MID-YEAR 2017 FINANCIAL RESULTS FOR MEDICAL PROFESSIONAL LIABILITY SPECIALTY WRITERS

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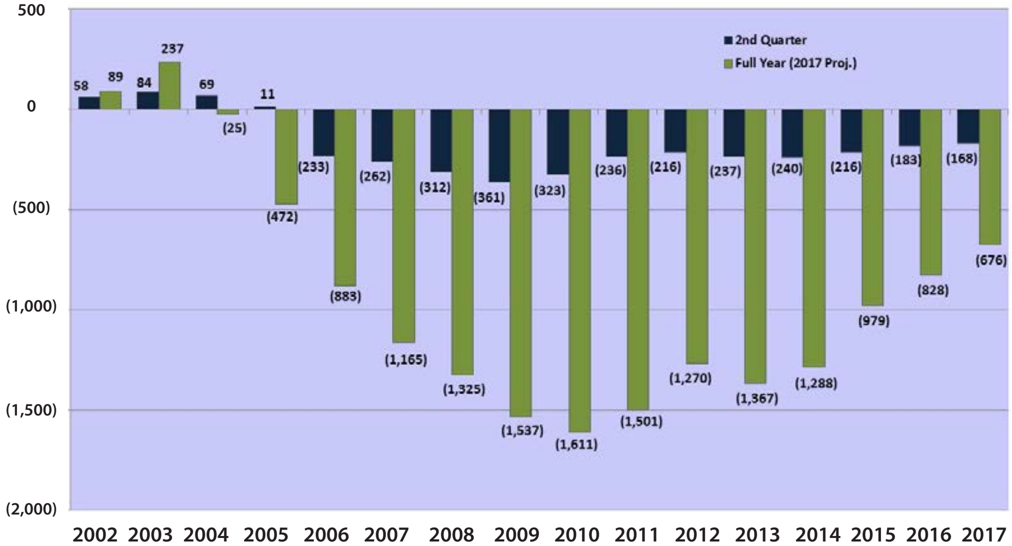
In the paragraphs and charts below, we summarize some key financial results for a composite of medical professional liability (MPL) specialty writers through the second quarter of 2017. Most of the story remains the same for our composite as the decline in premium is showing no signs of slowing down, and favorable reserve runoff from prior years is providing less financial relief. However, future investment results look promising, and MPL writers are hopeful that the improved yields can help sustain profitability until the MPL insurance market begins to harden.

Our analysis is based on the collective financial results of a large group of insurers that write predominantly MPL coverage. The data used in our analysis dates back to 2002 and consists of aggregate statutory financial information compiled from SNL Financial. The current composite includes 169 companies with total direct written premium of approximately $5.2 billion in 2016.

FIGURE 2 CUMULATIVE RESERVE DEVELOPMENT — Q2 VS. FULL-YEAR ($MILLIONS)



