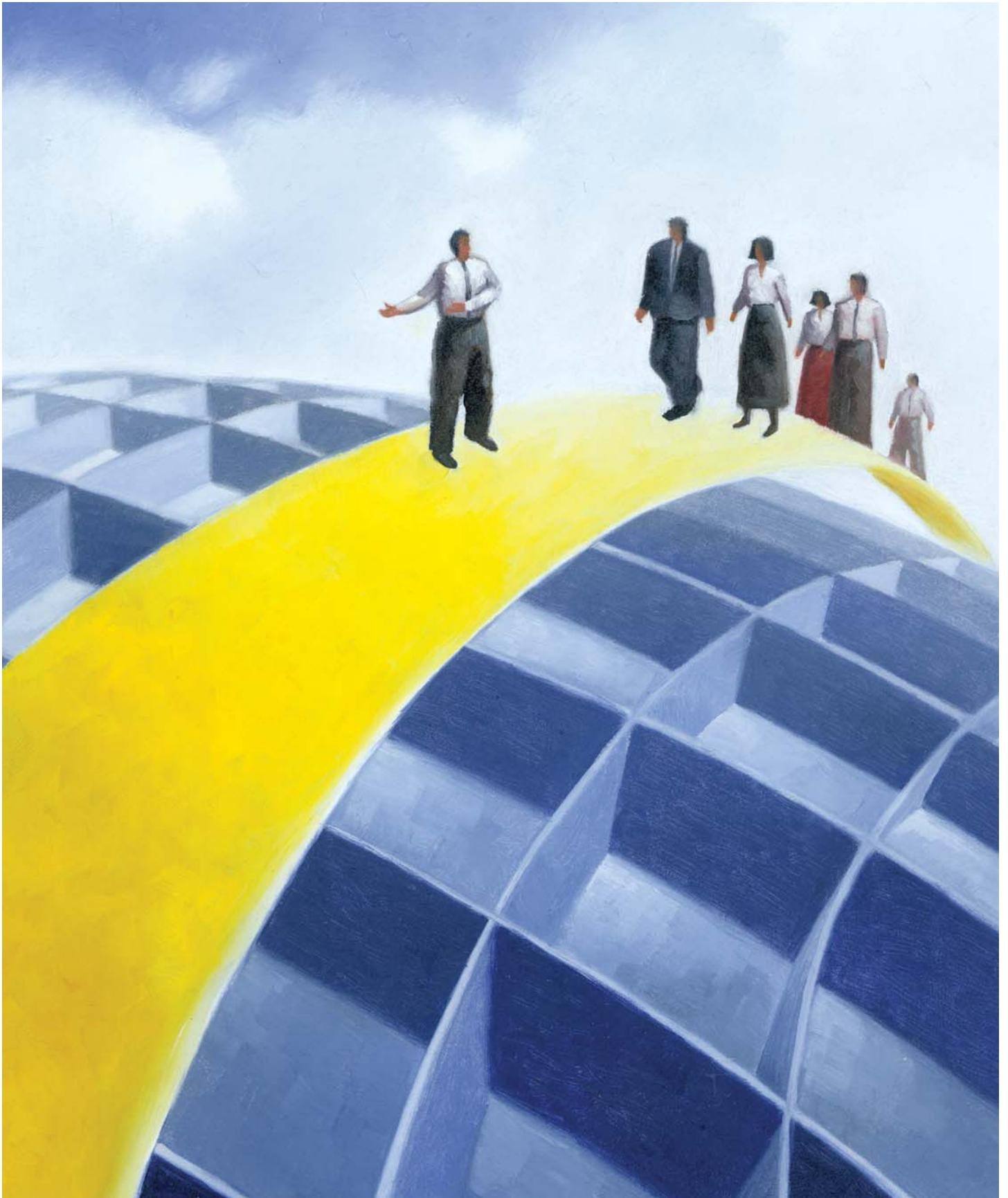


# leadership

ProAssurance 2004 Annual Report



# ProAssurance<sup>®</sup>



ProAssurance is a specialty insurer with more than \$3.2 billion in assets and almost \$790 million in gross written premiums. As the nation's fourth largest writer of medical professional liability insurance, our principal professional liability subsidiaries, The Medical Assurance Company, Inc., ProNational Insurance Company, and Red Mountain Casualty Insurance Company, Inc., are recognized leaders in developing solutions which serve the needs of the evolving health care industry. We are the tenth largest writer of personal auto coverage in Michigan through our subsidiary, MEEMIC Insurance Company.

