



# ENSURE

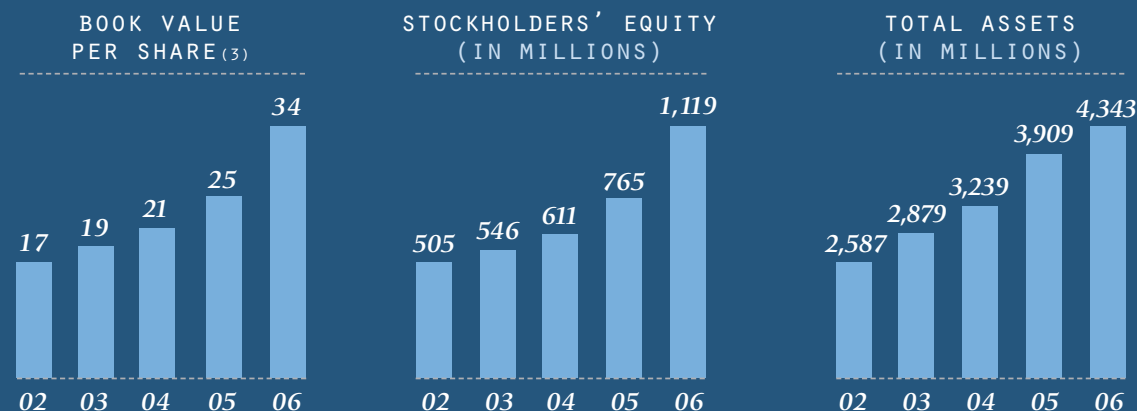
"For a physician, it's devastating to be sued, particularly when you know you've done nothing wrong. ProAssurance is sensitive to that. They make you feel the way you want your patients to feel—like you are in good hands."

*Paul Elliott, M.D.  
Anesthesiologist  
Birmingham, Alabama*

**PROASSURANCE**  
2006 ANNUAL REPORT

PROASSURANCE SELECTED FINANCIAL DATA *(in thousands)*

	2006	2005	2004	2003	2002
<b>Income Statement Highlights</b>					
Gross premiums written (4)	\$578,983	\$572,960	\$573,592	\$543,323	\$461,715
Total revenues (4)	737,598	647,950	607,557	535,841	402,101
Income (loss) from continuing operations, net of tax, before cumulative effect of accounting change	126,984	80,026	43,043	15,345	(8,100)
Net income (2)	236,425	113,457	72,811	38,703	12,207
<b>Balance Sheet Highlights</b>					
Total investments (4)	\$3,492,098	\$2,614,319	\$2,145,609	\$1,792,323	\$1,446,342
Total assets, continuing operations	\$4,342,853	\$3,341,600	\$2,743,295	\$2,448,088	\$2,214,564
Total assets	\$4,342,853	\$3,909,379	\$3,239,198	\$2,879,352	\$2,586,650
Reserve for losses and loss adjustment expenses (4)	\$2,607,148	\$2,224,436	\$1,818,636	\$1,634,749	\$1,492,140
Long-term debt (4)	\$179,177	\$167,240	\$151,480	\$104,789	\$72,500
Total liabilities, continuing operations	\$3,224,306	\$2,806,820	\$2,333,405	\$2,074,560	\$1,854,573



(1) Includes acquired entities since date of acquisition, only. PIC Wisconsin was acquired on August 1, 2006. NCRIC Corporation was acquired on August 3, 2005.

(2) Net income for the year ended December 31, 2002 was increased by \$1.7 million (\$.07 per basic and diluted share) due to the cumulative effect of adopting SFAS 141 and SFAS 142.

(3) Total capital per share of common stock outstanding.

(4) Excludes Discontinued Operations.



At ProAssurance, we do more than insure our customers against professional liability. We ensure that our customers are able to thrive, even in today's complex health care environment. There are three simple reasons why ProAssurance has grown to become the fourth largest professional liability insurer in the medical industry. We are financially strong; we manage our business so that we're able to fulfill our promises—now and in

## INSURE TO ENSURE

the future. We vigorously defend our customers against claims without merit while seeking reasonable settlement in those cases where there is negligence. And finally, we see superior customer service as a business advantage for us and our customers. It's not about how we answer the phone. It's about how we help free our customers to care for their patients, instead of worrying about their insurance company.

