PROASSURANCE CORP
Form DEF 14A
April 05, 2013

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

SECURITIES EXCHANGE ACT OF 1934

(AMENDMENT NO.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary proxy statement

¨ **Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))**

x Definitive proxy statement

¨ Definitive additional materials

¨ Soliciting material pursuant to Rule 14a-11(c) or Rule 14a-12

ProAssurance Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

x No fee required

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PROASSURANCE CORPORATION

100 Brookwood Place

Birmingham, Alabama 35209

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

to be held May 22, 2013

To our Stockholders:

The Annual Meeting of Stockholders of ProAssurance Corporation (ProAssurance) will be held at 9:00 a.m., Central Daylight Time, on Wednesday, May 22, 2013, on the 5th floor of the headquarters of ProAssurance, located at 100 Brookwood Place, Birmingham, Alabama 35209, for the following purposes:

(1) To elect three (3) directors of ProAssurance, as Class III directors, to serve until the 2016 annual meeting and until their successors are elected and qualified;

(2) To ratify the appointment of Ernst & Young LLP as independent auditors;

(3) To approve the ProAssurance Corporation 2014 Annual Incentive Plan;

(4) To approve the ProAssurance Corporation 2014 Equity Incentive Plan;

(5) An advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement; and

(6) To transact such other business as may properly come before the annual meeting or any adjournment or postponement thereof.

The Board of Directors set March 22, 2013 as the record date for the annual meeting. You will only be entitled to notice of, and to vote at, the annual meeting if you were a holder of record of shares of ProAssurance s Common Stock at the close of business on the record date. The stock transfer books will not be closed.

We may adjourn the annual meeting without notice other than announcement at the meeting or adjournments thereof, and any business for which notice is hereby given may be transacted at any such adjournment.

We have provided details concerning those matters to come before the annual meeting in the accompanying proxy statement. Whether you plan to attend the annual meeting or not, please sign, date and return the enclosed proxy card in the envelope provided. Returning your proxy card does not deprive you of your right to attend the annual meeting and to vote your shares in person.

A copy of ProAssurance s Annual Report to the Stockholders for the year ended December 31, 2012, is enclosed, and is also available in the Investor Relations section of our website at www.ProAssurance.com. We hope you will find it informative.

By order of the Board of Directors,

Jeffrey P. Lisenby

Secretary

April 5, 2013

PROASSURANCE CORPORATION

100 Brookwood Place

Birmingham, Alabama 35209

PROXY STATEMENT

Annual meeting of Stockholders

to be held May 22, 2013

INTRODUCTION

We are furnishing this proxy statement and proxy card to the stockholders of ProAssurance Corporation, which we sometimes refer to as ProAssurance or the Company, on behalf of ProAssurance s Board of Directors on or about April 5, 2013. Our Board of Directors is soliciting your proxy to vote your shares at the annual meeting of ProAssurance s stockholders to be held at 9:00 a.m., Central Daylight Time, on Wednesday, May 22, 2013, on the 5th floor of our headquarters located at 100 Brookwood Place, Birmingham, Alabama 35209, or at any adjournment or postponement thereof.

What is a proxy?

A proxy is a person or persons whom you designate to vote your stock. If you designate someone as your proxy in a written document, that document is called a proxy card.

Who pays for the proxy solicitation?

ProAssurance will pay the expenses of the preparation of proxy materials and the solicitation of proxies for the annual meeting. Certain of our directors, officers or employees may solicit your proxy and they will receive no additional compensation for such solicitation. We will reimburse brokers and other nominees for costs incurred by them in mailing proxy materials to beneficial owners in accordance with applicable rules.

What is the purpose of the annual meeting?

As outlined in the meeting notice, at the annual meeting the stockholders will be asked to elect three (3) members to the Board of Directors of ProAssurance, as Class III directors, to serve until the 2016 annual meeting, to ratify the appointment of Ernst & Young LLP as independent auditors, to approve the ProAssurance Corporation 2014 Annual Incentive Plan and to approve the ProAssurance Corporation 2014 Equity Incentive Plan. Additionally, stockholders will be asked to cast an advisory vote on the approval of our executive compensation as disclosed in this proxy statement.

How does the Board of Directors recommend that I vote?

The Board of Directors recommends a vote FOR electing all nominees for director (Proposal 1); FOR ratifying the appointment of Ernst & Young LLP as our independent auditors (Proposal 2); FOR the approval of the 2014 Annual Incentive Plan (Proposal 3); FOR the approval of the 2014 Equity Incentive Plan (Proposal 4); and FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement (Proposal 5).

What is the record date and what does it mean?

The Board of Directors set March 22, 2013 as the record date for the annual meeting. You are entitled to notice of and to vote at the annual meeting if you own shares as of the close of business on our record date.

How many shares are entitled to vote at the annual meeting?

At the close of business on the record date there were 61,917,012 outstanding shares of our common stock, par value $0.01 per share (Common Stock). Additionally, we hold 38,280 shares as treasury shares that cannot be voted at the meeting. You are entitled to one vote in person or by proxy on all matters properly to come before the annual meeting for each share of our Common Stock that you own on the record date.

What constitutes a quorum?

The presence, in person or by proxy, of the holders of one-third of the shares of Common Stock entitled to vote at the meeting will constitute a quorum to conduct business at the annual meeting. Proxies received but marked as abstentions and broker non-votes (which occur when shares held by brokers or nominees for beneficial owners are not voted on a matter) will be included in the calculation of the number of shares considered to be present at the meeting.

How do I vote?

If you are a record owner of our Common Stock you may vote your shares by attending the meeting and voting in person or you may appoint a proxy to vote your shares on matters properly presented at the annual meeting in any of three ways:

- by signing and returning the enclosed proxy card in the enclosed envelope; or
- by using the internet in accordance with instructions on the proxy card; or
- by using a touchtone telephone and following the instructions on the enclosed proxy card.

If you properly cast your vote, and your vote is not subsequently revoked, your vote will be voted in accordance with your instructions. Stockholders appointing proxies via the internet and by telephone should understand that there may be costs associated with proxy appointments in such manners, such as usage charges from internet access providers and telephone companies, which must be borne by the stockholder.