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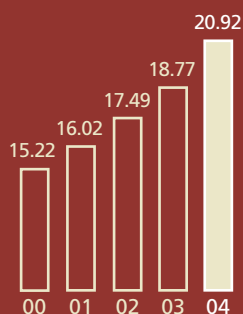
# leadership

LEADERSHIP REQUIRES VISION, BUT VISION ALONE IS NOT ENOUGH. LEADERS COMBINE VISION WITH ACTION TO INSPIRE OTHERS TO ACHIEVE THE HIGHEST GOALS AND OBJECTIVES. AT PROASSURANCE, WE ARE EACH CHALLENGED TO LEAD BY EXAMPLE SO THAT THE ENTIRE COMPANY SUCCEEDS. OUR SUCCESS BENEFITS OUR CUSTOMERS AND OUR EMPLOYEES WHILE REWARDING OUR STOCKHOLDERS.

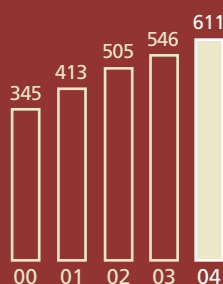
## SELECTED FINANCIAL DATA<sup>(1)</sup> (in thousands)

	Fiscal Years Ended December 31				
	2004	2003	2002	2001	2000
<b>Income Statement Highlights</b>					
Gross premiums written	\$ 789,660	\$ 740,110	\$ 636,156	\$ 388,983	\$ 223,871
Total revenues	794,553	709,640	555,767	382,555	222,589
Net income <sup>(2)</sup>	72,811	38,703	12,207	12,450	24,300
<b>Balance Sheet Highlights</b>					
Total investments	\$ 2,455,053	\$ 2,055,672	\$ 1,679,497	\$ 1,521,279	\$ 796,526
Total assets	\$ 3,239,198	\$ 2,879,352	\$ 2,586,650	\$ 2,238,325	\$ 1,122,836
Reserve for losses and loss adjustment expenses	\$ 2,029,592	\$ 1,814,584	\$ 1,622,468	\$ 1,442,341	\$ 659,659
Long-term debt	\$ 151,480	\$ 104,789	\$ 72,500	\$ 82,500	\$ —
Total liabilities	\$ 2,628,179	\$ 2,333,047	\$ 2,055,086	\$ 1,802,606	\$ 777,669

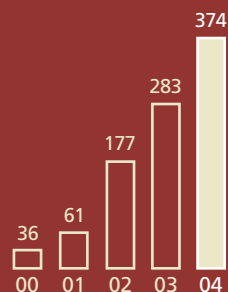
## Book value per share<sup>(3)</sup>



## Stockholders' Equity (in millions)



## Cash Flow from Operations (in millions)



(1) Includes Professionals Group since the date of consolidation, June 27, 2001.

(2) Net income for the year ended December 31, 2002 was increased by \$1.7 million due to the adoption of SFAS 141 and 142. See Note 13 to the Consolidated Financial Statements.

(3) Total capital per share of common stock outstanding

# to our stockholders

To My Fellow Shareholders,

I have always thought that the best leaders are those people or organizations that have the courage to take bold steps forward when others see only chaos, and who are able to clearly and concisely convey their vision of the opportunities they see. I firmly believe that ProAssurance can be considered a leader in those terms.

In simple terms, ProAssurance is focused on the bottom line. But we understand that bottom line success is achieved by serving our insureds. Our 2004 results are a great example of the success that comes from our dedication to serving our customers and ensuring the strength of our balance sheet. In the long-term, what is good for our customers produces good results for our stockholders.