# A SOUND APPROACH IN A COMPLEX BUSINESS

*Our approach ensures that we are able to serve both our customers and our shareholders effectively.*

## TO MY FELLOW SHAREHOLDERS



*A. Derrill Crowe, M.D.  
Chairman and C.E.O.*

I am convinced that most insurance executives are lousy students of history.

I base this on the axiom that those who forget the past are doomed to repeat it. And even with the mistakes that led to the last soft market fresh in our collective minds, malpractice insurers seem to have already forgotten many hard-learned lessons.

Given the long-term view that we at ProAssurance take of our industry, we believe this sets the stage for another round of opportunities in the coming years, both for business

expansion and mergers & acquisitions. The challenge for us is to maintain our focus with a proven, successful strategy as these events unfold. And to be frank, the challenge for our shareholders is to have patience and understand that we will maintain an equal focus on creating stockholder value, as we have throughout the market cycles in our industry.

This past year provides an excellent example of our dedication to executing a sound fundamental strategy.

Net Income more than doubled from 2005 to 2006. Even subtracting the one-time gain from the sale of MEEMIC Insurance, our Personal Lines business, Net Income from Continuing Operations was up 59%.

Earnings per Fully Diluted Share were up 94%. Again, even subtracting the gain from the sale of MEEMIC, Earnings per Fully Diluted Share were up 48%.

Gross Premiums were up one percent in a year when others in our line of business were reporting premium decreases. This increase is directly attributable to our acquisitions of NCRIC and Physicians Insurance Company of Wisconsin (PIC Wisconsin)—further validating our strategy of growth through intelligent M & A.

Book Value grew 37%, aided by increases from the sale of MEEMIC, the acquisition of PIC Wisconsin, and sustained organic growth from continuing operations.

Our Combined Ratio improved to 94.2%, the result of years of attention to rate adequacy and stringent underwriting.

Stockholders' Equity topped one billion dollars during the year, and our market cap increased by \$148 million.

In all, 2006 was a gratifying year in almost every way—the lack of an increase in our share price is perhaps the only negative for stockholders. We understand that there are short-term solutions that can apply a cosmetic fix and artificially boost the stock price, but we have learned over the long term that those who apply a short-term mentality to our “long tail” line of business rarely achieve lasting success. Our actions will be measured, and designed to enhance both balance sheet strength and stockholder value.

Since the inception of our public company in 1991, our stockholders have enjoyed an annualized return of 18%, or a total return of 1,112%. Since the creation of ProAssurance by the combination of Medical Assurance and Professionals Group in 2001, the returns have been equally rewarding: 189% total return, annualized to 21%.

The moral of the story is that our long-term stockholders have prospered, and our customers have enjoyed the benefits of being insured by one of the largest, most stable insurers in a business fraught with peril for those who try to take shortcuts.

So we look ahead to 2007 and beyond, understanding the need to deploy our capital prudently and ensure that the business model upon which our success has been built is refined and advanced.

As to the issue of capital, we are constantly evaluating the best use of our capital. Rest assured we plan to be responsible with the capital we have generated. Our preferred use continues to be intelligent growth through M & A, and our success in integrating NCRIC and initiating the integration of PIC Wisconsin in 2006 help show how selective acquisitions can broaden our business reach, deepen our management bench

and enhance our bottom line. However, because acquisitions made simply for the sake of completing a transaction have proven to be disastrous, it may be some time before the right candidate appears. It's instructive to note that we've passed up far more opportunities than we've pursued since 2001.

As we see the resurrection of some disturbing business trends from less disciplined competitors, I'm pleased to report that our combination of intensive customer service and unquestioned balance sheet safety continues to resonate with our insureds and our agents, some of whom you'll hear from in this report.

The companies that are ProAssurance today were at one time all policyholder-

SINCE THE INCEPTION OF OUR PUBLIC COMPANY IN 1991, OUR STOCKHOLDERS HAVE ENJOYED AN ANNUALIZED RETURN OF 18%, OR A TOTAL RETURN OF 1,112%.

founded and policyholder-controlled. We understand the need for a connection with our policyholders; we expanded our face-to-face outreach to our insureds in 2006, and will do more in 2007.