PREMIUM LEVELS CONTINUE DOWNWARD TREND

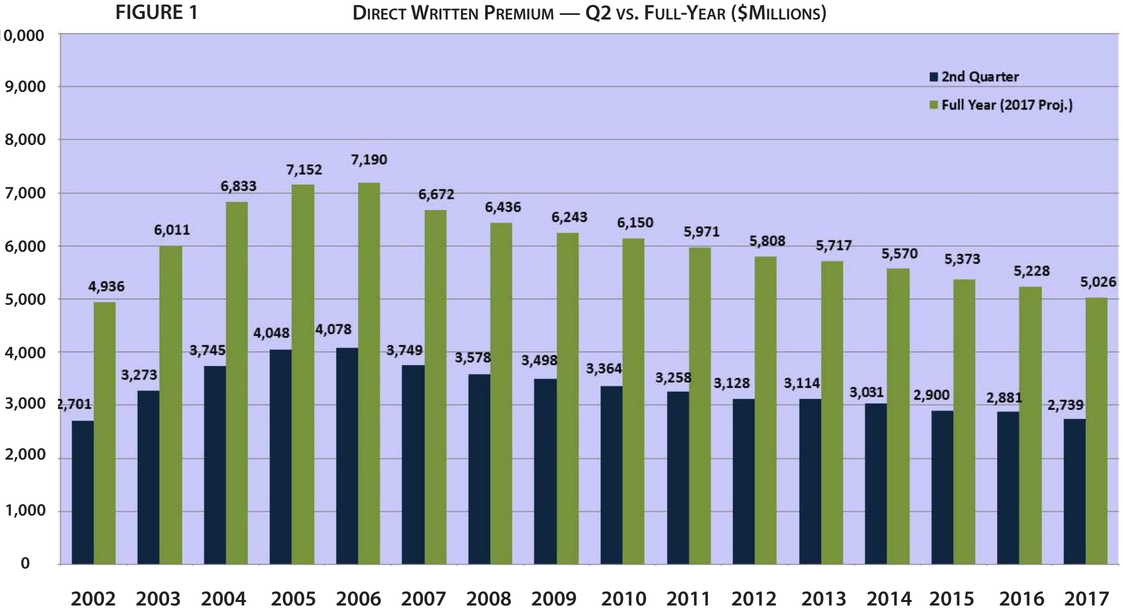
Figure 1 displays the composite's historical direct written premium through six months compared to year-end. Premium levels through June declined for the eleventh-straight year and dropped nearly 5 percent, relative to premium as of June 30, 2016. This marks the largest annual drop in mid-year premium since 2007, indicating again that the downward premium trend is not losing momentum. If, as expected, this trend continues throughout the remainder of 2017, we could see the composite's annual premium fall to nearly $5 billion, more than 30-percent below the premium collected in 2006.

RESERVE REDUNDANCIES EXPECTED TO DETERIORATE

As we've been reporting for the past seven years, favorable reserve development on MPL losses from prior coverage years is primarily responsible, and in recent years solely responsible, for the long run of profitability experienced by MPL specialty writers.

Figure 2 illustrates the historical relationship between reserve development through six months compared to the full year. Though a leveraged comparison given the majority of the historical reserve releases occur at year-end when companies prepare annual statements, the overall trend in reserve development through six months has been fairly consistent with that at year-end — both trending downward since 2010. Additionally, the past five years have seen a steady decline in the amount of reserves released from July through December, relative to the reserves released during the first six months of each calendar year. This implies that year-end reserve releases are declining at a faster rate than those released during the first half of the year. With the composites favorable development through six months at $168 million, its lowest point for this period since 2005, it suggests year-end 2017 cumulative reserve development could be lower than the composite has seen in more than a decade.

FIGURE 1 DIRECT WRITTEN PREMIUM — Q2 VS. FULL-YEAR ($MILLIONS)



INVESTMENT PERFORMANCE IMPROVING

As the overall economy increases its pace of recovery and the "bullish" 2017 stock market continues to rise, the composite has likewise seen its investment performance improve. This should be welcome news to

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MPL writers as combined ratios summarizing underwriting results continue to rise.

Figure 3 shows the path of the composite's investment yield since 2002, relative to the 5-year Treasury bond yield. In 2014, the composite yield finally ended its long descent that began with the 2006-07 financial crisis and in recent years has seen modest increases consistent with the overall upward trend of the Treasury bond yields.

Net Income Up Slightly Through Mid-Year 2017

In both the first and second quarters of 2017, the composite's net income eclipsed the net income from the respective quarter of 2016. Both quarters saw declines in premium more than offset by improving investment results as well as small decreases in losses and expenses.

Figure 4 shows 16 years of historical net income as of six months compared to year-end. Note that net income through the second quarter has fluctuated some in recent years with the overall longer-term trend remaining negative. Annual net income quickly declined from 2010 to 2015, but has leveled off of late.

Operating Margin Stabilizes

From 2010 to 2015, the composite's operating margin declined rapidly as the result of declining premium taking its toll on the underwriting ratio combined with declining investment yields impacting investment results. Figure 5 shows that in recent years the operating margin has stabilized, indicating that the improving investment results have been just enough to offset the deteriorating underwriting results during these years.

