insurance company operations
• payroll administration
• benefit administration
• employee relations
• regulatory and financial compliance
• facilities operations
• legal services
• coordination of loss prevention services
• furnishing assistance and professional consultation to insured's
• developing and conducting training programs
• maintaining CME accreditation

The Company can use the employees of the companies, consultants, advisors, investment managers or third-parties at any time to perform any of the aforementioned services. The companies involved will make all of its resources available to the Company and the Company will do the same. Direct and indirect expenses will be allocated as determined by the Expense Allocation Agreement signed simultaneously with this Agreement. The Company should not charge any management fee, commission or override for performing the services outlined in the Agreement.

* Services provided for insurance companies only.

**Expense Allocation Agreement**

The agreement, effective January 1, 2007, was by and between ProAssurance Corporation (PRA) and its subsidiaries. This agreement was amended in July 2007.

The companies determined that it would be more efficient and effective if certain operational services were combined and provided by the employees and managers of the Company.

This agreement defines the types of expenses involved (direct and indirect) and establishes the method of allocation for these expenses. Direct expenses are defined as those expenses arising from services performed by employees of the companies or outside vendors that can be identified as being applicable to one specific company. Whereas indirect expenses are defined as those expenses arising from services performed by employees of the companies or vendors for the benefit of one or more companies and cannot be identified as applicable to one company.

Direct expenses will be allocated to the company incurring the expenses. Indirect expenses will be allocated during each accounting period on a closely estimated basis. Indirect expenses will be allocated in a fair and reasonable method in conformity with customary insurance accounting practices and the method will be consistently applied.

These expenses (indirect and direct) will be settled on a quarterly basis. This agreement will continue in-force unless amended or modified in writing by all of the companies involved.
New Holding Company

Effective May 16, 2007, Medical Assurance, Inc. was merged into affiliate PRA Professional Liability Group, Inc., a newly formed holding company incorporated under the laws of the State of Delaware.

Retirement of Chief Executive Officer

Aubrey Derrill Crowe, M.D. retired as Chief Executive Officer (CEO) of ProAssurance Corporation (PRA) effective June 30, 2007. Dr. Crowe will continue to serve as Chairman of the Board in a non-executive capacity. William Stancil Starnes was named the new CEO of PRA effective July 1, 2007.

Reinsurance Intermediary

ProAssurance Corporation entered into a new reinsurance intermediary agreement, on July 13, 2007, effective October 1, 2002, authorizing Towers Perrin Forster & Crosby, Inc. to solicit, negotiate and procure reinsurance for the ProAssurance group of companies. The agreement appears to meet all statutory requirements.

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

Accounts and Records – Page 18

It is recommended the Company complete and maintain a Corporate Level Business Continuity Plan.

It is recommended that the Company put in place a procedure whereby the system administrators keep a log of changes that are made using the superuser account and additionally a second login should be used for normal job duties. The Company should review the list of employees with superuser access and limit to those with an absolute need. Secondary accounts should be created for those remaining on the list for use only when production data must be accessed. This will allow for tracking of all changes made to production data through the maintaining and reviewing a log of such changes.

It is recommended that the Company amend its record retention policy to maintain all records for not less than five years in accordance with the requirements of Ala. ADMIN. CODE 482-1-118-.03 (1999).
Bonds – Page 24

It is recommended that Management perform a closer review of the accounting service provider's private placement accounting reports and report all private placements in Schedule D - Part 1A - Section 1.

Losses – Page 24

It is recommended that the actuary provide explanation and documentation of all material assumptions in future reserve analyses, in accordance with Actuarial Standard of Practice #9 and with the NAIC Annual Statement Instructions regarding the Statement of Actuarial Opinion.
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, Lori Wright; Juliette Glenn; Charles Turner; Mora Perkins; Toni Bean; Janice Palmer, CPA, CFE, CPCU; Randall D. Ross, ACAS, MAAA, Consulting Actuary; Jenny Jeffers, CISA, AES and Joe Detrick, AFE, AES, CPA, CISA, Consulting Information Technology Specialists, all represented the Alabama Department of Insurance. Ed Fossa, Tim Oglesby and Nancy Ukairo represented the District of Columbia Department of Insurance, Securities and Banking.

Respectfully submitted,

Mary B. Packard
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Examiner-in-Charge
Department of Insurance
State of Alabama Department of Insurance
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