Our Regional Advisory Boards and the Claims and Underwriting Committees in 16 key states bring more than

350 medical leaders into contact with our most senior executives throughout the year. We added four states to our meeting schedule in 2006 and will add more in 2007. We expect to surpass 150 meetings with leadership physicians in 2007. These leaders will share our story and philosophy with their colleagues

...BY FOCUSING ON HOW WE DELIVER VALUE TO OUR INSUREDS AND STOCKHOLDERS TODAY, WE ARE PREPARING PROASSURANCE TO SUCCEED IN THE FUTURE.

and enhance the local knowledge of ProAssurance employees—both key drivers in our overall success.

Understanding each locality in which we operate is among the most important facets of our operations. Our knowledge of practice patterns and evolving trends throughout our 26-state footprint enables us to be better underwriters. We believe better underwriting is among the reasons why the number of claims has fallen for the second year in a row.

Local knowledge is put to its greatest use in our claims department. Though the number of claims has dropped in the past two years, almost 70% of those filed continue to lack merit—those abandoned by plaintiffs or dismissed somewhere in the legal process. As you'll read in this report, our insureds value our corporate will

to defend them against non-meritorious claims, and our ability to settle those cases in which there is true merit.


Our Risk Management programs are being refined and refocused as we bring new resources and vigor to our risk management team. The scope of our in-person seminars is expanding, and we are leveraging the power of the computer and the internet to make more risk management offerings available in ways that are responsive to time-stressed insureds. We believe our risk management efforts will result in face-to-face interactions with more than half our insureds in the coming year, with thousands more utilizing our electronic risk management offerings.

We are updating and refining the winning strategies that built ProAssurance. Our experienced management team is leading a dedicated and enthusiastic group of employees who understand that by focusing on how we deliver value to our insureds and shareholders today, we are preparing ProAssurance to succeed in the future. History tells us there will be opportunities, and experience tells us we will be well prepared to take advantage of them when they occur.

We thank you for the confidence you show in ProAssurance by investing with us, and we invite you to stick with us as we map plans for a successful future.



A. Derrill Crowe, M.D.  
Chairman and C.E.O.



*"I've been an agent for ProAssurance since the mid-1990s. The way they treat people inspires loyalty—and in this business that's quite unusual. They work hard to make the process of insuring someone simple. They are professional and personal in what they do, they make my job easier."*

*Connie Calbeck  
Agent  
Aon Risk Services of Illinois*



*"I've represented physicians in court for ProAssurance for many, many years. In every trial, they give me all the support necessary to defend my clients. Their claims consultants are top notch; the level of expertise within the company is exceptional. I know my clients appreciate all that ProAssurance brings to the table."*

*Paul Manion  
Partner*

*Rutledge, Manion, Rabaut, Terry & Thomas, P.C.*

# DEFENDING THE PRACTICE OF MEDICINE

*Insurance is a tough business; medical malpractice insurance is particularly so. The nature of our business puts a premium on discipline, patience and perseverance. While many businesses operate in a series of sprints, we are running a marathon.*

## **Financial security is the only way we can fulfill our promises.**

ProAssurance has grown to be the fourth largest provider in the medical malpractice industry. So what separates us from our competition? First, we are students of our own history. We've survived the never-ending cycles inherent in our industry through carefully controlled underwriting, assertive claims advocacy on behalf of our insureds, financial discipline and sound business combinations.

Our prudent approach is designed to ensure that we have the financial strength to fulfill our obligations to our insureds years into the future. Too often, companies with a short-term mentality are crippled during the tougher years. The chaos that follows often creates acquisition opportunities, which we study with great care. Being prudent, we move only when the conditions align in our favor, but we are constantly searching the competitive landscape for ways to enhance our

long-term value, add to our management expertise and intelligently add to our footprint.

## **We provide the strong defense our customers demand.**

ProAssurance is known for its strong defense philosophy, willing to defend insureds against claims without merit while reaching reasonable settlements in those cases where there is true negligence.