Conclusion

Although MPL premiums continue to fall and prior-year reserve redundancies are providing less of a boost to financial results in recent years, investment results have helped to stabilize overall results. However, a few years of modestly increasing investment results is not enough to classify this as an upward trend. It remains to be seen whether future investment performance will be enough to reverse the decline in overall net income brought on by a persistently soft market, or if the market itself may begin to harden in the near future.

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Figure 3 Industry Yield vs. Five-Year Treasury Bond Yield

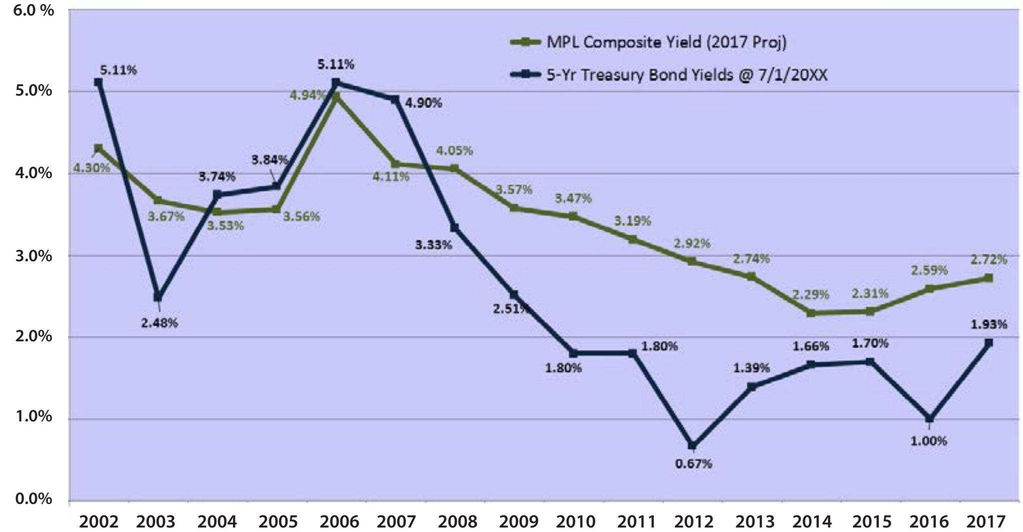

Figure 4 After-Tax Net Income — Q2 vs. Full-Year (Millions)

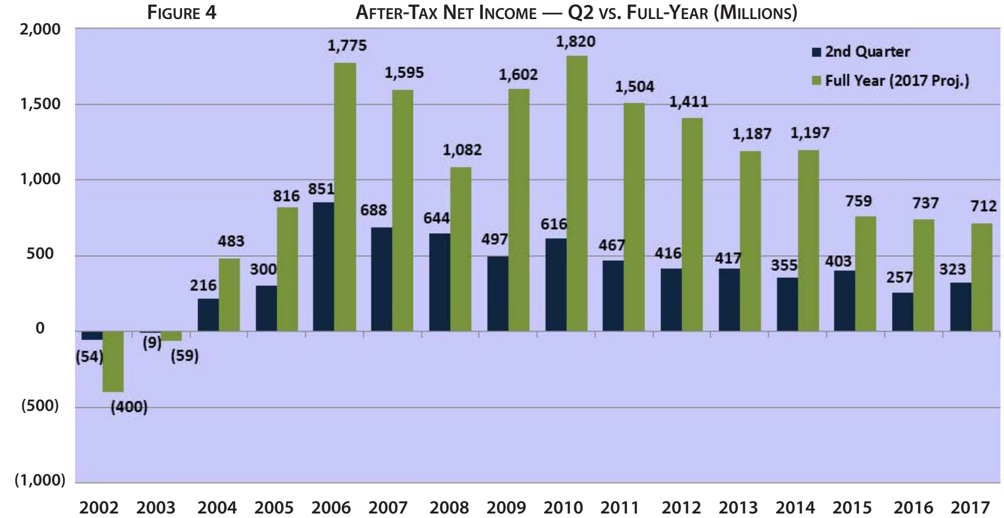

Figure 5 Calendar-Year Operating Results