That's why we point with pride to intrinsic measures such as an 88% increase in Net Income as compared to 2003, a 32% increase in Cash Flow from Operations, which was already at record levels, and the first full year of consolidated underwriting profitability since our creation in 2001. These are visible signs that we are succeeding in building a company that can deliver sustainable shareholder growth. Further, these results represent major steps toward our ultimate goals: underwriting profitability in both Professional Liability and Personal Lines and a long-term average Return on Equity of 12% to 14%.

## **Professional Liability**

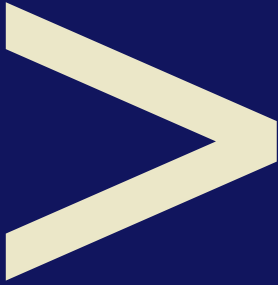
We also understand that we cannot achieve these results without delivering on the promises that we make to our insureds every day. This is especially true in Professional Liability, where our balance sheet strength allows us to successfully implement our claims defense philosophy, which in turn differentiates us from our competitors and adds to our bottom line.

We further differentiate ourselves by the localized, venue-specific approach to claims management. Our claims philosophy does result in higher defense costs than the industry average, but our success in the courtroom dramatically lowers our overall loss costs while ensuring policyholder loyalty. Our analysis shows that ProAssurance's average statutory professional liability loss ratio for the past three years is almost 15 points better than the industry average published by A. M. Best.

By trying over 500 cases to a jury verdict in 2004, we have communicated to our insureds and the plaintiff's bar that we are serious about defense in cases where there is no negligence, and our intensive claims management process continues to produce a successful outcome in over 90% of all claims filed against our insureds.

A strong, fair defense philosophy is one bookend for our Professional Liability operations; and a disciplined underwriting and pricing of our business is the other. Our defense posture is one of the hallmarks of ProAssurance and our predecessors, but it's been in the last five years that we have sharpened our approach to accepting risk.





We have demonstrated our commitment to disciplined underwriting and rate adequacy. Industry events have reinforced the need for strong, committed insurance providers that are able to withstand the challenges of the turbulent malpractice environment. Our average renewal rate increase has been 24% over the past three years.

Looking forward, we anticipate an average Professional Liability renewal rate increase in the 9% to 14% range in 2005. But because our rates are at adequate levels, this continues to produce the margins we need to reach our financial targets and we're confident that we can maintain our margins, barring any unforeseen change in the loss environment. We expect pricing to remain strong in 2005, and see no signs of widespread market softening into the first part of 2006.

We do see signs of emerging competition from smaller insurance entities with little capital or capacity beyond what they obtain through the heavy use of reinsurance. To date, they have not penetrated our operating footprint to a significant degree, and we remain confident that discerning buyers of insurance will look beyond mere price in making their purchasing decision.

Our continued message of leadership rings true in these situations. The proven strength of our balance sheet and the professional level of quality service we deliver to our insureds has allowed us to retain desirable insureds and add new insureds to replace those lost to price-based competitors or through our own stringent re-underwriting process.

In fact, despite self-imposed reductions in several states in 2004, our professional liability policyholder count has grown. This reflects our increased comfort with the overall pricing and regulatory climate in many of the states in which we operate. In contrast, careful underwriting in those states where the market is challenging helps preserve our capital and further protect our balance sheet. This ultimately protects the financial well-being of those we insure, and ensures that we are able to provide the returns we expect as shareholders.

To date our growth has not been limited by capacity concerns, and we believe that we are generating sufficient capital now to support organic growth in our business footprint. As the market cycle turns, and it ultimately will, we believe that growth and expansion opportunities will manifest themselves quickly as companies are forced to deal with deficient reserves and other legacy issues. We are prepared and able to raise capital to take advantage of those opportunities; however, we will be prudent in our capital management, and we do not foresee taking on debt or issuing equity unless we can clearly demonstrate the need for the funds.

