Pyxis Tankers Inc.
Form 6-K
August 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of: August 2016

Commission File Number: 1-37611

Pyxis Tankers Inc.

59 K. Karamanli Street

Maroussi 15125 Greece

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(Address of registrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):___

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):___

Pyxis Tankers Inc. (the " Company ") is furnishing this Report of Foreign Private Issuer on Form 6-K to the Securities and Exchange Commission for the purpose of providing the press release issued by the Company on August 16, 2016, a copy of which is filed as Exhibit 99.1 hereto and incorporated herein by reference.

Exhibit Number	Document
99.1	Press Release dated August 16, 2016

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PYXIS TANKERS INC.

By: /s/ Henry Williams
Name: Henry Williams
Title: Chief Financial Officer

Date: August 16, 2016

Exhibit Index

Exhibit Number	Document
99.1	Press Release dated August 16, 2016

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pts
Less the effect of adjustments in premiums owed under reinsurance agreements, prior accident years (as previously discussed)
—
%

(1.4
%)
1.4

pts
Ratio, current accident year
15.5
%

16.8
%
(1.3
)
pts
The decrease in the current accident year ceded premiums ratio for the 2019 three-month period was driven by the effect of the non-renewal of the quota share reinsurance agreement with Syndicate 1729, partially offset by an increase in premiums ceded under our other shared risk arrangements. See discussion above under the heading "Ceded Premiums Written."

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Net Premiums Earned

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

Net premiums earned were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums earned	**$143,019**	$133,698	*$9,321*	*7.0%*
Less: Ceded premiums earned	**18,952**	18,751	*201*	*1.1%*
Net premiums earned	**$124,067**	$114,947	*$9,120*	*7.9%*

The increase in gross premiums earned during the 2019 three-month period included the pro rata effect of higher premiums written during the preceding twelve months, predominantly in our healthcare facilities and physicians lines of business.

The slight increase in ceded premiums earned during the 2019 three-month period was driven by the effect of an adjustment made during the first quarter of 2018 to ceded premiums owed under reinsurance agreements related to prior accident year losses; no adjustment was made during the first quarter of 2019 (see previous discussion in footnote 5 under the heading "Ceded Premiums Written"). After removing the effect of the prior accident year ceded premium adjustment from the 2018 three-month period, ceded premiums earned decreased primarily due to the non-renewal of the quota share reinsurance agreement with Syndicate 1729, partially offset by the pro rata effect of an increase in premiums ceded under our shared risk arrangements during the preceding twelve months, predominately in our CAPAssurance program.

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Losses and Loss Adjustment Expenses

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

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

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

	Net Loss Ratios [1]		
	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**86.8 %**	72.7 %	*14.1 pts*
Less impact of prior accident years on the net loss ratio	**(6.3 %)**	(17.9 %)	*11.6 pts*
Current accident year net loss ratio	**93.1 %**	90.6 %	*2.5 pts*
Less estimated ratio increase (decrease) attributable to:			
Ceded premium adjustments, prior accident years [2]	**— %**	(1.5 %)	*1.5 pts*
Current accident year net loss ratio, excluding the effect of prior year ceded premium [3]	**93.1 %**	92.1 %	*1.0 pts*

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

(2) Reductions to premiums owed under reinsurance agreements for prior accident years increased net premiums earned (the denominator of the current accident year ratio) for the 2018 three-month period. No such adjustments were made during the 2019 three-month period. See the discussion in the Premiums section for our Specialty P&C segment under the heading "Ceded Premiums Written" for additional information.

(3) The current accident year net loss ratio, excluding the effect of prior year ceded premium adjustments, is higher due to our continued concern around potential loss trends in the broader HCPL industry including large, more complex risks. Furthermore, the increase in the current accident year net loss ratio was due to changes in the mix of business including a higher volume of earned premium in our excess and surplus lines of business.

We recognized net favorable loss development related to our previously established reserves of $7.9 million during the three months ended March 31, 2019 and $20.6 million during the same respective period of 2018. We re-evaluate our previously established reserve each quarter based upon the most recently completed actuarial analysis supplemented by any new analysis, information or trends that have emerged since the date of that study. We also take into account currently available industry trend information. Development recognized during the three months ended March 31, 2019 principally related to accident years 2012 through 2015. Development recognized during the three months ended March 31, 2018 principally related to accident years 2011 through 2015. While our reserves continue to develop favorably, net favorable prior year reserve development recognized in the 2019 three-month period was lower as compared to same respective period of 2018 due to the observed increase in claim severity in the broader HCPL industry.

A detailed discussion of factors influencing our recognition of loss development is included in our Critical Accounting Estimates section under the heading "Reserve for Losses and Loss Adjustment Expenses" and in our 2018 Form 10-K under the same heading. Assumptions used in establishing our reserve are regularly reviewed and updated by management as new data becomes available. Any adjustments necessary are reflected in the then current operations. Due to the size of our reserve, even a small percentage adjustment to the assumptions can have a material effect on our results of operations for the period in which the change is made, as was the case in both 2019 and 2018.

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Underwriting, Policy Acquisition and Operating Expenses

Our Specialty P&C segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
DPAC amortization	**$14,091**	$12,738	*$1,353*	*10.6%*
Management fees	**1,966**	1,697	*269*	*15.9%*
Other underwriting and operating expenses	**13,558**	13,545	*13*	*0.1 %*
Total	**$29,615**	$27,980	*$1,635*	*5.8 %*

DPAC amortization increased for the three months ended March 31, 2019 as compared to the same respective period of 2018 driven by the increase net premiums earned and, to a lesser extent, an increase in commission and brokerage expenses and a decrease in ceding commission income, which is an offset to expense, due to a reduction in premiums ceded to Syndicate 1729.

Management fees are charged pursuant to a management agreement by the Corporate segment to the operating subsidiaries within our Specialty P&C segment for services provided, based on the extent to which services are provided to the subsidiary and the amount of premium written by the subsidiary. While the terms of the management agreement were consistent between 2018 and 2019, fluctuations in the amount of premium written by each subsidiary can result in corresponding variations in the management fee charged to each subsidiary during a particular period.

Other underwriting and operating expenses was relatively flat during the 2019 three-month period as compared to the same respective period of 2018 due to offsetting factors. Other underwriting and operating expenses for the 2019 three-month period included $1.0 million associated with a data analytics services agreement entered into during the fourth quarter of 2018 (see Note 6 of the Notes to Condensed Consolidated Financial Statements for further information), offset by a decrease in compensation related costs as a result of lower bonuses as compared to the same period of 2018.

Underwriting Expense Ratio (the Expense Ratio)

Our expense ratio for the Specialty P&C segment for the three months ended March 31, 2019 and 2018, respectively, was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting expense ratio	**23.9 %**	24.3%	*(0.4)pts*

The slight decrease in the underwriting expense ratio for the 2019 three-month period was due to the effect of an increase in net premiums earned, almost entirely offset by the increase in DPAC amortization, as previously discussed, as compared to the same period of 2018.

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Segment Operating Results - Workers' Compensation Insurance

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting in the third quarter of 2018 which resulted in the creation of a new segment: Segregated Portfolio Cell Reinsurance. The underwriting results of the SPCs at Eastern Re and Inova Re that assume workers' compensation business were previously reported in our Workers' Compensation segment and are now reported in our Segregated Portfolio Cell Reinsurance segment. The traditional workers' compensation business remains in the Workers' Compensation segment which has been renamed to "Workers' Compensation Insurance." All prior period segment information has been recast to conform to the current period presentation. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements.

Our Workers' Compensation Insurance segment provides workers' compensation products to employers generally with 1,000 or fewer employees. Workers' compensation products offered include guaranteed cost policies, policyholder dividend policies, retrospectively-rated policies, deductible policies and alternative market solutions. Alternative market products include program design, fronting, claims administration, risk management, SPC rental, asset management and SPC management services. Alternative market premiums are 100% ceded to either the SPCs within our Segregated Portfolio Cell Reinsurance segment or, to a limited extent, an unaffiliated captive insurer. Our Workers' Compensation Insurance segment operating results reflected pre-tax underwriting profit or loss from these workers' compensation products, exclusive of investment results, which are included in our Corporate segment.