How do I vote if my shares are in street name ?

If you hold shares in street name (that is, through a bank, broker or other nominee), your shares must be voted in accordance with instructions provided by the nominee. If your shares are held in the name of a nominee and you would like to attend the annual meeting and vote in person, you may contact the person in whose name your shares are registered and obtain a proxy from that person and bring it to the annual meeting.

How do I know if I hold my shares in street name ?

If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of those shares, and your shares are considered held in street name. However, if your shares are registered directly in your name with our transfer agent, you are considered the stockholder of record of those shares.

How do I appoint my proxy on the internet?

You can appoint your proxy at www.proxyvote.com, regardless of how you hold your shares. You will need to have the Control Number from your proxy notice or proxy card available.

Will my proxy appointment on the internet be secure and accurate?

The internet and telephone procedures are designed to authenticate stockholders identities, to allow stockholders to give their voting instructions and to confirm that stockholders instructions have been recorded properly. We have been advised that the internet and telephone procedures that have been made available to you are consistent with the requirements of applicable law.

What is the deadline for submitting my proxy?

Proxy appointments must be received by 11:59 p.m., Central Daylight Time, on May 21, 2013. Submitting your proxy via the internet or by telephone will not affect your right to vote in person should you decide to attend the annual meeting.

Can I revoke my proxy?

Yes. You may revoke your proxy prior to the annual meeting by either (i) submitting to ProAssurance a properly executed proxy bearing a later date, (ii) by providing different telephone or internet instructions at a later date or in person at the meeting, or (iii) by giving written notice of revocation to the Secretary of ProAssurance. The mailing address of ProAssurance is P.O. Box 590009, Birmingham, Alabama 35259-0009, and the street address is 100 Brookwood Place, Birmingham, Alabama 35209.

Are the materials for the annual meeting available on the internet?

Yes. The materials for ProAssurance s 2013 Annual Meeting of Stockholders (the 2012 Annual Report to the Stockholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2012, proxy statement and proxy card) are available on the internet at www.proxyvote.com. Our proxy statement and proxy card for the annual meeting and our 2012 Annual Report also will be available through the Investor Relations section of our website at www.ProAssurance.com until at least May 21, 2014. Our Annual Report to the Stockholders and Annual Report on Form 10-K, and other materials on our website are not proxy soliciting materials.

How do I receive a printed copy of the materials for the annual meeting?

You may obtain a printed copy of this proxy statement, our 2012 Annual Report to the Stockholders and 2012 Annual Report on Form 10-K (including the financial statements and financial statement schedules but without exhibits) without charge by contacting Frank B. O Neil at our address shown above, by telephone at (205) 877-4400 or (800) 282-6242, or by e-mail at Investor@ProAssurance.com. Copies of exhibits to the Annual Report on Form 10-K will be provided upon specific request subject to a charge to cover the cost of producing the copies. You may also request a copy through www.proxyvote.com using your Control Number.

Has ProAssurance made any changes to its corporate governance in the past year?

Yes, we made changes in 2012 to enhance our corporate governance to create a more holistic, principle-based process in evaluating director independence, to enhance our procedure for evaluating related party transactions, to modify the independence requirements for members of our Compensation Committee in order to comply with the new independence requirements mandated by SEC Rule 10C-1 and to establish a procedure for the Compensation Committee to evaluate the independence of compensation consultants to be retained by our Compensation Committee.

How can I get information or documents regarding corporate governance at ProAssurance?

Our Board of Directors has adopted charters for our Audit Committee, Compensation Committee, and Nominating/Corporate Governance Committee, as well as Corporate Governance Principles and our Code of Ethics and Conduct All of these documents and policies are available in the Corporate Governance section of our website, www.ProAssurance.com. Printed copies of our committee charters, Corporate Governance Principles, and Code of Ethics and Conduct may be obtained by contacting Frank B. O Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, by telephone at (205) 877-4400 or (800) 282-6242 or by e-mail at Investor@ProAssurance.com.

SOLICITATION BY BOARD OF DIRECTORS

Our Board of Directors is soliciting your proxy to vote at the 2013 annual meeting. In addition to the solicitation of proxies by mail and the internet, solicitation may be made by certain of our directors, officers or employees telephonically, electronically or by other means of communication. We have not retained a proxy solicitor to assist in the solicitation of proxies, but if we decide to do so we will pay for the fees and other expenses of the solicitor.

PROPOSAL 1 ELECTION OF DIRECTORS

The term for our Class III directors will expire at the 2013 annual meeting. The Board of Directors has nominated William J. Listwan, M.D., John J. McMahon, Jr., Esq. and W. Stancil Starnes, Esq. for election to the Board of Directors at the 2013 annual meeting as Class III directors.

At the annual meeting, you will be asked to elect the following persons as Class III directors to hold office for terms ending at the annual meeting of stockholders to be held in 2016:

William J. Listwan, M.D. (Age 70) has served as a director of ProAssurance since September 2006. Dr. Listwan was a member of the Board of Directors of ProAssurance Wisconsin Insurance Company (PRA Wisconsin), formerly Physicians Insurance Company of Wisconsin, Inc. from its organization in 1986 until its merger with ProAssurance in August 2006. Dr. Listwan practiced Internal Medicine with the Aurora Health Center in West Bend, Wisconsin, from July 1974 to April 2006. From April 2006 until July 2009 he practiced on the faculty of the Medical College of Wisconsin (MCW). He continues to teach medical students as a volunteer and currently holds an appointment as Associate Clinical Professor of Medicine at MCW. He has served as a member of the Board of Trustees at MCW and was the President of Wisconsin Medical Society from 1992-1993. He currently works part time for Quad-Med, a subsidiary of Quad Graphics, Inc, in Milwaukee.