We will continue to allocate capital to those states where we are best able to write profitable business, and will apply the same rigorous standards as we evaluate states for expansion or opportunities for acquisition. Our proposed merger of NCRIC Group, Inc. into ProAssurance is a prime example of our strategy to grow by careful acquisition. If the transaction closes as planned, we will gain meaningful market share in Delaware, Virginia and

the District of Columbia. We had previously targeted Delaware and Virginia as prime states for expansion so this is a natural fit for ProAssurance. NCRIC's long track record of success in the District is similar to the success the predecessors of ProAssurance achieved in their home markets; thus we view this transaction as furthering our proven leadership in growth through acquisition.

We see continued growth opportunities in the Excess & Surplus Lines market, although the Excess & Surplus lines market will be the first to soften as the insurance cycle turns. We are already seeing signs that competitors that are hungry for market share are offering coverage at prices we believe to be inadequate for some risks. To counter this trend, we will not compete on price or seek to artificially maintain market share, but we will identify growth opportunities in non-traditional professional liability areas where we can utilize our skilled underwriting to give us an edge.

A final comment on Professional Liability concerns the debate over Tort Reform. Progress is being made: already in 2005 Georgia and Missouri have enacted sweeping Tort Reforms and Congress will debate the issue again this year. While ProAssurance's balance sheet strength allows us to withstand the inherent severity of the current system, the burden on our insureds is crushing. We cannot ignore our need to maintain our long-term financial strength, yet we recognize the need to bring rationality to the system and are supportive of Tort Reform efforts throughout the legal system.

#### **Personal Lines**

I want to highlight MEEMIC's remarkable results, both in 2004 and over the long-term. Last year marked MEEMIC's tenth straight year of underwriting profitability and underscores the value of careful underwriting in a preferred market. Favorable weather in 2004 also played a role in MEEMIC's success, but we must be realistic in recognizing that adverse weather is the one variable we are unable to control, although we do manage our exposure to extreme weather events.

In 2004 MEEMIC began expanding outside its home state of Michigan, writing its first policy in Wisconsin. Because peer-to-peer selling has been a key to MEEMIC's success in Michigan, both as a marketing tool and as a first line of underwriting scrutiny, we will utilize the same system as we expand.

Identifying and training educators to become valued agents takes time and will likely limit our growth outside Michigan in 2005. MEEMIC continues to identify growth areas in Michigan, and is growing its policyholder count by penetrating underserved geographic areas and opening new distribution in colleges and non-public school systems.

#### **Looking Ahead**

Overall, we are pleased with the results we achieved in 2004, but I want to assure you we are not resting on those laurels. We have more work to do to reach our goal of underwriting profitability in both lines of insurance. We realize that we must remain committed to our service-oriented but disciplined operational strategy in order to sustain a long-term average Return on Equity between 12% and 14%. This is my focus each day, and the focus of each of our employees.

This focus is what makes ProAssurance a leader. At each level of our company, we understand the link between excellence in service and excellent results. Our employees and agents know that we can only back up our promise of protection by maintaining a strong balance sheet, and our insureds have learned they can count on us to keep that promise.

We are confident the best days of ProAssurance are ahead of us and we're grateful to the stockholders who continue to share this vision, and to our employees, agents and defense attorneys who help us keep the promises we make.

For the Board and Employees of ProAssurance,



A. Derrill Crowe, M.D.  
Chairman and CEO



AT EACH LEVEL OF OUR COMPANY, WE UNDERSTAND THE LINK BETWEEN EXCELLENCE IN SERVICE AND EXCELLENT RESULTS. OUR EMPLOYEES AND AGENTS KNOW THAT WE CAN ONLY BACK UP OUR PROMISE OF PROTECTION BY MAINTAINING A STRONG BALANCE SHEET, AND OUR INSURED HAVE LEARNED THEY CAN COUNT ON US TO KEEP THAT PROMISE.