Segment operating results included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net premiums written	**$51,407**	$55,481	*$(4,074)*	*(7.3 %)*
Net premiums earned	**$45,939**	$42,700	*$3,239*	*7.6 %*
Other income	**729**	851	*(122)*	*(14.3%)*
Net losses and loss adjustment expenses	**(30,443)**	(27,825)	*(2,618)*	*9.4 %*
Underwriting, policy acquisition and operating expenses	**(14,192)**	(13,030)	*(1,162)*	*8.9 %*
Segment operating results	**$2,033**	$2,696	*$(663)*	*(24.6%)*
Net loss ratio	**66.3 %**	65.2 %	*1.1*	*pts*
Underwriting expense ratio	**30.9 %**	30.5 %	*0.4*	*pts*

Premiums Written

Our workers' compensation premium volume is driven by five primary factors: (1) the amount of new business written, (2) audit premium, (3) retention of our existing book of business, (4) premium rates charged on our renewal book of business and (5) changes in payroll exposure.

Gross, ceded and net premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$89,354**	$91,667	*$(2,313)*	*(2.5%)*
Less: Ceded premiums written	**37,947**	36,186	*1,761*	*4.9 %*
Net premiums written	**$51,407**	$55,481	*$(4,074)*	*(7.3%)*

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Gross Premiums Written

Gross premiums written by product were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Traditional business:				
Guaranteed cost	**$42,737**	$43,484	*$(747)*	*(1.7 %)*
Policyholder dividend	**7,186**	8,330	*(1,144)*	*(13.7%)*
Deductible	**2,246**	3,086	*(840)*	*(27.2%)*
Retrospective	**763**	2,007	*(1,244)*	*(62.0%)*
Other	**1,827**	2,155	*(328)*	*(15.2%)*
Alternative market business	**34,595**	32,605	*1,990*	*6.1 %*
Total	**$89,354**	$91,667	*$(2,313)*	*(2.5 %)*

Gross premiums written in our traditional business decreased during the three months ended March 31, 2019 as compared to the same respective period of 2018, which primarily reflected a decrease in new business, a decrease in audit premium and renewal pricing declines of 2%, partially offset by a one-point increase in the renewal retention rate to 87%. The renewal pricing declines and decrease in new business reflect the very competitive workers' compensation marketplace. New business written for the three months ended March 31, 2018 also included approximately $3.7 million of premiums written related to the acquisition of the Great Falls renewal book of business. Retrospective policy premiums written include an estimate for retrospective premium adjustments, which decreased premiums written by $0.3 million in the 2019 three-month period, compared to adjustments that increased premiums written by $0.5 million in the 2018 three-month period.

The growth in our alternative market business for the three months ended March 31, 2019 primarily reflected an increase in the renewal retention rate and an increase in payroll exposure, partially offset by renewal pricing declines of 2% and a decrease in new business written. We retained all 9 of the available workers' compensation alternative market programs up for renewal during the three months ended March 31, 2019.

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

	Three Months Ended March 31					
	2019			2018		
($ in millions)	**Traditional Business**	**Alternative Market Business**	**Segment Results**	Traditional Business	Alternative Market Business	Segment Results
New business	**$6.4**	**$1.1**	**$7.5**	$13.7	$2.9	$16.6
Audit premium (including EBUB)	**$0.2**	**$0.5**	**$0.7**	$1.2	$0.1	$1.3
Retention rate [1]	**82 %**	**97 %**	**87 %**	83 %	91 %	86 %
Change in renewal pricing [2]	**(3 %)**	**(2 %)**	**(2 %)**	(4 %)	(1 %)	(3 %)

[1] We calculate our workers' compensation retention rate as annualized expiring renewed premium divided by all annualized expiring premium subject to renewal. Our retention rate can be impacted by various factors, including price or other competitive issues, insureds being acquired, or a decision not to renew based on our underwriting evaluation.

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

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Ceded Premiums Written

Ceded premiums written were as follows:

($ in thousands)	Three Months Ended March 31			
	2019	2018	*Change*	
Premiums ceded to SPCs	**$32,146**	$29,222	*$2,924*	*10.0 %*
Premiums ceded to external reinsurers	**3,442**	2,907	*535*	*18.4 %*
Premiums ceded to unaffiliated captive insurers	**2,449**	3,383	*(934)*	*(27.6 %)*
Change in return premium estimate under external reinsurance	**(90)**	674	*(764)*	*(113.4%)*
Total ceded premiums written	**$37,947**	$36,186	*$1,761*	*4.9 %*

Our Workers' Compensation Insurance segment cedes alternative market business under a 100% quota share reinsurance agreement, net of a ceding commission, to SPCs in our Segregated Portfolio Cell Reinsurance segment. The ceding commission consists of an amount for fronting fees, cell rental fees, commissions, premium taxes, claims administration fees and risk management fees. The fronting fees, commissions, premium taxes and risk management fees are recorded as an offset to underwriting, policy acquisition and operating expenses (see discussion that follows under the heading "Underwriting, Policy Acquisition and Operating Expenses"). Cell rental fees are recorded as a component of other income and claims administration fees are recorded as ceded ULAE. The increase in premiums ceded to SPCs during the three months ended March 31, 2019 reflected growth in our alternative market premium, as previously discussed.

Under our external reinsurance agreement, we retain the first $0.5 million in risk insured by us and cede losses in excess of this amount on each loss occurrence under our primary external reinsurance contract. Per our reinsurance agreements, we cede premiums related to our traditional business on an earned premium basis. The increase in premiums ceded to external reinsurers during the three months ended March 31, 2019 was driven by an increase in earned premium and an increase in reinsurance rates effective May 1, 2018.

Changes in the return premium estimate reflected the loss experience under the reinsurance contract for the three months ended March 31, 2019 and 2018. The change in estimated return premium for the three months ended March 31, 2019 reflected favorable loss development on prior year reinsured claims as compared to unfavorable loss development on prior year reinsured claims for the same respective period of 2018.

Ceded Premiums Ratio

Ceded premiums ratio was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Ceded premiums ratio, as reported	**34.6 %**	34.9%	*(0.3)pts*
Less the effect of:			
Premiums ceded to SPCs (100%)	**26.9 %**	24.3%	*2.6 pts*
Retrospective premium adjustments	**— %**	0.1 %	*(0.1)pts*
Premiums ceded to unaffiliated captive insurers (100%)	**0.9 %**	3.0 %	*(2.1)pts*
Return premium estimated under external reinsurance	**(0.2 %)**	1.5 %	*(1.7)pts*
Assumed premiums earned (not ceded to external reinsurers)	**(0.3 %)**	(0.3 %)	*— pts*
Ceded premiums ratio, less the effects of above	**7.3 %**	6.3 %	*1.0 pts*

The above table reflects ceded premiums earned as a percent of gross premiums earned. As discussed above, we cede premiums related to our traditional business to external reinsurers on an earned premium basis. The increase in the ceded premiums ratio for the three months ended March 31, 2019 when compared to the same respective period of 2018 primarily reflected an increase in reinsurance rates.

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Net Premiums Earned

Net premiums earned were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums earned	**$70,276**	$65,614	*$4,662*	*7.1%*
Less: Ceded premiums earned	**24,337**	22,914	*1,423*	*6.2%*
Net premiums earned	**$45,939**	$42,700	*$3,239*	*7.6%*

Net premiums earned consist of gross premiums earned less the portion of earned premiums that we cede to SPCs in our Segregated Portfolio Cell Reinsurance segment, external reinsurers or to any unaffiliated captive insurers. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Our workers' compensation policies are twelve month term policies and premiums are earned on a pro rata basis over the policy period. Net premiums earned also include premium adjustments related to the audit of our insureds' payrolls. Payroll audits are conducted subsequent to the end of the policy period and any related adjustments are recorded as fully earned in the current period. In addition, we record an estimate for EBUB and evaluate the estimate on a quarterly basis. We did not adjust the EBUB estimate during the three months ended March 31, 2019 or 2018. The increase in net premiums earned primarily reflected the pro rata effect of higher net premiums written during the preceding twelve months.