John J. McMahon, Jr., Esq. (Age 70) has served as a director of ProAssurance since February 22, 2002. Mr. McMahon has served as Chairman of Ligon Industries, a manufacturer of waste water treatment equipment, aluminum castings and hydraulic cylinders, following his service as Chairman of the executive committee of McWane, Inc. in Birmingham, Alabama, from 1999 until December 31, 2005. Mr. McMahon currently serves as a director of Protective Life Corporation, a public insurance holding company based in Birmingham, Alabama and formerly served as a director of Alabama National BanCorporation and John H. Harland Company.

W. Stancil Starnes, Esq. (Age 64) was elected to the Board of Directors on September 5, 2007 and serves as its Chairman. Mr. Starnes was appointed as Chief Executive Officer of ProAssurance on July 2, 2007. Mr. Starnes served as the senior and managing partner of the law firm of Starnes & Atchison LLP in Birmingham, Alabama, where he was extensively involved with ProAssurance and its predecessors in the defense of medical liability claims for over 25 years. He withdrew from the firm in October 2006 to serve as President, Corporate Planning and Administration of Brasfield & Gorrie, Inc., a commercial construction firm based in Birmingham, Alabama, where he served until May 2007. Mr. Starnes currently serves as a director of Infinity Property and Casualty Corporation, a public insurance holding company based in Birmingham, Alabama, where he serves on the audit, compensation and executive committees. He formerly served as a director of Alabama National BanCorporation.

The persons named in our board s proxy card have advised us that, unless a contrary direction is indicated on your proxy card, they intend to vote the shares appointing them as proxies in favor of the named nominees. If the nominees should be unable to serve, and the Board of Directors knows of no reason to anticipate that this will occur, the persons named in the proxy card will vote for such other person or persons as may be recommended by our Nominating/Corporate Governance Committee and designated by the Board of Directors, or the Board of Directors may decide not to elect an additional person as a director. The persons named in the proxy card will have no authority to vote for the election of any person other than the nominees or their substitutes in the election of directors.

All of the nominees have been approved, recommended and nominated for election to the Board of Directors by our Nominating/Corporate Governance Committee and by our Board of Directors in accordance with our Corporate Governance Principles. In addition, all nominees have tendered their irrevocable resignations in accordance with our By-Laws and Corporate Governance Principles, as further discussed below.

Our By-Laws require majority voting for the election of directors in uncontested elections (elections where the number of nominees is not greater than the number of directors to be elected). Directors in uncontested elections must receive a greater number of votes for his or her election than votes withheld from such election. Our By-Laws provide that directors in contested elections are elected under a plurality vote standard in which nominees receiving the most votes are elected, regardless of how many shares are voted against the nominee. A contested election is one in which there are more nominees than directors to be elected. The election of directors pursuant to this Proposal 1 is an uncontested election.

With respect to the election of directors, you may vote for all of the nominees or withhold authority to vote for any or all of the nominees. The New York Stock Exchange (NYSE) prohibits brokers from voting uninstructed shares in a proposal relating to, among other corporate governance items, the majority voting of directors. **As a result, if you hold your shares in street name with your broker and you do not specifically instruct your broker how to vote on the election of the directors, your broker will not vote for you on Proposal 1 (election of directors).** Because the vote required for Proposal I (election of directors) is a majority of the votes present in person or by proxy at the meeting and entitled to vote on the proposal, with majority meaning that the number of shares voted for a director s election exceeds the number of shares voted against such director s election, abstentions and broker non-votes will have no effect on the outcome of the voting on the proposal.

Under the laws of Delaware, ProAssurance s state of incorporation, if an incumbent director is not elected, that director continues to serve as a holdover director until the director s successor is duly elected and qualified, even if there are more votes withheld than cast for the director. As a result, the Board of Directors has adopted a policy that requires each nominee for election as a director to tender, as a condition to the Board of Directors nomination of that director, a written irrevocable resignation as a director to be effective after the annual meeting at which such person is nominated for election to the Board of Directors if the following conditions are satisfied: (1) such person is nominated as a director in an uncontested election; (2) such person receives a greater number of withheld votes from his or her election than votes for such election; and (3) such resignation is accepted by the Board of Directors. If any nominee in an uncontested election does not receive the required vote for election, the Board of Directors will decide whether to accept or reject the resignation previously tendered by such nominee. The Board of Directors may consider all factors it deems relevant in deciding whether to reject a tendered resignation, including, but not limited to, the following: (i) any stated reasons why stockholders withheld votes from such nominee, (ii) any alternatives for curing the underlying cause of the withheld votes, (iii) if the nominee is a current director, the director s tenure, (iv) the nominee s qualifications, (v) the nominee s past and expected future contributions to ProAssurance, and (vi) the overall composition of the Board of Directors, including whether accepting the resignation would cause ProAssurance to fail to meet any applicable SEC or NYSE requirements. The Board of Directors is required to act on the resignation within ten days following certification of the stockholder vote indicating that such person received a greater number of withheld votes in the uncontested election. A Director who is elected in an uncontested election but who received a greater number of withheld votes will serve as a Director until the Board accepts such Director s resignation.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE **FOR** THE NOMINEES NOMINATED FOR ELECTION AS DIRECTORS BY THE BOARD OF DIRECTORS.

Board of Directors

Our Certificate of Incorporation provides that our Board of Directors is comprised of at least three and not more than twenty-four directors, as determined by the Board of Directors. The Certificate of Incorporation

requires that our directors be divided into three classes as nearly equal as possible and that the directors serve staggered terms of three years. The remaining directors may fill any vacancies on the Board of Directors resulting from the death, resignation or removal of a director or from any increase in the number of directors. A director elected by the directors to fill a vacancy on the Board of Directors holds office until the next election of the class of directors for which such director has been chosen.

At its meeting on December 5, 2012, the Board of Directors determined that the size of the Board will be reduced from twelve to eleven directors following the election of directors at the 2013 annual meeting of stockholders. In accordance with our certificate of incorporation, the number of Class I directors and Class II directors will continue to be four in each class, and the number of Class III directors will be reduced from four to three directors. Victor T. Adamo, Esq., CPCU, a non-independent management Class III director who has served on our Board of Directors since 2001, will not stand for re-election to our Board due to his planned retirement from the Company.