OUR PRUDENT APPROACH IS DESIGNED TO ENSURE THAT WE HAVE THE FINANCIAL STRENGTH TO FULFILL OUR OBLIGATIONS.

...THE CONSISTENCY OF OUR SERVICE  
REMAINS ONE OF THE DEFINING  
CHARACTERISTICS OF OUR COMPANY.

It's a reputation we've earned in courtrooms across the country, and a reputation that our insureds depend on everyday. In 2006, we tried 725 files to a jury outcome, a commitment to our insureds that we believe is unmatched in our industry. But with 68% of the claims we closed last year being dropped or dismissed by the plaintiff, it's clear that frivolous litigation is still a problem that requires a tough defense.

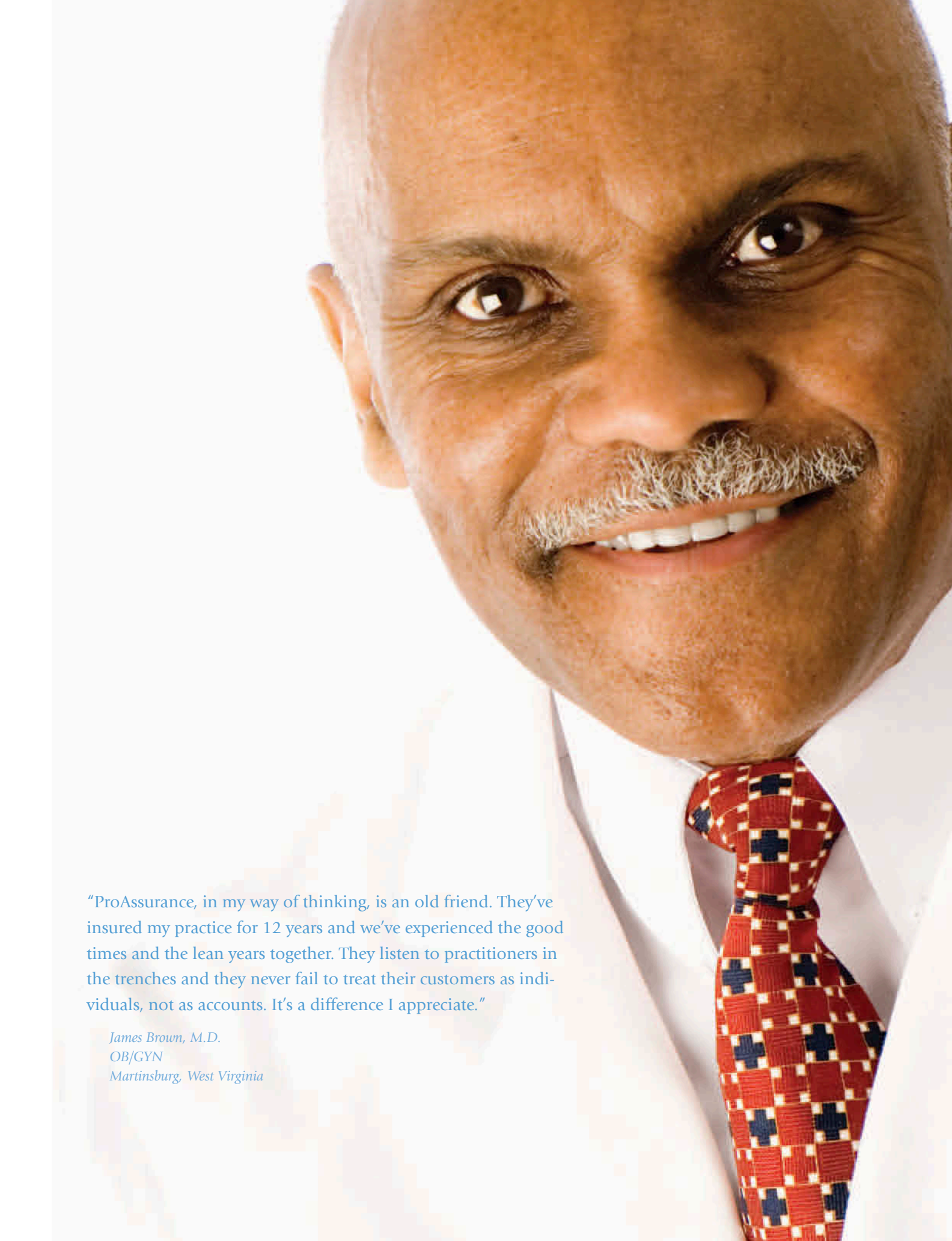
We hear it often, in the words of our own customers—they value an insurer who will go to the mat for them. ProAssurance is that company.