Losses and Loss Adjustment Expenses

We estimate our current accident year loss and loss adjustment expenses based on an expected loss ratio. Incurred losses and loss adjustment expenses are determined by applying the expected loss ratio to net premiums earned, which includes audit premium, for the respective period. The following table summarizes calendar year net loss ratios by separating losses between the current accident year and all prior accident years. Calendar year and current accident year net loss ratios by component were as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**66.3%**	65.2%	*1.1 pts*
Less impact of prior accident years on the net loss ratio	**(1.9 %)**	(0.9 %)	*(1.0)pts*
Current accident year net loss ratio	**68.2%**	66.1%	*2.1 pts*

The current accident year net loss ratio for the 2019 three-month period was 68.2% as compared to 66.1% for the same respective period of 2018. The increase in the current accident year net loss ratio primarily reflected the effect of the continuation of intense price competition and the resulting renewal rate decreases.

Calendar year incurred losses (excluding IBNR) ceded to our external reinsurers totaled $1.0 million for the three months ended March 31, 2019, compared to ceded incurred losses of $3.7 million for the same respective period of 2018. Ceded incurred losses reflected unfavorable development on prior year reinsured claims. There were no current accident year ceded incurred losses reported in the 2019 or 2018 three-month periods.

We recognized net favorable prior year development related to our previously established reserve of $0.9 million for the three months ended March 31, 2019 as compared to $0.4 million for the same respective period of 2018. The net favorable prior year development for the three months ended March 31, 2019 reflected overall favorable trends in claim closing patterns, primarily in the 2016 accident year. For both the three months ended March 31, 2019 and 2018, the net favorable prior year development included $0.4 million related to the amortization of the purchase accounting fair value adjustment.

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Underwriting, Policy Acquisition and Operating Expenses

Underwriting, policy acquisition and operating expenses includes the amortization of commissions, premium taxes and underwriting salaries, which are capitalized and deferred over the related workers' compensation policy period, net of ceding commissions earned. The capitalization of underwriting salaries can vary as they are subject to the success rate of our contract acquisition efforts. These expenses also include a management fee charged by our Corporate segment, which represents intercompany charges pursuant to a management agreement, and the amortization of intangible assets, primarily related to the acquisition of Eastern by ProAssurance. The management fee is based on the extent to which services are provided to the subsidiary and the amount of premium written by the subsidiary.

Our Workers' Compensation Insurance segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
DPAC amortization	**$8,450**	$7,503	*$947*	*12.6%*
Management fees	**670**	685	*(15)*	*(2.2 %)*
Other underwriting and operating expenses	**9,385**	9,037	*348*	*3.9 %*
SPC ceding commission offset	**(4,313)**	(4,195)	*(118)*	*2.8 %*
Total	**$14,192**	$13,030	*$1,162*	*8.9 %*

The increase in DPAC amortization for the three months ended March 31, 2019 as compared to the same respective period of 2018 primarily reflected the increase in net premiums earned and the effect of an increase in capitalized underwriting salaries during 2018. Other underwriting and operating expenses for the three months ended March 31, 2019 were relatively flat as compared to the same respective period of 2018.

As previously discussed, alternative market premiums written through our Workers' Compensation Insurance segment's alternative market business unit are 100% ceded, less a ceding commission, to either the SPCs in our Segregated Portfolio Cell Reinsurance segment or, to a limited extent, an unaffiliated captive insurer. SPC ceding commission income includes fronting fees, commissions, premium taxes and risk management fees, and is reported as an offset to underwriting, policy acquisition and operating expenses. The increase in SPC ceding commissions earned for three months ended March 31, 2019 as compared to the same respective period of 2018 was due to growth in the alternative market business over the preceding twelve months.

Underwriting Expense Ratio (the Expense Ratio)

The underwriting expense ratio included the impact of the following:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting expense ratio, as reported	**30.9%**	30.5%	*0.4 pts*
Less estimated ratio increase (decrease) attributable to:			
Impact of ceding commissions received from SPCs	**3.2 %**	2.8 %	*0.4 pts*
Amortization of intangible assets	**1.3 %**	1.4 %	*(0.1) pts*
Management fees	**1.0 %**	1.1 %	*(0.1) pts*
Impact of audit premium	**(0.1 %)**	(0.5 %)	*0.4 pts*
Underwriting expense ratio, less listed effects	**25.5%**	25.7%	*(0.2) pts*

The decrease in the expense ratio for the three months ended March 31, 2019, exclusive of the items noted in the table, primarily reflected the increase in net premiums earned, partially offset by the increase in DPAC amortization, as previously discussed. There were no other individually significant variances by expense category that contributed to the remaining decrease in the expense ratio.

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Segment Operating Results - Segregated Portfolio Cell Reinsurance

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting during the third quarter of 2018 which resulted in the creation of the Segregated Portfolio Cell Reinsurance segment. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements. The Segregated Portfolio Cell Reinsurance segment reflects the operating results (underwriting profit or loss, plus investment results) of SPCs at Eastern Re and Inova Re, our Cayman Islands SPC operations. As of March 31, 2019, there were 26 (22 active) SPCs. The majority of SPCs only assume workers' compensation insurance, healthcare professional liability insurance or a combination of the two from our Workers' Compensation Insurance and Specialty P&C segments. During the first quarter of 2019, one SPC at Eastern Re assumed an errors and omissions liability policy from a captive insurer unaffiliated with ProAssurance. SPCs are segregated pools of assets and liabilities that provide an insurance facility for a defined set of risks. Assets of each SPC are solely for the benefit of that individual cell and each SPC is solely responsible for the liabilities of that individual cell. Assets of one SPC are statutorily protected from the creditors of the others. Each SPC is owned, fully or in part, by an agency, group or association and the operating results of the SPCs are due to the participants of that cell. We participate to a varying degree in the results of selected SPCs and, for the SPCs in which we participate, our participation interest is as low as 25% and as high as 85%. SPC operating results due to external cell participants are reflected as a SPC dividend expense in our Segregated Portfolio Cell Reinsurance segment. In addition, our Segregated Portfolio Cell Reinsurance segment includes the SPC investment results as the investments are solely for the benefit of the cell participants and investment results due to external cell participants are reflected in the SPC dividend expense. Segment operating results reflects our share of the underwriting and investment results of the SPCs in which we participate, and included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net premiums written	**$32,682**	$28,962	*$3,720*	*12.8 %*
Net premiums earned	**$19,502**	$17,036	*$2,466*	*14.5 %*
Net investment income	**448**	356	*92*	*25.8 %*
Net realized gains (losses)	**2,141**	(473)	*2,614*	*552.6%*
Other income	**87**	30	*57*	*190.0%*
Net losses and loss adjustment expenses	**(10,745)**	(9,953)	*(792)*	*8.0 %*
Underwriting, policy acquisition and operating expenses	**(5,235)**	(5,114)	*(121)*	*2.4 %*
SPC net operating results	**6,198**	1,882	*4,316*	*229.3%*
SPC dividend (expense) income [(1)]	**(4,787)**	(1,747)	*(3,040)*	*174.0%*
Segment operating results [(2)]	**$1,411**	$135	*$1,276*	*945.2%*
Net loss ratio	**55.1 %**	58.4 %	*(3.3) pts*	
Underwriting expense ratio	**26.8 %**	30.0 %	*(3.2) pts*	

(1) Represents the operating (profit) loss due to external cell participants.

(2) Represents our share of the operating profit (loss) of the SPCs in which we participate.

Premiums Written

The majority of premiums in our Segregated Portfolio Cell Reinsurance segment are assumed from either our Workers' Compensation Insurance or Specialty P&C segments. Premium volume is driven by five primary factors: (1) the amount of new business written, (2) retention of the existing book of business, (3) premium rates charged on the renewal book of business and, for workers' compensation business, (4) audit premium and (5) changes in payroll exposure.