The Board of Directors has nominated William J. Listwan, M.D., John J. McMahon, Jr., Esq. and W. Stancil Starnes, Esq. for election to the Board of Directors at the 2013 annual meeting as Class III directors as set forth above under the caption Proposal 1 Election of Directors. Information regarding the nominees is set forth above and information regarding the directors continuing in office is set forth below, all of which was confirmed by them for inclusion in this proxy statement. Information regarding stock ownership by the nominees and continuing directors is set forth in the table under the caption Beneficial Ownership of Our Common Stock included elsewhere in this proxy statement.

Class I Directors Continuing in Office Term Expiring in 2014

Lucian F. Bloodworth (Age 72) has served as a director of ProAssurance since August 22, 2002. Mr. Bloodworth has been the Chairman of Cain Manufacturing, a manufacturer of specialty parts for air distribution and roofing based in Birmingham, Alabama since 1988. Prior to that time he was a senior executive for life insurance subsidiaries of Protective Life Corporation and for National Bank of Commerce. Mr. Bloodworth has been a fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

Robert E. Flowers, M.D. (Age 63) has served as a director of ProAssurance since June 2001and became our lead director in May 2012. Prior to June 2001, Dr. Flowers served as a director of our insurance subsidiary, ProAssurance Indemnity Company, Inc. (formerly, The Medical Assurance Company, Inc.) from 1985 to 2001, and as a director of its former holding company, Medical Assurance, Inc. (1995-2001). Dr. Flowers practiced as a physician with Gynecology Associates of Dothan P.C., Dothan, Alabama, prior to his retirement in 2001.

Ann F. Putallaz, Ph.D. (Age 67) has served as a director of ProAssurance since June 2001. Prior to 2001, Ms. Putallaz served as a director of our predecessor, Professionals Group, Inc. (1996-2001), and as its Vice-Chairman (1999-2001). Ms. Putallaz received her Ph.D. in economics in 1974 and has served in various capacities for firms engaged in the investment management business since 1983. Ms. Putallaz is currently Principal of AFP Consulting, LLC. She retired from Munder Capital Management, an investment advisor to The Munder Funds, an open end investment company registered under the Investment Company Act of 1940 where she served as Director of Data & Communication Services.

Drayton Nabers, Jr., Esq. (Age 68) has served as a director of ProAssurance since 2008. Mr. Nabers also served as a director of ProAssurance from February 2002 until he resigned effective December 31, 2002, to serve as Finance Director of the State of Alabama. Mr. Nabers served as Finance Director until June 2004, when he was appointed Chief Justice of the Alabama Supreme Court where he served until 2006. He is currently in private practice with the law firm of Maynard, Cooper & Gale, PC in Birmingham, Alabama. Mr. Nabers was a senior executive officer of Protective Life Corporation from 1979 until his retirement as its Chairman and Chief Executive Officer in 2001. He is currently a director of Infinity Property and Casualty Corporation, where he serves as Chairman of the nominating and corporate governance committee, and is a member of the investment and executive committees.

Class II Directors Continuing in Office Term Expiring in 2015

M. James Gorrie (Age 50) has served as a director ProAssurance since 2012. Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie in Birmingham, Alabama, a construction firm with recent annual revenues in excess of $2 billion. He holds a B.S. in Building Science from Auburn University and serves as a Director of First Commercial Bank (a division of Synovus Bank, one of the largest community banks in the Southeast) and St. Vincent s Hospital in Birmingham, among other entities.

Frank A. Spinosa, D.P.M. (Age 58) has served as a director ProAssurance since 2012. Dr. Spinosa is a board-certified podiatrist and is a partner and founder of Shelter Island Podiatry Associates in Shelter Island, New York. Dr. Spinosa serves as a member of the Board of Trustees and as Vice President of the American Podiatric Medical Association and is a past President of the New York State Podiatric Medical Association. He has taught as an Associate Professor of Radiology at the New York College of Podiatric Medicine.

Anthony R. Tersigni, Ed.D., FACHE (Age 63) has served as a director ProAssurance since 2012. Dr. Tersigni is the President and Chief Executive Officer of Ascension Health Alliance in St. Louis, Missouri, the new parent holding company for Ascension Health. Ascension Health is the largest not-for-profit and the largest Catholic health system in the United States. Prior to the creation of the new holding company organizational structure, Dr. Tersigni served as the President and Chief Executive Officer of Ascension Health for over 7 years. Dr. Tersigni holds a doctorate in the field of leadership and organizational development from Western Michigan University in Kalamazoo, Michigan, as well as honorary doctorates from the Aquinas Institute of Theology and St. Louis University.

Thomas A.S. Wilson, Jr., M.D. (Age 51) has served as a director of ProAssurance since 2012. Dr. Wilson is a board-certified neurosurgeon with Neurosurgical Associates, P.C., in Birmingham, Alabama. He holds a B.S. in natural science and mathematics from Washington & Lee University and M.D. from Vanderbilt University. He completed an internship in general surgery and a residency in neurosurgery at Bowman Gray School of Medicine, Wake Forest University.

Independent Directors

As required by the New York Stock Exchange Corporate Governance Listing Standards (NYSE Rules), a majority of the directors on our Board of Directors are required to be independent directors. Our Board of Directors has determined that the following directors are independent directors:

Lucian F. Bloodworth
Robert E. Flowers, M.D.
M. James Gorrie
William J. Listwan, M.D.
John J. McMahon, Jr.
Drayton Nabers, Jr.
Ann F. Putallaz
Frank A. Spinosa, D.P.M.
Anthony R. Tersigni, Ed.D., FACHE
Thomas A.S. Wilson, Jr., M.D.