#### **The expertise to help manage risk**

To our insureds, time is a precious commodity. There is rarely enough of it in which to manage a practice or a business, much less to stay ahead of the ever-changing facets of risk inherent in health care.

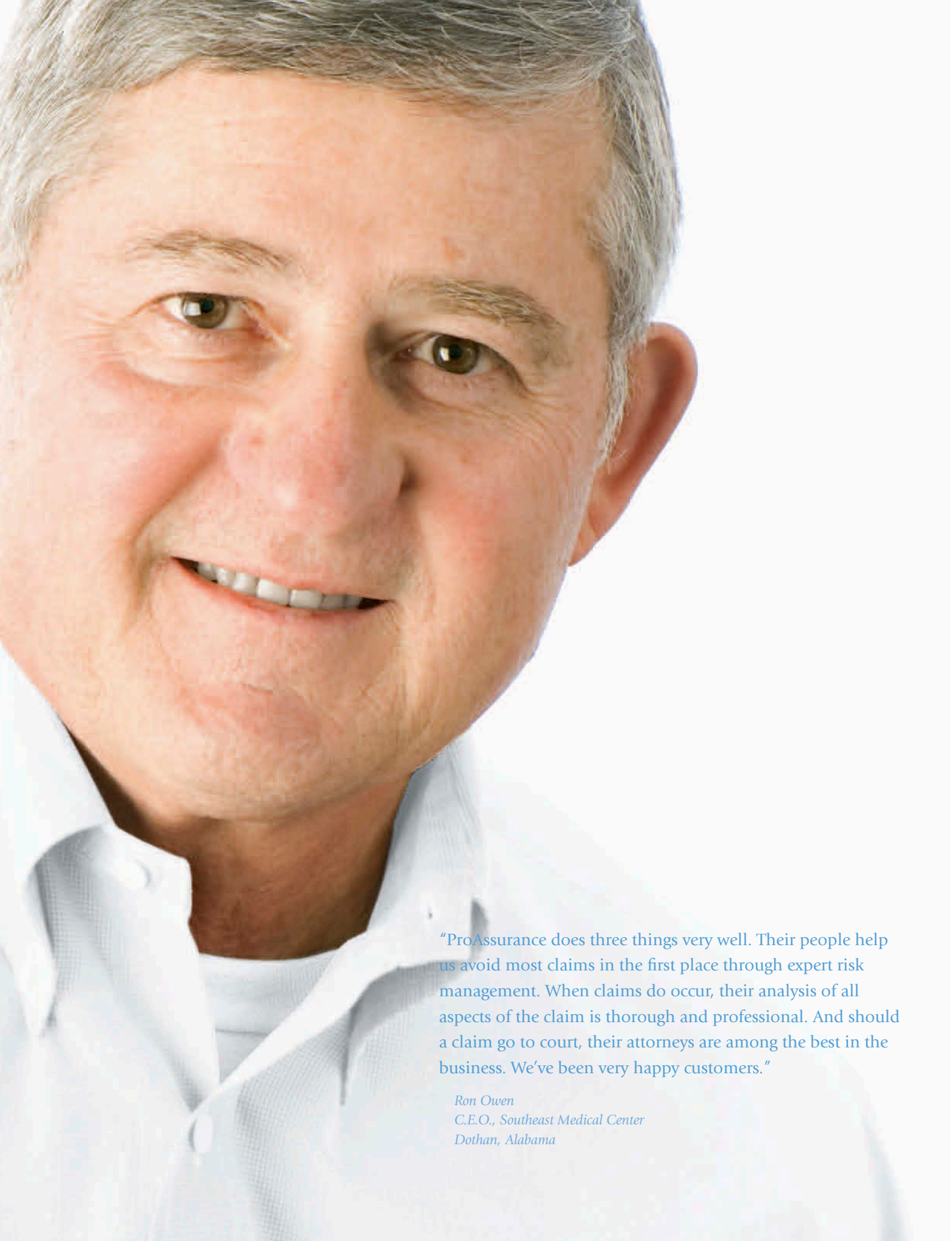
That's why service is such a critical component to our business. Our customers don't define service as the way we answer the phone. Instead, they turn to us because we provide sound thinking and practical ideas for discovering and managing the risks that evolve as their practice changes.