Gross, ceded and net premiums written were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$36,365**	$32,340	*$4,025*	*12.4%*
Less: Ceded premiums written	**3,683**	3,378	*305*	*9.0 %*

Net premiums written	**$32,682**	$28,962	*$3,720*	*12.8%*

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Gross Premiums Written

Gross premiums written reflected reinsurance premiums assumed by component as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Workers' compensation	**$32,146**	$29,222	*$2,924*	*10.0%*
Healthcare professional liability	**3,738**	3,118	*620*	*19.9%*
Other	**481**	—	*481*	*nm*
Gross Premiums Written	**$36,365**	$32,340	*$4,025*	*12.4%*

Gross premiums written for the 2019 and 2018 three-month periods was primarily comprised of workers' compensation coverages assumed from our Workers' Compensation Insurance segment. Gross premiums written increased during the three months ended March 31, 2019 as compared to the same respective period of 2018, which primarily reflected an increase in the renewal retention rate and an increase in payroll exposure, partially offset by a decline in renewal pricing and a decrease in new business written. We retained all 10 of the available alternative market programs, including 9 workers' compensation programs and 1 healthcare professional liability program up for renewal during the three months ended March 31, 2019.

During the first quarter of 2019, one SPC at Eastern Re assumed an errors and omissions liability policy that provides coverage for losses up to a lifetime maximum of $10 million from a captive insurer unaffiliated with ProAssurance. The assumed premium related to this policy was $0.5 million. We do not participate in the SPC that assumed this policy; therefore, the underwriting results of this policy will be reflected in the SPC dividend expense in our Segregated Portfolio Cell Reinsurance segment.

New business, audit premium, retention and renewal price changes for the assumed workers' compensation premium is shown in the table below:

	Three Months Ended March 31	
($ in millions)	**2019**	2018
New business	**$1.1**	$2.9
Audit premium (including EBUB)	**$0.5**	$0.1
Retention rate [1]	**97 %**	91 %
Change in renewal pricing [2]	**(2 %)**	(1 %)

[1] We calculate our workers' compensation retention rate as annualized expiring renewed premium divided by all annualized expiring premium subject to renewal. Our retention rate can be impacted by various factors, including price or other competitive issues, insureds being acquired, or a decision not to renew based on our underwriting evaluation.

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

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Ceded Premiums Written

Ceded premiums written were as follows:

($ in thousands)	Three Months Ended March 31			
	2019	2018	*Change*	
Ceded premiums written	**$3,683**	$3,378	*$305*	*9.0%*

For the workers' compensation business, each SPC has in place its own external reinsurance arrangements. The healthcare professional liability business is assumed net of reinsurance from our Specialty P&C segment; therefore, there are no ceded premiums related to the healthcare professional liability business reflected in the table above. The risk retention for each loss occurrence ranges from $0.3 million to $0.35 million based on the program, with limits up to $119.7 million. In addition, each program has aggregate reinsurance coverage between $1.1 million and $2.1 million on a program year basis. Per the SPC external reinsurance agreements, premiums are ceded on a written premium basis and the slight increase in premiums ceded to external reinsurers during the three months ended March 31, 2019 primarily reflected an increase in written premium. External reinsurance rates vary based on the alternative market program.

Ceded Premiums Ratio

Ceded premiums ratio was as follows:

	Three Months Ended March 31		
	2019	2018	*Change*
Ceded premiums ratio	**11.5%**	11.6%	*(0.1)pts*

The above table reflects ceded premiums as a percent of gross premiums written for the workers' compensation business only; healthcare professional liability business is assumed net of reinsurance, as discussed above. The ceded premiums ratio remained relatively unchanged for the 2019 three-month period as compared to the same respective period of 2018.

Net Premiums Earned

Gross, ceded and net premiums earned were as follows:

($ in thousands)	Three Months Ended March 31			
	2019	2018	*Change*	
Gross premiums earned	**$21,939**	$19,168	*$2,771*	*14.5%*
Less: Ceded premiums earned	**2,437**	2,132	*305*	*14.3%*
Net premiums earned	**$19,502**	$17,036	*$2,466*	*14.5%*

Net premiums earned consist of gross premiums earned less the portion of earned premiums that the SPCs cede to external reinsurers. Because premiums are generally earned pro rata over the entire policy period, fluctuations in premiums earned tend to lag those of premiums written. Policies ceded to the SPCs are twelve month term policies and premiums are earned on a pro rata basis over the policy period. Net premiums earned also include premium adjustments related to the audit of workers' compensation insureds' payrolls. Payroll audits are conducted subsequent to the end of the policy period and any related adjustments are recorded as fully earned in the current period. The increase in net premiums earned primarily reflected the pro rata effect of higher net premiums written during the preceding twelve months.

Net Investment Income and Net Realized Investment Gains (Losses)

Net investment income for the 2019 and 2018 three-month periods was primarily attributable to interest earned on available-for-sale fixed maturity investments, which primarily includes investment-grade corporate debt securities. Net realized investment losses during the 2019 and 2018 three-month periods primarily reflected changes in the value of the SPCs' equity portfolio.

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Losses and Loss Adjustment Expenses

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

	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**55.1 %**	58.4%	*(3.3)pts*
Less impact of prior accident years on the net loss ratio	**(11.6%)**	(8.8 %)	*(2.8)pts*
Current accident year net loss ratio	**66.7 %**	67.2%	*(0.5)pts*

The current accident year net loss ratio reflected the aggregate loss ratio for all programs. Loss reserves are estimated for each program on a quarterly basis. Due to the size of some of the programs, quarterly claims activity can cause the current accident year net loss ratio to fluctuate significantly from period to period. The decrease in the current accident year net loss ratio primarily reflected a decline in severity-related claim activity, partially offset by the effect of the continuation of intense price competition and the resulting renewal rate decreases.

Calendar year incurred losses ceded to our external reinsurers totaled $2.6 million and $2.3 million for the 2019 and 2018 three-month periods, respectively, which primarily reflected unfavorable development on prior year reinsured claims. There were no current accident year ceded incurred losses reported in the 2019 three-month period. Current accident year ceded incurred losses reported in the 2018 three-month period were $1.3 million.

We recognized net favorable prior year development of $2.3 million and $1.5 million for the three months ended March 31, 2019 and 2018, respectively, which primarily reflected better than expected claim trends in the 2015, 2016 and 2017 accident years. The improved claim trends reflected lower frequency and severity than anticipated at the time the reserves were established.

Underwriting, Policy Acquisition and Operating Expenses

Our Segregated Portfolio Cell Reinsurance segment underwriting, policy acquisition and operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
DPAC amortization	**$5,150**	$4,970	*$180*	*3.6 %*
Other underwriting and operating expenses	**85**	144	*(59)*	*(41.0%)*
Total	**$5,235**	$5,114	*$121*	*2.4 %*

DPAC amortization primarily represented ceding commissions, which vary by program and are paid to our Workers' Compensation Insurance and Specialty P&C segments for premiums assumed. Ceding commissions include an amount for fronting fees, commissions, premium taxes and risk management fees, which are reported as an offset to underwriting, policy acquisition and operating expenses within our Workers' Compensation Insurance and Specialty P&C segments. In addition, ceding commissions paid to our Workers' Compensation Insurance segment include cell rental fees which are recorded as other income within our Workers' Compensation Insurance segment.

Underwriting Expense Ratio (the Expense Ratio)

The underwriting expense ratio included the impact of the following:

	Three Months Ended March 31		
	2019	2018	*Change*
Underwriting expense ratio, as reported	**26.8%**	30.0%	*(3.2)pts*
Less impact of audit premium on expense ratio	**(0.6 %)**	(0.1 %)	*(0.5)pts*
Underwriting expense ratio, excluding the effect of audit premium	**27.4%**	30.1%	*(2.7)pts*

The underwriting expense ratio primarily reflects the weighted average ceding commission percentage of all SPC programs. The decrease in the underwriting expense ratio also reflected a reduction in other underwriting and operating expenses, primarily related to changes in incurred policyholder dividends for the three months ended March 31, 2019 as compared to the same respective period in 2018.

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Segment Operating Results - Lloyd's Syndicates

Our Lloyd's Syndicates segment includes operating results from our participation in certain Syndicates at Lloyd's of London. We have a total capital commitment to support our Lloyd's Syndicate operations through 2019 of up to $200 million, referred to as FAL. The Board, through a non-binding resolution, extended this commitment through 2022. For the 2019 underwriting year, our FAL was comprised of investment securities deposited with Lloyd's which at March 31, 2019 had a fair value of approximately $144.5 million, as discussed in Note 3 of the Notes to Condensed Consolidated Financial Statements.