Prior to 2012, our Board evaluated the independence of our directors using independence criteria set forth in the Board s Policy Regarding Determination of Director Independence (the Independence Criteria), which allowed the Board to presume the independence of a director or nominee if he or she satisfied the Independence Criteria. The SEC has revised its disclosure rules over the years to require disclosure of the board s evaluation of each related party relationship or transaction involving a director or nominee for a director, regardless of whether or not he or she would be presumed independent under the Independence Criteria adopted by the board of directors. As a result, we revised our independence evaluation process in 2012 towards a more subjective and holistic, principles-based approach and eliminated the Independence Criteria. The new procedure requires the Board to affirmatively determine that a director nominee has no material relationship with the Company that will preclude his or her independence after using a 3 step approach that: (1) identifies all relationships and transactions between the director and the Company; (2) analyzes those relationships under certain criteria, including the NYSE Rules, the recommendations for corporate governance (Governance Guidelines) published by Institutional Shareholder Services (ISS) and Glass Lewis & Co.,LLC, and specific committee independence

requirements under Internal Revenue Code Section 162(m) and SEC Rule 16b-3; and (3) analyzes any remaining relationship to determine whether such relationship precludes a finding of independence in the Board s business judgment. The Board considered the following relationships in its evaluation of the independence of our non-management directors.

Section 303A(b)(v) of the NYSE Rules provide that a director cannot be independent if he or she is a current employee, or a member of his or her immediate family is a current executive officer, of another company that has made payments to, or received payments from, ProAssurance during the past three (3) years in an amount that exceeds the greater of $1 million or two percent (2%) of that other company s consolidated gross revenues during each fiscal year ended in such period.

Anthony R. Tersigni, Ed.D., FACHE is the President and Chief Executive officer of Ascension Health Alliance. Ascension Health Alliance is the parent holding company for Ascension Health (AH) and Ascension Health Insurance, Ltd. (AHIL). Effective January 1, 2011, ProAssurance entered into a Program Agreement with AH (the Program) pursuant to which a branded joint insurance program was created to insure the professional liability of certain physicians and healthcare providers affiliated with the Ascension Health Alliance health system, which is comprised of over 70 non-profit hospitals and other healthcare providers (the System). The Program, marketed under the name Certitude, is administered and underwritten by ProAssurance s insurance subsidiaries. Policies issued under the Program are reinsured by AHIL. In 2012, ProAssurance s insurance subsidiaries wrote premiums through the Program in the amount of $13,593,375, of which ProAssurance paid a reinsurance premium to AHIL in the amount of $7,308,245 and AHIL paid to ProAssurance a ceding commission of $1,263,583. The Board found that Dr. Tersigni was not precluded from being independent because the amount of payments to and from ProAssurance was significantly below the two percent (2%) of the consolidated revenues of Ascension Health Alliance, and thereby did not meet the materiality threshold that would preclude a finding of his independence of the NYSE Rules. Furthermore, the Board found that Dr. Tersigni is not precluded from being independent under the Governance Guidelines, which prohibits any material transaction relationship using the same thresholds applied solely to the recipient of the payments.

Frank A. Spinosa, M.D. serves as a member of the Board of Trustees and as Vice President of the American Podiatric Medical Association (the Association), but is not an employee of the Association and receives no compensation for his services. The Association and ProAssurance s subsidiary, Podiatry Insurance Company of America (PICA), are parties to a License Agreement effective March 1, 2011 (the License Agreement), pursuant to which PICA is required to pay the Association $100,000 per annum for the Association s endorsement of PICA s medical professional liability insurance and for the right to use the Association s name, logo and member list in marketing the endorsed products. PICA has also agreed to pay at least $25,000 per annum in support of the Annual Scientific Meeting; to provide a PICA Risk Management Program at such meeting; and to provide a premium discount to PICA insured podiatric physicians who attend the Risk Management Program. Finally, PICA has agreed to support the Association s Young Member Program at the rate of $175,000 per annum. In 2010, 2011 and 2012, PICA paid the Association $388,000, $388,700 and $355,250, respectively, pursuant to the License Agreement and as miscellaneous donations. The current budget for the Association contemplates annual revenues of approximately $12 million. Based on these amounts, the Board found that Dr. Spinosa was not precluded from being independent under NYSE Rules because the payments to and from ProAssurance in the last three years were below the threshold of $1,000,000 or two percent (2%) of the revenues of the Association. Furthermore, the Board found that Dr. Spinosa is not precluded from being independent based on our understanding of the Governance Guidelines, which prohibits any material transaction relationship using the same thresholds applied solely to the recipient of the payments. In addition, we have had discussions with ISS about these payments to the Association and their historical context and importance to the business of PICA, and we were advised that ISS considers that these payments are transactional in nature so that they should not preclude a finding that Dr. Spinosa is independent.

Three of our directors have purchased medical professional liability insurance from the Company either directly or indirectly through their respective practice entities during the last three years (Drs. Listwan, Spinosa and Wilson), and Dr. Spinosa s spouse is a physician insured by the Company. Dr. Listwan paid premiums of

less than $3,000 in each of 2010, 2011 and 2012. Dr. Spinosa and his spouse have purchased individual policies of medical professional liability insurance from PICA during the last three years as follows: 2009-2010 Dr. Spinosa $4,804 and spouse $4,533; 2010-2011 Dr. Spinosa $5,237 and spouse $4,664; and 2011-2012 Dr. Spinosa $5,865 and spouse $5,355. Dr. Wilson purchased individual policies of medical professional liability insurance from an insurance subsidiary of ProAssurance in each of the last three years as follows: 2010-2011 $50,961; 2011-2012 $49,163; and 2012-2013 $47,979. Dr. Wilson is also an executive officer of Neurosurgical Associates, P.C., which is insured by one of ProAssurance s insurance subsidiaries with a current premium of approximately $159,000. All insurance policies were obtained in the ordinary course of business at rates that are consistent with our filed rates and customary underwriting practices. The premiums paid with respect to the individual physicians or the practice entities do not exceed the lower $1,000,000 standard of materiality set forth in the NYSE Rules.

Our Board has consistently found that it is customary and appropriate for our physician directors to obtain their professional liability insurance from our insurance subsidiaries and that the purchase of insurance from our subsidiaries will not impair the independence of a director so long as the premiums paid are less than the $1,000,000 limitation in the NYSE Rules. In addition, the Board determined that the purchase of insurance did not create any material interest in the transaction such that it would have an effect on the independence of a director. For this reason, the Board also determined that the purchase of insurance should not be considered a material relationship based on our understanding of the Governance Guidelines since it does not influence these directors objectivity in a manner that would impair their ability to satisfy fiduciary standards.

Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie (B&G). B&G is a controlling member of Hangar 24, LLC of which ProAssurance owns 20% and B&G owns 80%. The sole purpose of Hangar 24, LLC is to share the cost of the hangar leased from the Birmingham Airport Authority where ProAssurance keeps its corporate aircraft. Hangar 24 pays the rent on the hangar and the airport bills B&G for the fuel used at the hangar. ProAssurance reimburses Hangar 24 for its share of the rent and reimburses B&G for the cost of the fuel used by its aircraft. The Board of Directors determined that this relationship did not preclude Mr. Gorrie s independence because the amounts paid to B&G do not exceed the greater of $1,000,000 or 2% of the recipient s gross revenues and it does not meet the materiality threshold for material transactions under the Governance Guidelines.

Mr. McMahon is an executive officer and a controlling shareholder of Ligon Industries (Ligon). Ligon and ProAssurance (through their subsidiaries) are parties to an Aircraft Interchange Agreement dated April 5, 2012. Pursuant to this agreement, ProAssurance has the right to use the Ligon aircraft at its election on the condition that ProAssurance allows Ligon to use the ProAssurance aircraft for the same amount of time. The Board of Directors determined that this relationship did not preclude Mr. McMahon s independence because the value of the exchange between Ligon and ProAssurance did not exceed the greater of $1,000,000 or 2% of the recipient s gross revenues and it does not meet the materiality threshold for material transactions under the Governance Guidelines.

The Board of Directors has determined that the relationship between Ascension and ProAssurance will not impair the independence of Dr. Tersigni; the relationship between PICA and the American Podiatric Medical Association will not impair the independence of Dr. Spinosa; that the purchase of medical professional liability insurance by our directors and their relatives will not impair the independence of Drs. Listwan, Spinosa and Wilson; that the relationship between ProAssurance and B&G will not impair the independence of Mr. Gorrie; and that the relationship between ProAssurance and Ligon will not impair the independence of Mr. McMahon.

The NYSE rules provide that a director cannot be independent if he or she, or an immediate family member of such director, has received compensation (other than director and committee compensation) during any 12-month period of more than $120,000 from, ProAssurance or any of its subsidiaries in any of the last three years.

Dr. Spinosa s spouse has served on the physicians committee of PICA and received compensation and reimbursement of expenses from PICA in the following amounts during the last three years: 2010 -$20,711; 2011 $20,944; and 2012 $9,000 (net of $2,966 for reimbursement of expenses). Dr. Spinosa did not receive any compensation from PICA or any other subsidiary of ProAssurance during this period. The Board determined that the payments to Dr. Spinosa s spouse did not impair his independence because the amount of the fees did not exceed the $120,000 threshold and because his spouse is not dependent on PICA for her primary source of compensation. Since $2,966 of the total amount paid to Dr. Spinosa s spouse in 2012 was for reimbursement for business expenses rather than direct compensation, the Board also determined that such payments should not violate the Governance Guidelines which prohibit compensation for professional services in excess of $10,000 per year to a director s spouse.

We have engaged Dr. Listwan as a consultant under a Consulting and Confidentiality Agreement that provides that Dr. Listwan will provide nonexclusive services to ProAssurance relating to review of insurance cases, facilitating ProAssurance s relationship with the Wisconsin Medical Society and serving as chair of ProAssurance s Wisconsin underwriting and claims committees in consideration of an annual retainer of $44,000. At its meeting on December 5, 2012, the Board of Directors reviewed this consulting arrangement and determined that Dr. Listwan satisfies the current independence criteria for directors because: (i) Dr. Listwan is not an employee of ProAssurance or any of its subsidiaries based on the Board s review of the terms of Dr. Listwan s engagement as a consultant and its consideration of Internal Revenue Service regulations defining employees and independent contractors for purposes of FICA (Federal Insurance Contributions Act) withholding, and the factors used by our Human Resources Department to determine whether a service provider receives a statement on Form W-2 (an employee) or Form 1099 (independent contractor) with respect to its compensation for services; and (ii) the compensation payable to Dr. Listwan for services as a consultant would not exceed the limitation on non-director compensation under the NYSE corporate governance rules. Based on the above analysis, the Board of Directors determined that Dr. Listwan should be considered an independent director under the NYSE Rules notwithstanding the Governance Guidelines, which provide that a director will be deemed an Affiliated Outside Director if he or she receives compensation in excess of $10,000 for professional services .

The Board of Directors has determined that the payment of consulting fees to Dr. Spinosa s spouse and Dr. Listwan should not impair the independence of Drs. Spinosa and Listwan.

Other Relationships Considered.

The Board of Directors evaluated the independence of the members on both the Audit Committee and Compensation Committee. Mr. Bloodworth s, Mr. Nabers and Dr. Putallaz s only relationship with the Company is each of their service on the Board and the Audit Committee. As a result, the Board determined that each of these three directors were permitted to serve on the Audit Committee under the requirements of the SEC rules.

Dr. Flowers, Mr. McMahon and Mr. Gorrie serve on the Compensation Committee. Dr. Flowers only relationship with the Company is his service on the Board and the Compensation Committee. As a result, the Board determined that Dr. Flowers was permitted to serve on the Compensation Committee under the requirements of the SEC rules. In reviewing Mr. McMahon s and Mr. Gorrie s qualifications to serve on the Compensation Committee, the Board evaluated the above described relationships required by the new NYSE Rules mandated by SEC Rule 10C-1. The Board determined that the existence of these relationships did not impact the ability of Mr. McMahon and Mr. Gorrie to satisfy his objectivity in the boardroom or ability to satisfy his fiduciary duty to the Company s stockholders under the NYSE Rules, as well as under the Governance Guidelines.