PROASSURANCE OFFERS OUR INSURED THE POWER AND PROMISE OF INDUSTRY-LEADING FINANCIAL STRENGTH. OUR PROVEN TRACK RECORD OF COMMITMENT AND SERVICE PROVIDES OUR CUSTOMERS WITH THE ASSURANCE THAT WE WILL BE THERE WHEN THEY NEED US AND RESULTS IN THE FINANCIAL PERFORMANCE OUR INVESTORS DEMAND.

# leading by example



## **PROFESSIONAL LIABILITY**

ProAssurance's leadership in Professional Liability is built on performance. Where many other companies have failed, ProAssurance has thrived by using our financial strength to provide unparalleled service and a wide range of coverage options to our customers.

The heart of our service commitment is our dedication to the defense of non-meritorious claims. We've proven time and again that we will fight to protect our insureds, while ensuring that claims that have merit are resolved quickly and fairly.

We back up our claims defense with a broad array of risk management and consulting services designed to help improve patient care while reducing the risk that our insureds face.

## **PERSONAL LINES**

For more than half-a-century, MEEMIC has provided cost effective insurance coverage to Michigan educators and their families. MEEMIC's focus on the education market has made us a trusted partner for our insureds. As we grow in and beyond Michigan, we're proud of our reputation as the leading insurance company serving the educational community.

## directors

### Non-independent Directors

A. Derrill Crowe, M.D. <sup>(E)C</sup>  
Chairman & Chief Executive Officer

Victor T. Adamo, Esq., C.P.C.U. <sup>(E)</sup>  
Vice-Chairman &  
Chief Operating Officer

Paul R. Butrus <sup>(E)</sup>  
Vice-Chairman

### Independent Directors

Lucian Bloodworth <sup>(A)</sup>  
Chairman, Cain Manufacturing  
Company, Inc.

Robert E. Flowers, M.D. <sup>(C)C (E) (N&C)</sup>  
Retired Physician

John J. McMahon, Jr. <sup>(C) (N&C)C</sup>  
Chairman, Ligon Industries

John P. North, Jr., C.P.A. <sup>(A)C</sup>  
Retired Accounting Firm Partner

Ann F. Putallaz, Ph.D. <sup>(A)</sup>  
Vice-President, Munder Capital  
Management

Wilfred W. Yeargan, M.D. <sup>(C)</sup>  
Physician in Private Practice

William H. Woodhams, M.D. <sup>(N&C)</sup>  
Physician in Private Practice

Audit Committee: (A)  
Compensation Committee: (C)  
Executive Committee: (E)  
Nominating &  
Corporate Governance: (N&C)  
Chairman: C

## senior officers

Jeffrey L. Bowlby, A.R.M.  
Senior Vice-President,  
Marketing & Sales  
Professional Liability Group

Howard H. Friedman, A.C.A.S., M.A.A.A.  
Secretary & Senior Vice-President  
Chief Underwriting Officer & Chief  
Actuary, Professional Liability Group

Lynn Kalinowski  
President  
MEEMIC Insurance Company

James J. Morello, C.P.A.  
Chief Accounting Officer & Treasurer  
Senior Vice-President

Frank B. O'Neil  
Investor Relations Officer  
Senior Vice-President,  
Corporate Communications

Edward L. Rand, Jr., C.P.A.  
Chief Financial Officer  
Senior Vice-President

Christine C. Schmitt, C.P.A.  
Chief Financial Officer & Treasurer  
MEEMIC Insurance Company

Darryl K. Thomas, Esq.  
Senior Vice-President, Claims  
Professional Liability Group

# corporate and shareholder information

There were 29,201,365 shares of ProAssurance Corporation common stock outstanding at March 31, 2005. On that date, we had 3,565 shareholders of record. Our common stock trades on The New York Stock Exchange under the symbol PRA. Our stock is listed as ProAsr in the stock section of *USA Today* and many major newspapers, and as ProAssurance in the *Wall Street Journal*. We also post the price of our stock on our website, [www.ProAssurance.com](http://www.ProAssurance.com).