We normally report results from our involvement in Lloyd's Syndicates on a quarter delay, except when information is available that is material to the current period (see discussion that follows under the heading "Property and Natural Catastrophe Losses"). Furthermore, the investment results associated with our FAL investments and certain U.S. paid administrative expenses are reported concurrently as that information is available on an earlier time frame.

Lloyd's Syndicate 1729. We are the majority capital provider to Syndicate 1729, which covers a range of property and casualty insurance and reinsurance lines. For the 2019 underwriting year, we slightly decreased our participation in the operating results of Syndicate 1729 from 62% to 61% which, due to the quarter delay, will not be reflected in our Lloyd's Syndicates segment results until the second quarter of 2019. The remaining capital for Syndicate 1729 is provided by unrelated third parties, including private names and other corporate members. Syndicate 1729 has a maximum underwriting capacity of £128 million for the 2019 underwriting year, of which £78 million (approximately $101.7 million based on March 31, 2019 exchange rates) is our allocated underwriting capacity.

Lloyd's Syndicate 6131. We are the sole (100%) capital provider to an SPA, Syndicate 6131, which focuses on contingency and specialty property business. As an SPA, Syndicate 6131 is only allowed to underwrite one quota share reinsurance contract with Syndicate 1729. Due to the quarter delay, our participation in Syndicate 6131 was not reflected in our Lloyd's Syndicates segment results until the second quarter of 2018 as Syndicate 6131 began writing business effective January 1, 2018. For the 2019 underwriting year, Syndicate 6131 has a maximum underwriting capacity of £12 million (approximately $15.6 million based on March 31, 2019 exchange rates).

In addition to the results of our participation in Lloyd's Syndicates, as discussed above, our Lloyd's Syndicates segment also includes 100% of the operating results of our wholly owned subsidiaries that support our operations at Lloyd's. For the three months ended March 31, 2019 and 2018, the results of our Lloyd's Syndicates segment were as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Gross premiums written	**$23,588**	$12,361	*$11,227*	*90.8 %*
Ceded premiums written	**(2,592)**	(520)	*(2,072)*	*398.5 %*
Net premiums written	**$20,996**	$11,841	*$9,155*	*77.3 %*
Net premiums earned	**$18,641**	$12,476	*$6,165*	*49.4 %*
Net investment income	**1,006**	751	*255*	*34.0 %*
Net realized gains (losses)	**178**	(54)	*232*	*429.6 %*
Other income (loss)	**(146)**	331	*(477)*	*(144.1 %)*
Net losses and loss adjustment expenses	**(10,909)**	(8,486)	*(2,423)*	*28.6 %*
Underwriting, policy acquisition and operating expenses	**(8,469)**	(7,246)	*(1,223)*	*16.9 %*
Income tax benefit (expense)	**(304)**	(6)	*(298)*	*4,966.7%*
Segment operating results	**$(3)**	$(2,234)	*$2,231*	*(99.9 %)*
Net loss ratio	**58.5 %**	68.0 %	*(9.5)pts*	
Underwriting expense ratio	**45.4 %**	58.1 %	*(12.7)pts*	

Property and Natural Catastrophe Losses

As previously mentioned, we normally report results from our involvement in Lloyd's Syndicates on a quarter delay; however, during the fourth quarter of 2018, we accelerated our reporting of approximately $6.8 million, net of reinsurance and reinstatement premiums, of storm-related losses in connection with Hurricane Michael, which

affected the northwest portion of Florida during October 2018. These losses would have normally been reported in the first quarter of 2019 due to the aforementioned quarter delay. However, due to the availability and significance of these estimates, we accelerated our reporting of these storm-related losses into the fourth quarter of 2018, which is consistent with our policy of disclosing significant losses in the period in which they become known to us. No such adjustments were made during the three months ended March 31, 2019 or 2018.

Gross Premiums Written

Changes in our premium volume within our Lloyd's Syndicates segment are driven by four primary factors: (1) the amount of new business and the channels in which the business is written, (2) our retention of existing business, (3) the premium charged for business that is renewed, which is affected by rates charged and by the amount and type of coverage an insured chooses to purchase and (4) the timing of premium written through multi-period policies.

Gross premiums written during the three months ended March 31, 2019 consisted of property insurance coverages (50% of total gross premiums written), casualty coverages (37%), specialty property coverages (8%), property reinsurance coverages (3%) and catastrophe reinsurance coverages (2%). Gross premiums written during the three months ended March 31, 2019 reflects our increased participation in the operating results of Syndicate 1729 from 58% to 62% and our participation in the operating results of Syndicate 6131. The increase in gross premiums written during the 2019 three-month period as compared to the same respective period of 2018 was primarily driven by new business written, primarily property insurance coverages, and, to a lesser extent, volume increases on renewal business.

As discussed in our Specialty P&C segment operating results, prior to January 1, 2018 Syndicate 1729 served as a reinsurer on a quota share basis for a wholly owned insurance subsidiary in our Specialty P&C segment. Premiums assumed from our Specialty P&C segment were approximately $1.2 million during the three months ended March 31, 2018. The 2017 and 2016 calendar year quota share arrangements with our Specialty P&C segment were commuted in December 2018 and 2017, respectively. Due to the quarter delay, the effects of the 2017 and 2016 commutations were reported in both segments' results during the first quarters of 2019 and 2018, respectively, and is reflected in the Lloyd's Syndicates segment results for the three months ended March 31, 2019 and 2018, respectively. The commutations did not differ significantly from previously recorded amounts.

Ceded Premiums Written

Syndicate 1729 utilizes reinsurance to provide the capacity to write larger limits of liability on individual risks, to provide protection against catastrophic loss and to provide protection against losses in excess of policy limits. Ceded premiums written increased for the three months ended March 31, 2019 primarily due to the increased utilization of reinsurance on new business written directly by Syndicate 1729 to replace the business previously assumed through the quota share agreement with our Specialty P&C segment.

Net Premiums Earned

Net premiums earned consist of gross premiums earned less the portion of earned premiums that we cede to our reinsurers for their assumption of a portion of our losses. Premiums written through open-market channels are generally earned pro rata over the entire policy period, which is predominately twelve months, whereas premiums written through delegated underwriting authority arrangements are earned over twenty-four months. Therefore, net premiums earned is affected by shifts in the mix of policies written between the open-market and delegated underwriting authority arrangements. Additionally, fluctuations in premiums earned tend to lag those of premiums written. Premiums for certain policies and assumed reinsurance contracts are reported subsequent to the coverage period and/or may be subject to adjustment based on loss experience. These premium adjustments are earned when reported, which can result in further fluctuation in earned premium.

The increase in net premiums earned during the 2019 three-month period primarily reflected the pro rata effect of shifts in the mix of premiums written during the preceding twelve months; a larger proportion of premiums were written through the open-market, as compared to previous years, which are predominately earned over twelve months. The increase in the 2019 three-month period also reflected the increase in our participation in Syndicate 1729 and Syndicate 6131 at the beginning of 2018. Net premiums earned for the three months ended March 31, 2019 and 2018 included premium assumed from our Specialty P&C segment of approximately $0.1 million and $1.9 million, respectively.

Net Losses and Loss Adjustment Expenses

Losses for the period were primarily recorded using the loss assumptions by risk category incorporated into the business plan submitted to Lloyd's for Syndicate 1729 with consideration given to loss experience incurred to date. The assumptions used in the business plan were consistent with loss results reflected in Lloyd's historical data for similar risks. Syndicate 6131follows a process similar to Syndicate 1729 for the establishment of initial reserves. We expect loss ratios to fluctuate from quarter to quarter as Syndicate 1729 writes more business and the book begins to

mature. We also expect loss ratios of Syndicate 6131 to fluctuate from quarter to quarter as Syndicate 6131 assumes more business from Syndicate 1729. The loss ratios will also fluctuate due to the timing of earned premium adjustments (see discussion in this section under the heading "Net Premiums Earned"). Premium and exposure for some of Syndicate 1729's insurance policies and reinsurance contracts are initially estimated and subsequently adjusted over an extended period of time as underlying premium reports are received from cedants and insureds. When reports are received, the premium, exposure and corresponding loss estimates are revised

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accordingly. Changes in loss estimates due to premium or exposure fluctuations are incurred in the accident year in which the premium is earned.