At ProAssurance, service is not limited to a single department or product—it's a mindset that permeates our entire organization. We've organized our business to put us closer to our customers, so that we can respond more quickly and more appropriately to their specific needs. Our focused local presence fosters long-term customer relationships, while giving us greater knowledge crucial to understanding the medical/legal environments in which we operate. The consistency of our service remains one of the defining characteristics of our company.



*"ProAssurance, in my way of thinking, is an old friend. They've insured my practice for 12 years and we've experienced the good times and the lean years together. They listen to practitioners in the trenches and they never fail to treat their customers as individuals, not as accounts. It's a difference I appreciate."*

*James Brown, M.D.  
OB/GYN  
Martinsburg, West Virginia*



"ProAssurance does three things very well. Their people help us avoid most claims in the first place through expert risk management. When claims do occur, their analysis of all aspects of the claim is thorough and professional. And should a claim go to court, their attorneys are among the best in the business. We've been very happy customers."

*Ron Owen  
C.E.O., Southeast Medical Center  
Dothan, Alabama*



## Board of Directors

Directors	Position	Independence	Committee(s)
A. Derrill Crowe, M.D.	Chairman & Chief Executive Officer, ProAssurance	M	1C
Victor T. Adamo, Esq., C.P.C.U.	Vice-Chairman & Chief Operating Officer, ProAssurance	M	1
Paul R. Butrus	Vice-Chairman, ProAssurance	M	1
Lucian Bloodworth	Chairman, Cain Manufacturing Company, Inc.	I	2
Robert E. Flowers, M.D.	Retired Physician	NM	
William J. Listwan, M.D.	Practicing Physician & Professor of Internal Medicine	I	
John J. McMahon, Jr.	Chairman, Ligon Industries	I	3, 4C
John P. North, Jr., C.P.A.	Retired Accounting Firm Partner	I	2C
Ann F. Putallaz, Ph.D.	Vice-President, Munder Capital Management	I	2
William H. Woodhams, M.D.	Practicing Physician	I	4
Wilfred W. Yeargan, M.D.	Practicing Physician	I	3C