Qualification of Directors

The Nominating/Corporate Governance Committee and Board of Directors are responsible for determining the appropriate composition of our Board and for the selection of individual candidates. Our Corporate Governance Principles do not establish any specific minimum qualifications or skills that an individual candidate

must possess. Rather, the Corporate Governance Principles direct our Nominating/Corporate Governance Committee to take into account all factors it considers appropriate, including a candidate s reputation for ethical business dealings, knowledge, skill, experience, expertise and the extent to which the candidate would fill a present need in the composition of the Board.

We have recruited directors that we believe bring to our Board of Directors a diverse set of qualifications related to our business and its products. More specifically:

Our primary product is professional liability insurance for healthcare providers. We believe that it is important to have on our Board healthcare professionals who are, or have been, consumers of our insurance products and who understand the business and professional needs of our customers.

Our primary subsidiaries are regulated insurance companies. We believe that it is important to have on our Board persons with experience in the operation of regulated insurance companies.

We have a significant business enterprise in the financial services sector. We believe that it is important to have on our Board persons with business experience, including financial services and the governance of publicly traded companies.

We also believe that it is important that our Board reflect the core values that guide us in fulfilling our Treated Fairly commitment, which are: integrity, respect, doctor involvement, collaboration, communication and enthusiasm.

The following discussion addresses the experience, qualifications, attributes and skills that have led us to the conclusion that our director nominees and our current directors should serve on our Board.

Healthcare Providers: Our Board has four physicians who are independent directors: Robert Flowers, M.D., William Listwan, M.D., Frank A. Spinosa, D.P.M. and Thomas A.S. Wilson, Jr., M.D. Each of these physician-directors is board certified in different medical specialties and actively practices medicine, with the exception of Dr. Flowers, who retired from his obstetric and gynecology practice in Dothan, Alabama after more than 20 years. Dr. Listwan, who has practiced internal medicine in Wisconsin for over 30 years, served as a board member and President of the Wisconsin Medical Society and is currently on the faculty of the Medical College of Wisconsin in Milwaukee. Dr. Spinosa serves as a board member and Vice President of the American Podiatric Medical Association and is President-Elect. Dr. Spinosa is a past President of the New York State Podiatric Medical Association, and has taught at the New York Collection of Podiatric Medicine. Dr. Wilson is a board-certified neurosurgeon who has been in practice for 19 years and has authored numerous publications and presentations.

The presence of our independent physician-directors reflects our commitment to local market presence and to our physician heritage. Dr. Flowers has served on our regional claims committee in Alabama for over twenty years. Dr. Listwan served on the board and claims committee of our Wisconsin predecessor from 1980 until its merger with ProAssurance in 2006. Each of these physicians serves on his respective regional claims committee. Members of that committee regularly attend regional claims committee meetings and assist the Board of Directors in understanding professional liability and risk management issues affecting and of concern to physicians and other healthcare professionals in our professional liability insurance markets.

In addition to our physician directors, our Chief Executive Officer, W. Stancil Starnes, represented practicing physicians in the defense of medical malpractice claims for over thirty years. Mr. Starnes brings to the Board a deep understanding of the legal and professional issues involved in resolving claims and how best to deliver the claims defense that is the key component of our insurance products.

Anthony R. Tersigni, Ed.D., FACHE, also brings valuable healthcare and business knowledge to the Board of Directors. Mr. Tersigni is the President and Chief Executive Officer of Ascension Health Alliance, the parent holding company for Ascension Health, which is the largest not-for-profit, and largest Catholic health system in the United States. Mr. Tersigni holds a doctorate in the field of leadership and organizational development.

Insurance Company Operations: We have four current directors who have significant experience as operating executives of regulated insurance companies, two of whom are independent.

Mr. Starnes has served as our Chief Executive Officer since July 2007 and it has been our practice for our Chief Executive Officer to serve on our Board of Directors. Mr. Nabers served as a senior executive officer of Protective Life Corporation from 1979 until his retirement as its Chairman and Chief Executive Officer in 2001. Protective Life Corporation is an insurance holding company whose principal subsidiaries are engaged in the life insurance business. During his tenure at Protective, Mr. Nabers served on the board of the American Council of Life Insurers from 1994 to 2001 and its Chairman in 2000. Mr. Bloodworth is an actuary and served as a senior executive of insurance subsidiaries of Protective Life Corporation from 1972 until 1983, serving as President of American Foundation Life Insurance Company from 1979 to 1983. During this time, Mr. Bloodworth was a Fellow of the Society of Actuaries and member of the American Academy of Actuaries and a Chartered Life Underwriter.

In addition, Messrs Starnes and Nabers are directors of Infinity Property and Casualty Corporation and Mr. McMahon is a director of Protective Life Corporation, both of which are public insurance companies.

Other Business and Financial Services: We have four independent directors who bring diverse business experience to the Board.

Following his tenure as President of American Foundation Life, Mr. Bloodworth was a senior executive for National Bank of Commerce and since 1988 has been the Chief Executive Officer of a manufacturing company. As an actuary, Mr. Bloodworth, who serves on our Audit Committee, contributes to the ability of the Board to assess the risks relating to the provision for losses and loss adjustment expenses for claims, which is our largest balance sheet liability.

Ms. Putallaz, who obtained a Ph.D. in economics in 1974, has served in various capacities for firms engaged in the investment management business since 1983. Prior to that time she was a lecturer in the Economics Department of the University of Michigan. She currently serves in a volunteer capacity for the CFA Institute, working on initiatives related to the Global Investment Performance Standards® or GIPS®. She chairs the Americas Regional Investment Performance Subcommittee (RIPS) and serves on the GIPS® Executive Committee. Ms. Putallaz, who serves on our Audit Committee, brings her knowledge and expertise to the financial and investment aspects of ProAssurance.

Mr. McMahon s career has focused on the leadership of business enterprises including McWane Cast Iron Pipe Company, a privately held manufacturer of cast iron pipe, and Ligon Industries, a manufacturer of waste treatment equipment, aluminum castings and hydraulic cylinders. His leadership ability is reflected by his election to serve as a Trustee of the University of Alabama, director of UAB Health Systems, and trustee of Birmingham Southern College.