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

	Net Loss Ratios		
	Three Months Ended March 31		
	2019	2018	*Change*
Calendar year net loss ratio	**58.5 %**	68.0 %	*(9.5) pts*
Less impact of prior accident years on the net loss ratio	**4.0 %**	(2.7 %)	*6.7 pts*
Current accident year net loss ratio	**54.5 %**	70.7 %	*(16.2) pts*

The current accident year net loss ratio decreased by 16.2 percentage points during the three months ended March 31, 2019 as compared to the same period of 2018 driven by the effect of higher net premiums earned.

We recognized $0.8 million of unfavorable prior year development for the three months ended March 31, 2019, as compared to $0.3 million of favorable prior year development for the same respective period of 2018. The unfavorable prior year development for the three months ended March 31, 2019 was driven by higher than expected losses and development on certain large claims which resulted in unfavorable development with respect to a previous year of account.

Underwriting, Policy Acquisition and Operating Expenses

Underwriting, policy acquisition and operating expenses increased by $1.2 million for the three months ended March 31, 2019 as compared to the same respective period in 2018. The increase was primarily due to the anticipated growth in Syndicate 1729 operations, an increase in DPAC amortization primarily due to an increase in net premiums earned and broker commissions, and, to a lesser extent, increases in various operational expenses associated with establishing Syndicate 6131.

The decrease in the underwriting expense ratio for the three months ended March 31, 2019 was primarily due to the increase in net premiums earned, partially offset by an increase in broker commissions and operating expenses, as previously discussed.

Investments

Net investment income for the 2019 and 2018 three-month periods was primarily attributable to interest earned on our FAL investments, which primarily includes investment-grade corporate debt securities. Syndicate 1729's fixed maturities portfolio includes certain debt securities classified as trading securities. Investment results associated with these fixed maturity trading securities are reported on the same quarter delay.

Taxes

Operating results of this segment are subject to U.K. income tax law.

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Segment Operating Results - Corporate

As previously discussed under the heading "ProAssurance Overview," we reorganized our segment reporting in the third quarter of 2018 which resulted in the creation of a new segment: Segregated Portfolio Cell Reinsurance. The Segregated Portfolio Cell Reinsurance segment includes the results of investment assets solely allocated to SPC operations at our Cayman Islands reinsurance subsidiaries, Eastern Re and Inova Re, which were previously reported in our Corporate segment. All prior period segment information has been recast to conform to the current period presentation. See further information regarding our segments in Note 13 of the Notes to Condensed Consolidated Financial Statements.

Our Corporate segment includes investment operations, other than those reported in our Segregated Portfolio Cell Reinsurance and Lloyd's Syndicates segments, interest expense and U.S. income taxes. Our Corporate segment also includes non-premium revenues generated outside of our insurance entities and corporate expenses. Segment operating results for our Corporate segment were net earnings of $40.2 million and $6.6 million for the three months ended March 31, 2019 and 2018, respectively, and included the following:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Net investment income	**$21,364**	$20,920	*$444*	*2.1 %*
Equity in earnings (loss) of unconsolidated subsidiaries	**$(810)**	$1,640	*$(2,450)*	*(149.4%)*
Net realized gains (losses)	**$34,304**	$(11,990)	*$46,294*	*386.1 %*
Operating expense	**$4,570**	$4,678	*$(108)*	*(2.3 %)*
Interest expense	**$4,330**	$3,705	*$625*	*16.9 %*
Income tax expense (benefit)	**$6,657**	$(3,428)	*$10,085*	*294.2 %*

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

Net Investment Income

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

Net investment income by investment category was as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Fixed maturities	**$16,151**	$15,981	*$170*	*1.1 %*
Equities	**4,823**	4,867	*(44)*	*(0.9 %)*
Short-term investments, including Other	**1,667**	1,209	*458*	*37.9%*
BOLI	**453**	449	*4*	*0.9 %*
Investment fees and expenses	**(1,730)**	(1,586)	*(144)*	*9.1 %*
Net investment income	**$21,364**	$20,920	*$444*	*2.1 %*

Fixed Maturities

While on an overall basis, our average investment in fixed maturity securities was approximately 2% lower for the 2019 three-month period as compared to the same respective period of 2018, investment income from fixed maturity securities increased for the 2019 three-month period as compared to the 2018 three-month period primarily due to higher yields from all asset classes in our fixed maturity portfolio.

Average yields for our fixed maturity portfolio were as follows:

	Three Months Ended March 31	
	2019	2018
Average income yield	**3.3%**	3.2%
Average tax equivalent income yield	**3.4%**	3.4%

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Equities

Income from our equity portfolio decreased slightly during the 2019 three-month period as compared to the same respective period of 2018 which reflected a decrease in our allocation to this asset category as well as a different mix of equities owned.

Other Investments and Short-term Investments

Short-term investments, which have a maturity at purchase of one year or less are carried at fair value, which approximates their cost basis, and are primarily composed of investments in U.S. treasury obligations, commercial paper and money market funds. Income from our other investments and short-term investments increased during the 2019 three-month period as compared to the same respective period of 2018 primarily attributable to higher earnings from our short-term investment holdings due to higher interest rates.

Equity in Earnings (Loss) of Unconsolidated Subsidiaries

Equity in earnings (loss) of unconsolidated subsidiaries was as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
All other investments, primarily investment fund LPs/LLCs	**$3,809**	$7,616	*$(3,807)*	*(50.0 %)*
Tax credit partnerships	**(4,619)**	(5,976)	*1,357*	*(22.7 %)*
Equity in earnings (loss) of unconsolidated subsidiaries	**$(810)**	$1,640	*$(2,450)*	*(149.4%)*

We hold interests in certain LPs/LLCs that generate earnings from trading portfolios, secured debt, debt securities, multi-strategy funds and private equity investments. The performance of the LPs/LLCs is affected by the volatility of equity and credit markets. For our investments in LPs/LLCs, we record our allocable portion of the partnership operating income or loss as the results of the LPs/LLCs become available. Our investment results from our portfolio of investments in LPs/LLCs decreased for the 2019 three-month period as compared to the 2018 three-month period due to a net decrease in the reported earnings from our LP/LLC investment portfolio.

Our tax credit partnership investments are designed to generate returns in the form of tax credits and tax-deductible project operating losses and are comprised of qualified affordable housing project tax credit partnerships and historic tax credit partnerships. We account for our tax credit partnership investments under the equity method and record our allocable portion of the operating losses of the underlying properties based on estimates provided by the partnerships. For our qualified affordable housing project tax credit partnerships, we adjust our estimates of our allocable portion of operating losses periodically as actual operating results of the underlying properties become available. Our historic tax credit partnerships are short-term in nature and remaining operating losses are expected to be recognized primarily in 2019. The results from our tax credit partnership investments for the three months ended March 31, 2019 reflected lower partnership operating losses as compared to the same respective period of 2018.

The tax benefits received from our tax credit partnerships, which are not reflected in our investment results above, reduced our tax expense in 2019 and 2018 as follows:

	Three Months Ended March 31	
(In millions)	**2019**	2018
Tax credits recognized during the period	**$4.6**	$5.3
Tax benefit of tax credit partnership operating losses	**$1.0**	$1.3

Tax credits provided by the underlying projects of the historic tax credit partnerships are typically available in the tax year in which the project is put into active service, whereas the tax credits provided by qualified affordable housing project tax credit partnerships are provided over approximately a ten year period. The decrease in tax credits recognized for the three months ended March 31, 2019 was primarily attributable to our historic tax credit partnership investments.