M = Management, Non-Independent

NM = Non-Management, Non-Independent

I = Independent

1 = Executive Committee

2 = Audit Committee

3 = Compensation Committee

4 = Nominating and Corporate Governance Committee

C = Chairman

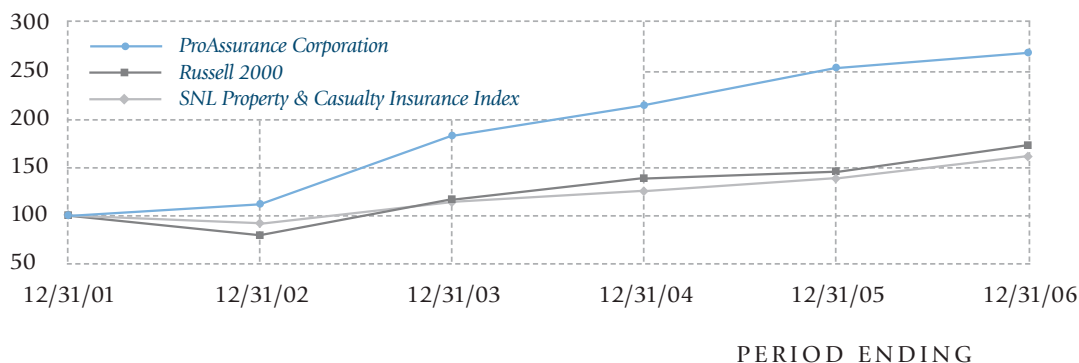
## Senior Officers

Jeffrey L. Bowlby, A.R.M.	Chief Marketing Officer & Senior Vice-President, Professional Liability Group
Howard H. Friedman, A.C.A.S., M.A.A.A.	Co-President & Chief Underwriting Officer, Professional Liability Group Senior Vice-President, ProAssurance
Jeffrey P. Lisenby, Esq.	Corporate Secretary, General Counsel & Vice President, ProAssurance
James J. Morello, C.P.A.	Chief Accounting Officer & Treasurer Senior Vice-President, ProAssurance
Frank B. O'Neil	Communications Officer & Senior Vice-President, ProAssurance
Edward L. Rand, Jr., C.P.A.	Chief Financial Officer & Senior Vice-President, ProAssurance
Darryl K. Thomas, Esq.	Co-President & Chief Claims Officer, Professional Liability Group Senior Vice-President, ProAssurance
Hayes V. Whiteside, M.D.	Chief Medical Officer & Senior Vice-President, Professional Liability Group

## Stock Price Performance

The following information may be used to comparing the market value of our Common Stock with other public companies and public companies in the insurance industry. The graph sets forth the cumulative total stockholder return (assuming reinvestment of dividends) to our stockholders during the five years ended December 31, 2006, as well as an overall stock market index (Russell 2000) and a peer group index (SNL Property & Casualty) for the five years ended December 31, 2006.

### TOTAL RETURN PERFORMANCE



INDEX	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
ProAssurance Corporation	100.00	119.45	182.88	222.47	276.68	283.96
Russell 2000	100.00	79.52	117.09	138.55	144.86	171.47
SNL Property & Casualty Insurance Index	100.00	93.80	116.05	127.20	139.05	162.09

## Market and Shareholder Information

There were 33,281,390 shares of ProAssurance Corporation common stock outstanding at February 28, 2007. On that date, we had 3,892 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).

### Your shares

If you hold your shares through a brokerage account, your broker or a customer service representative at that firm should be able to answer questions about your holdings.

If you hold your shares in certificate form, or have shares held in direct registration (DRS), you may contact our transfer agent, Mellon Investor Services, for address changes, transfer of certificates, and replacement of share certificates that have been lost or stolen.

You may reach Mellon Investor Services in a variety of ways:

<i>By Phone</i>	<i>By Internet</i>
(800) 851-4218	<a href="http://www.melloninvestor.com/isd/">www.melloninvestor.com/isd/</a>
(800) 231-5469	<i>Specific information about your account</i>
<i>(Hearing Impaired)</i>	<a href="http://www.melloninvestor.com">www.melloninvestor.com</a>
	<i>General information about Mellon</i>

#### *By Mail*

Mellon Investor Services, LLC P.O. Box 3315 South Hackensack, NJ 07606	Mellon Investor Services, LLC 480 Washington Boulevard Jersey City, NJ 07310-1900
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### 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, [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, 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. In addition the Board has established and adopted Corporate Governance Principles and a Code of Ethics and Conduct. We make these documents, and other information such as committee composition and leadership, director independence, and stock ownership guidelines available in the Governance section of our website.

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 May 30, 2006. 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 1, 2007.

### Investor Relations

The Investor Relations section of our website also contains detailed financial information, SEC filings, 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 our Communications and Investor Relations Department using one of the contact methods below:

<i>By e-mail:</i>	<i>By Mail</i>
<a href="mailto:Investor@ProAssurance.com">Investor@ProAssurance.com</a>	ProAssurance Corporation Investor Relations P.O. Box 590009 Birmingham, AL 35259-0009
<i>By phone or fax:</i>	
Phone: (205) 877-4400 (800) 282-6242	
Fax: (205) 802-4799	

### Annual Meeting

The 2007 Annual Meeting is scheduled for 10:00 AM CDT on Wednesday, May 16, 2007 at the headquarters of ProAssurance, 100 Brookwood Place, Birmingham, Alabama 35209.

**ProAssurance**<sup>®</sup>  
Corporation



100 Brookwood Place  
Birmingham, Alabama 35209

(205) 877-4400

(800) 282-6242

[www.ProAssurance.com](http://www.ProAssurance.com)