Our Transfer Agent is Mellon Investor Services, LLC. You may phone them at 800.851.4218, and you may access their website at [www.melloninvestor.com](http://www.melloninvestor.com). If you hold shares in certificate form, you may learn more about your shareholdings by using Mellon Investor's dedicated website, <https://vault.melloninvestor.com/isdl>. This website will allow you to verify your shareholdings and report address changes.

You also may report address changes by mail by writing to:  
Mellon Investor Services, LLC  
P.O. Box 3338  
South Hackensack, NJ 07606-1916

If you have a certificate to transfer, you should obtain forms and instructions from Mellon Investor Services by phone or through their website. Send the certificate(s) and required form by insured, registered mail to:  
Mellon Investor Services, LLC  
Stock Transfer Department  
P. O. Box 3312  
South Hackensack, NJ 07606-1912

If you need to report lost or stolen stock certificates, please phone 800.851.4218 or send a registered letter to:  
Mellon Investor Services, LLC  
Estoppel Department  
P. O. Box 3317  
South Hackensack, NJ 07606-1917

## **Corporate Governance and Compliance with Regulatory and New York Stock Exchange Requirements**

We post detailed information in the Corporate Governance and Investor Relations sections of our website, which you may access from our home page, [www.ProAssurance.com](http://www.ProAssurance.com).

Our Board of Directors has adopted a policy regarding determination of director independence, including categorical standards to assist in determining independence. These are published in our proxy statement which is mailed to stockholders and filed with the Securities and Exchange Commission (the "SEC"). Our filings with the SEC are available in the Investor Relations section of our website, [www.ProAssurance.com/investor\\_relations.html](http://www.ProAssurance.com/investor_relations.html), and from the EDGAR section of the SEC's website, [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml).

Our Board of Directors has adopted charters for our Audit, Compensation and Nominating/Corporate Governance Committees as well as Corporate Governance Principles and our Code of Ethics and Conduct. We make these documents, and other information such as committee composition and leadership and director independence, available in the Governance section of our website, [www.ProAssurance.com/investor\\_relations\\_gov.html](http://www.ProAssurance.com/investor_relations_gov.html).

Our Chairman and Chief Executive Officer, A. Derrill Crowe, M.D., submitted the required Section 12(a) CEO Certification to the New York Stock Exchange in a timely manner on June 14, 2004. Additionally, we have been timely in the filing of CEO/CFO certifications as required in Section 302 of the Sarbanes-Oxley Act. These certifications are published as exhibits in our Form 10K filed with the SEC on March 16, 2005.

## **Investor Relations**

The Investor Relations section of our website contains detailed financial information, the latest news releases about the Company and our latest presentation materials. We also maintain an archive of this material, although you should realize that archived information, by its very nature, may no longer be accurate.

## **Obtaining Information Directly from ProAssurance**

Any of the documents mentioned above may be obtained from the Company's Communications and Investor Relations Department using one of the contact methods below:

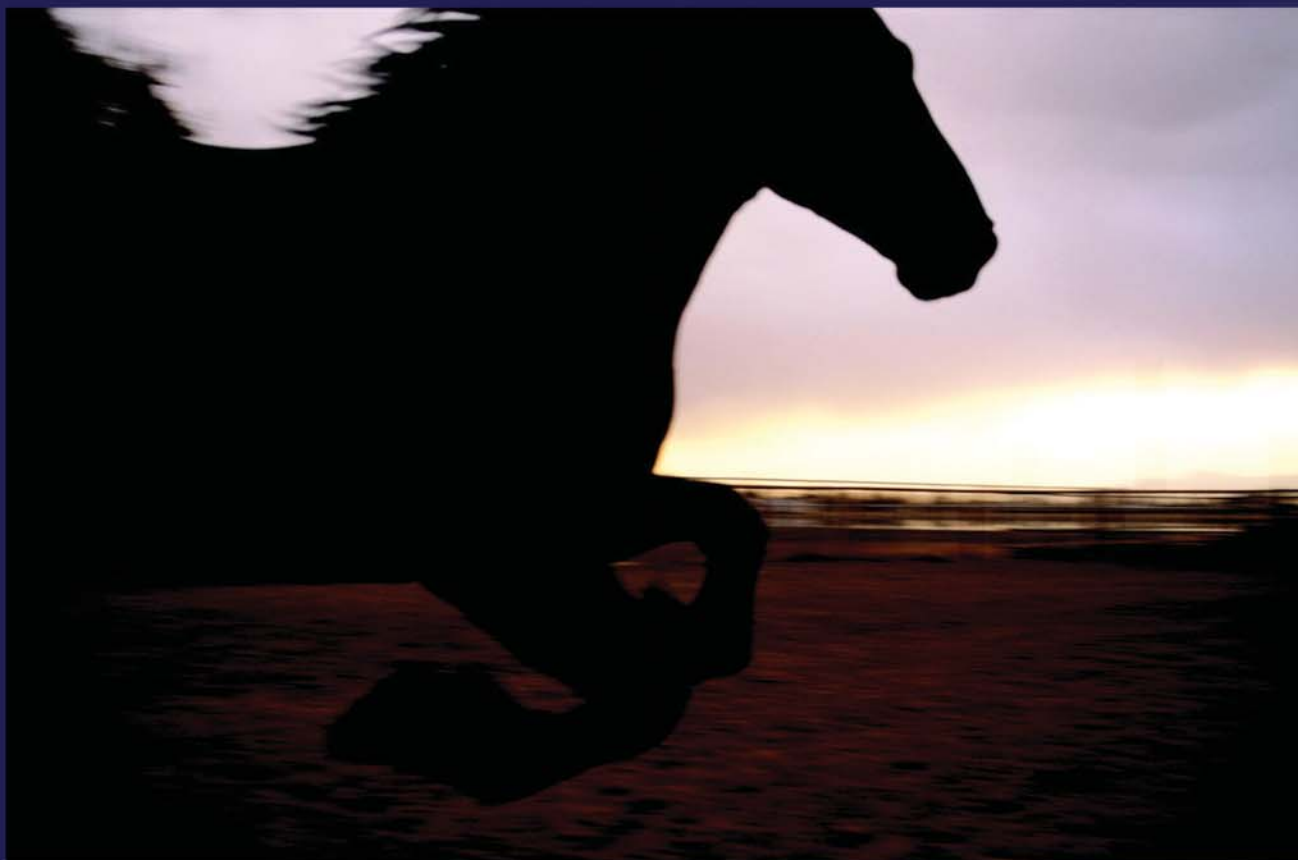
**By e-mail:**  
[Investor@ProAssurance.com](mailto:Investor@ProAssurance.com)

**By U.S. Postal Service:**  
ProAssurance Corporation  
Investor Relations & Communications  
P. O. Box 590009  
Birmingham, AL 35259-0009

**By phone or fax:**  
Phone: 205.877.4400 or 800.282.6242  
Fax: 205.802.4799

## **Annual Meeting**

The 2005 Annual Meeting is scheduled for 10:30 am CDT on Wednesday, May 18, 2005 at the Harbert Center, 2019 4th Avenue North, Birmingham, Alabama.



# There's always one who leads

A.M. Best  
Rated **A-**  
EXCELLENT

**ProAssurance**<sup>®</sup>



Medical  
Assurance



ProNational

EVER VIGILANT

In the complex terrain of your professional liability coverage, ProAssurance Group is a breed apart.

Fierce protectors of your best interests. Recognized leaders in claims resolution and personal service. And, above all, tough, experienced defenders.

We know the territory. We anticipate the changing landscape. We're leaders in protecting our own.

At ProAssurance Group, we're ever vigilant in watching out for your best interests.

And when you need us, the difference is obvious.

**ProAssurance**<sup>®</sup>

100 Brookwood Place, Birmingham, Alabama 35209  
205.877.4400 800.282.6242 [www.ProAssurance.com](http://www.ProAssurance.com)