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Non-GAAP Financial Measure – Tax Equivalent Investment Result

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

	Three Months Ended March 31				
(In thousands)	**2019**			2018	
GAAP net investment result:					
Net investment income	**$**	**21,364**		$	20,920
Equity in earnings (loss) of unconsolidated subsidiaries	**(810**		)	1,640	
GAAP net investment result	**$**	**20,554**		$	22,560
Pro forma tax-equivalent investment result	**$**	**26,928**		$	30,393
Reconciliation of pro forma and GAAP tax-equivalent investment result:					
GAAP net investment result	**$**	**20,554**		$	22,560
Taxable equivalent adjustments, calculated using the 21% federal statutory tax rate					
State and municipal bonds	**247**			698	
BOLI	**120**			119	
Dividends received	**141**			339	
Tax credit partnerships	**5,866**			6,677	
Pro forma tax-equivalent investment result	**$**	**26,928**		$	30,393

Net Realized Investment Gains (Losses)

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

	Three Months Ended March 31	
(In thousands)	**2019**	2018

OTTI losses, total:		
Corporate debt	**$(136)**	$—
Portion of OTTI losses recognized in other comprehensive income before taxes:		
Corporate debt	**87**	—
Net impairment losses recognized in earnings	**(49)**	—
Gross realized gains, available-for-sale fixed maturities	**259**	4,464
Gross realized (losses), available-for-sale fixed maturities	**(308)**	(2,035)
Net realized gains (losses), equity investments	**1,790**	9,101
Net realized gains (losses), other investments	**379**	688
Change in unrealized holding gains (losses), equity investments	**30,337**	(23,261)
Change in unrealized holding gains (losses), convertible securities, carried at fair value as a part of other investments	**1,895**	(954)
Other	**1**	7
Net realized investment gains (losses)	**$34,304**	$(11,990)

For the 2019 three-month period, we recognized a nominal amount of both credit related OTTI in earnings and non-credit OTTI in OCI, both of which related to a corporate bond. We did not recognize any OTTI during the 2018 three-month period.

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We recognized $34.3 million of net realized investment gains during 2019 three-month period, primarily driven by unrealized holding gains on our equity trading portfolio of $30.3 million. The primary driver of these unrealized holding gains was the improvement in the market during the first quarter of 2019, which caused our equity securities to increase in value. The most significant sectors that benefited were the financial and energy sectors, although all sectors improved.

Operating Expenses

Corporate segment operating expenses were comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Operating expenses	**$9,172**	$8,637	*$535*	*6.2 %*
Management fee offset	**(4,602)**	(3,959)	*(643)*	*16.2%*
Segment Total	**$4,570**	$4,678	*$(108)*	*(2.3 %)*

The increase in operating expenses for the three months ended March 31, 2019 was primarily driven by an increase in share-based compensation expenses and other compensation related costs and, to a lesser extent, an increase in professional fees as compared to the same respective period of 2018. The increase in share-based compensation expense in the 2019 three-month period was attributable to the effect of an adjustment made during the first quarter of 2018 to a particular year's award as the value of the projected award decreased based upon the decline of one of the associated performance metrics.

Operating subsidiaries within our Specialty P&C and Workers' Compensation Insurance segments are charged a management fee by the Corporate segment for services provided to these subsidiaries. The management fee is based on the extent to which services are provided to the subsidiary and the amount of gross premium written by the subsidiary. Under the arrangement, the expenses associated with such services are reported as expenses of the Corporate segment, and the management fees charged are reported as an offset to Corporate operating expenses. While the terms of the arrangement were consistent between 2018 and 2019, fluctuations in the amount of gross premium written by each subsidiary can result in corresponding variations in the management fee charged to each subsidiary during a particular period.

Interest Expense

Consolidated interest expense for three months ended March 31, 2019 and 2018 was comprised as follows:

	Three Months Ended March 31			
($ in thousands)	**2019**	2018	*Change*	
Senior Notes due 2023	**$3,357**	$3,357	*$—*	*— %*
Revolving Credit Agreement (including fees and amortization)	**141**	607	*(466)*	*(76.8 %)*
Mortgage Loans (including amortization)	**395**	306	*89*	*29.1 %*
(Gain)/loss on interest rate cap	**437**	(575)	*1,012*	*(176.0%)*
Other	**—**	10	*(10)*	*(100.0%)*
Interest expense	**$4,330**	$3,705	*$625*	*16.9 %*

Consolidated interest expense increased during the three months ended March 31, 2019 as compared to the same three-month period of 2018 driven by the change in fair value of our interest rate cap. The interest rate cap is designated as an economic hedge of interest rate risk associated with our variable rate Mortgage Loans. Excluding the impact of the change in fair value of our interest rate cap, consolidated interest expense decreased during the three months ended March 31, 2019. The decrease was due to lower interest expense on our Revolving Credit Agreement as we did not have any outstanding borrowings during the first quarter of 2019 compared to weighted average outstanding borrowings of $103 million during the first quarter of 2018. Interest expense on our Revolving Credit Agreement for the first quarter of 2019 primarily reflected unused commitment fees. See further discussion of our outstanding debt in Note 8 and further discussion of our interest rate cap agreement in Note 9 of the Notes to Condensed Consolidated Financial Statements.

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Taxes

Tax expense allocated to our Corporate segment includes U.S. tax only, which would include U.S. tax expense incurred from our corporate membership in Lloyd's of London and tax expense incurred from SPCs at Inova Re, one of our Cayman Islands reinsurance subsidiaries, which intend to elect to be taxed as U.S. taxpayers. The U.K. tax expense incurred by the U.K. based subsidiaries of our Lloyd's Syndicates segment is allocated to that segment. Consolidated tax expense reflects tax expense of both segments, as shown in the table below:

	Three Months Ended March 31	
(In thousands)	**2019**	2018
Corporate segment income tax expense (benefit)	**$6,657**	$(3,428)
Lloyd's Syndicates segment income tax expense (benefit)	**304**	6
Consolidated income tax expense (benefit)	**$6,961**	$(3,422)

Factors affecting our consolidated effective tax rate include the following:

	Three Months Ended March 31	
	2019	2018
Statutory rate	**21.0 %**	21.0 %
Tax-exempt income [(1)]	**(1.1 %)**	(11.8%)
Tax credits	**(12.0%)**	(62.5%)
Non-U.S. operating results	**0.4 %**	5.5 %
Tax deficiency (excess tax benefit) on share-based compensation	**0.4 %**	(0.5 %)
Other	**9.3 %**	7.7 %
Total effective tax rate	**18.0 %**	(40.6%)

[(1)] Includes tax-exempt interest, dividends received deduction and change in cash surrender value of BOLI.

The provision (benefit) for income taxes and the effective tax rate for the 2019 and 2018 three-month periods are determined based upon our current estimate of our annual effective tax rate at the end of each quarterly reporting period (the projected annual effective tax rate) plus the impact of certain discrete items that are not included in the projected annual effective tax rate. Our projected annual effective tax rates for 2019 and 2018 were benefits of 13.1% and 2.4% at March 31, 2019 and 2018, respectively, before consideration of discrete items. Our projected annual effective tax rates for both the 2019 and 2018 three-month periods were different from the statutory federal income tax rate primarily due to a portion of our investment income being tax-exempt and the utilization of tax credits transferred to us from our tax credit partnership investments. Tax credits utilized were $4.6 million and $5.3 million for the three months ended March 31, 2019 and 2018, respectively. While projected tax credits for 2019 are less than 2018, they continue to have a significant impact on the effective tax rate for the 2019 three-month period.

Our effective tax rates for the 2019 and 2018 three-month periods were an expense of 18.0% and a benefit of 40.6%, respectively, and differs from the projected annual effective tax rates due to certain discrete items. These discrete items increased our projected annual effective tax rate by 31.1% and reduced our projected annual effective tax rate by 38.2% for the 2019 and 2018 three-month periods, respectively.

For the 2019 and 2018 three-month periods, the most significant discrete item that affected our effective tax rate was the treatment of net realized investment gains and losses. Net realized investment gains and losses are treated as discrete items and reflected in the effective tax rate in the period in which they are included in income. This treatment of net realized investment gains of $34.3 million in our Corporate segment for the three months ended March 31, 2019 accounted for an increase of 30.3% in the projected annual effective tax rate. For the three months ended March 31, 2018, this treatment of net realized investment losses of $12.0 million in our Corporate segment accounted for a decrease of 34.7% in the projected annual effective tax rate.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Interest Rate Risk

Investments

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

The following tables summarize estimated changes in the fair value of our available-for-sale fixed maturity securities for specific hypothetical changes in interest rates by asset class at March 31, 2019 and December 31, 2018. There are principally two factors that determine interest rates on a given security: changes in the level of yield curves and credit spreads. As different asset classes can be affected in different ways by movements in those two factors, we have separated our portfolio by asset class in the following tables.

	Interest Rate Shift in Basis Points				
	March 31, 2019				
($ in millions)	(200)	(100)	Current	100	200
Fair Value:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	**$127**	**$123**	**$119**	**$116**	**$113**
U.S. Government-sponsored enterprise obligations	**29**	**29**	**29**	**28**	**27**
State and municipal bonds	**319**	**308**	**298**	**287**	**278**
Corporate debt	**1,339**	**1,299**	**1,261**	**1,224**	**1,188**
Asset-backed securities	**511**	**490**	**479**	**466**	**441**
Total fixed maturities, available for sale	**$2,325**	**$2,249**	**$2,186**	**$2,121**	**$2,047**
Duration:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	***3.06***	***2.98***	***2.90***	***2.82***	***2.74***
U.S. Government-sponsored enterprise obligations	***0.68***	***0.69***	***2.03***	***3.32***	***3.77***
State and municipal bonds	***3.50***	***3.46***	***3.45***	***3.48***	***3.54***
Corporate debt	***2.92***	***2.89***	***2.89***	***2.87***	***2.83***
Asset-backed securities	***1.95***	***2.17***	***2.54***	***2.82***	***2.93***
Total fixed maturities, available for sale	***2.77***	***2.79***	***2.88***	***2.94***	***2.96***

	Interest Rate Shift in Basis Points				
	December 31, 2018				
($ in millions)	(200)	(100)	Current	100	200
Fair Value:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	$127	$124	$120	$117	$114
U.S. Government-sponsored enterprise obligations	36	36	35	34	33
State and municipal bonds	316	305	294	283	273
Corporate debt	1,300	1,261	1,224	1,187	1,153
Asset-backed securities	443	432	421	409	396
Total fixed maturities, available for sale	$2,222	$2,158	$2,094	$2,030	$1,969
Duration:					
Fixed maturities, available for sale:					
U.S. Treasury obligations	*2.77*	*2.70*	*2.63*	*2.57*	*2.50*
U.S. Government-sponsored enterprise obligations	*0.66*	*0.98*	*2.65*	*3.77*	*4.18*
State and municipal bonds	*3.61*	*3.58*	*3.59*	*3.64*	*3.73*
Corporate debt	*2.98*	*2.97*	*2.93*	*2.89*	*2.83*
Asset-backed securities	*2.18*	*2.46*	*2.86*	*3.11*	*3.23*
Total fixed maturities, available for sale	*2.86*	*2.91*	*2.99*	*3.04*	*3.04*

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

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

At March 31, 2019, our fixed maturities portfolio includes fixed maturities classified as trading securities which do not have a significant amount of exposure to market interest rates or credit spreads.

Our cash and short-term investment portfolio at March 31, 2019 was carried at fair value which approximates their cost basis due to their short-term nature. Our cash and short-term investments portfolio lacks significant interest rate sensitivity due to its short duration.

Debt

Our variable interest rate Mortgage Loans are exposed to interest rate risk. However, a 1% change in LIBOR will not materially impact our annualized interest expense. Additionally, we have economically hedged the risk of a change in interest rates in excess of 1% on the Mortgage Loans through the purchase of an interest rate cap derivative instrument, which effectively caps our annual interest rate on the Mortgage Loans at a maximum of 3.675% (see Note 9 of the Notes to Condensed Consolidated Financial Statements for additional information). The fair value of the interest rate cap is not materially impacted by a 1% change in LIBOR; however, the carrying value of the interest rate cap is impacted by future expectations for LIBOR as well as estimations of volatility in the future yield curve.

Our Revolving Credit Agreement is exposed to interest rate risk as it is LIBOR based and a 1% change in LIBOR will impact annual interest expense only to the extent that there is an outstanding balance. For every $100 million drawn on our Revolving Credit Agreement, a 1% change in interest rates will change our annual interest expense by $1 million. Any outstanding balances on the Revolving Credit Agreement can be repaid on each maturity date, which has typically ranged from one to three months. As of March 31, 2019, no borrowings were outstanding under our Revolving Credit Agreement.

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Credit Risk

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

As of March 31, 2019, 94% of our fixed maturity securities were rated investment grade as determined by NRSROs, such as Fitch, Moody's and Standard & Poor's. We believe that this concentration in investment grade securities reduces our exposure to credit risk on our fixed income investments to an acceptable level. However, investment grade securities, in spite of their rating, can rapidly deteriorate and result in significant losses. Ratings published by the NRSROs are one of the tools used to evaluate the creditworthiness of our securities. The ratings reflect the subjective opinion of the rating agencies as to the creditworthiness of the securities; therefore, we may be subject to additional credit exposure should the ratings prove to be unreliable.

We also have exposure to credit risk related to our receivables from reinsurers. Our receivables from reinsurers (with regard to both paid and unpaid losses) approximated $377 million at March 31, 2019 and $355 million at December 31, 2018. We monitor the credit risk associated with our reinsurers using publicly available financial and rating agency data.

Equity Price Risk

At March 31, 2019, the fair value of our equity investments, excluding our equity investments in bond investment funds as discussed in the following paragraph, was $277 million. These equity securities are subject to equity price risk, which is defined as the potential for loss in fair value due to a decline in equity prices. The weighted average beta of this group of securities was 0.9. Beta measures the price sensitivity of an equity security or group of equity securities to a change in the broader equity market, in this case the S&P 500 Index. If the value of the S&P 500 Index increased by 10%, the fair value of these securities would be expected to increase by 9.0% to $302 million. Conversely, a 10% decrease in the S&P 500 Index would imply a decrease of 9.0% in the fair value of these securities to $252 million. The selected hypothetical changes of plus or minus 10% do not reflect what could be considered the best or worst case scenarios and are used for illustrative purposes only.

Our equity investments include equity investments in certain bond investment funds which are not subject to significant equity price risk, and thus we have excluded these investments from the above analysis.

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ITEM 4. CONTROLS AND PROCEDURES.

The principal executive officer and principal financial officer of the Company participated in management's evaluation of our disclosure controls and procedures (as defined in SEC Rule 13a-15(e)) as of March 31, 2019. ProAssurance's disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Based on that evaluation, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those controls during the quarter.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

See Note 6 of the Notes to Condensed Consolidated Financial Statements.

ITEM 1A. RISK FACTORS.

There are no changes to the "Risk Factors" in Part 1, Item 1A of the December 31, 2018 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

(a) Not applicable.

(b) Not applicable.

(c) Information required by Item 703 of Regulation S-K.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs* (In thousands)
January 1 - 31, 2019	—	N/A	—	$109,643
February 1 - 28, 2019	—	N/A	—	$109,643
March 1 - 31, 2019	—	N/A	—	$109,643
Total	—	$—	—	

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

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ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Amendment to Facility Agreement dated November 15, 2013 and the Amendments to the Facility Agreement dated April 6, 2016 and Mary 22, 2018, effective March 13, 2019 between ProAssurance and the Premiums Trust Fund of Syndicate 1729.
31.1	Certification of Principal Executive Officer of ProAssurance as required under SEC rule 13a-14(a).
31.2	Certification of Principal Financial and Accounting Officer of ProAssurance as required under SEC rule 13a-14(a).
32.1	Certification of Principal Executive Officer of ProAssurance as required under SEC Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as amended (18 U.S.C. 1350).
32.2	Certification of Principal Financial and Accounting Officer of ProAssurance as required under SEC Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code, as amended (18 U.S.C. 1350).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PROASSURANCE CORPORATION

May 1, 2019

/s/ Dana S. Hendricks

Dana S. Hendricks

Chief Financial Officer

(Duly authorized officer and principal financial officer)