M. James Gorrie also brings valuable business perspective to the Board of Directors. Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie, a construction firm with recent annual revenues in excess of $2 billion. Mr. Gorrie also serves as a Director of First Commercial Bank, a division of Synovus Bank, and St. Vincent s Hospital in Birmingham, Alabama.

Additional Qualifications: In selecting individual candidates, ProAssurance also has considered other relevant experience of our directors including:

Practice of Law: A background in law is of significant value in understanding the legal issues impacting ProAssurance as a publicly traded company and as a holding company for regulated insurance companies. Messrs. McMahon, Nabers, and Starnes all had experience in the private practice of law prior to entering their business careers, and Mr. Nabers also served as the Chief Justice of the Alabama Supreme Court from 2004 until 2006.

Public Company Experience: Apart from ProAssurance and its predecessor companies, Messrs. McMahon, Nabers and Starnes have all served as members of the Board of Directors of one or more publicly traded

companies, and each has gained valuable experience through leadership of, and service on, various standing committees of each Board on which they have served.

Qualification to Serve on the Audit Committee: Members of the audit committee of a publicly traded company are required to be independent and to possess specific financial qualifications. SEC rules require that members of an audit committee be financially literate, and that one member be an audit committee financial expert. In selecting directors, we consider the candidate s ability to serve on the Audit Committee. All members of our Audit Committee have been found to be independent by our Board of Directors under SEC rules and NYSE guidelines. Mr. Bloodworth and Ms. Putallaz meet the financial literacy requirements as a result of their training, employment with financial institutions, and general financial expertise. Mr. Nabers has been designated as our audit committee financial expert based upon his expertise and his experience as an executive officer of Protective Life Corporation and as Finance Director of the State of Alabama.

Diversity: Our Board of Directors is committed to diversity on the Board and within the Company. We believe our directors provide diversity in business experience and geographic representation. As vacancies arise on our Board, we consider diversity as a factor in the selection of a new director.

Board Leadership

Our Board of Directors has determined that is in our best interest for Mr. Starnes to serve as our Chairman of the Board and our Chief Executive Officer. Our Board believes it is in our best interest to have one individual to lead our company and to establish its strategic goals and objectives under the supervision and direction of the Board of Directors. Our Board also believes that having Mr. Starnes serve as our Chairman and Chief Executive Officer facilitates his ability to establish priorities for our Board and management in achieving such goals and objectives.

Our Corporate Governance Principles require our non-management directors to hold executive sessions at which neither management nor the Chief Executive Officer, is present. The Corporate Governance Principles further provide that the executive sessions of non-management directors are to be held on a regularly scheduled basis, not less frequently than two times each year, and that at least one of the executive sessions will be attended by independent directors only. In December 2011, we formally established the position of lead director to preside at each executive session. At the annual meeting in May 2012, the independent directors selected Dr. Flowers as the independent director to preside at the executive sessions. During 2012, our independent directors held an executive session after each quarterly Board meeting.

Risk Oversight

As an insurance holding company, our business is principally conducted by insurance subsidiaries that are subject to insurance laws and regulations in their respective domiciliary states and in the states in which they do business. State insurance regulatory regimes are intended to protect policyholders by vesting in the insurance regulator administrative and supervisory authority to address risks relating to the solvency of insurers and their ability to pay claims as well as to the marketing of insurance products and rates charged for such products. The insurance regulations identify key business risks associated with the insurance business and provide guidance as to the management of these risks.

We have taken steps to catalogue and identify these and additional risks for purposes of enterprise risk management (ERM). We expect our Chief Executive Officer to be in charge of risk oversight. We have also established a management based ERM Committee comprised of persons responsible for our key risk areas, including adequacy of loss reserves; defense of claims and the litigation process; the quality of investments supporting our reserves and capital; compliance with regulatory and financial reporting requirements; and concentration in the medical professional liability insurance business. Our Chief Executive Officer and ERM Committee are responsible for identifying material risks associated with these and other risk areas and for establishing and monitoring risk management solutions that address levels of risk appetite and risk tolerance that are recommended by the committee and reviewed by the Board.

The Board of Directors is responsible for ensuring that our ERM process is in place and functioning. The Board has divided primary ERM oversight responsibility between the Audit Committee and the Nominating/Corporate Governance Committee as follows:

- The Audit Committee has the primary oversight responsibility for risks relating to financial reporting and compliance. We have established lines of communication between the Audit Committee and our independent auditor, internal auditor and management that enable the Audit Committee to perform its oversight function.

- The Nominating/Corporate Governance Committee has the primary responsibility for oversight of those risks covered by the ERM process that are not the responsibility of the Audit Committee. The Nominating/Corporate Governance Committee reviews the ERM process established by management s ERM Committee and monitors the functioning of the process. It also reviews recommendations of our ERM Committee as to materiality thresholds for risks covered in the ERM process and as to the levels of risk appetite and risk tolerance with respect to covered risks.

Meetings and Committees of the Board of Directors

Our Board of Directors held six (6) meetings during 2012. Our By-Laws establish four standing committees of the Board of Directors: the Nominating/Corporate Governance Committee; the Compensation Committee; the Audit Committee; and the Executive Committee, each of which is described below. Each of our incumbent directors attended at least 75% of the meetings of the Board of Directors and the committees of the board on which he or she served during 2012 (in each case, which were held during the period for which he or she was a director).

Neither our Board of Directors nor our Nominating/Corporate Governance Committee has implemented a formal policy regarding director attendance at annual meetings of our stockholders. However, our Board of Directors typically holds its annual meeting directly following the annual stockholders meeting, and it is customary for our directors to attend the annual stockholders meeting. All of our directors attended the annual meeting of our stockholders held on May 16, 2012.

Nominating/Corporate Governance Committee

Our Nominating/Corporate Governance Committee currently consists of three independent directors, and operates pursuant to a written charter, which is available in the Corporate Governance section of our website, www.ProAssurance.com. The primary purposes of the Nominating/Corporate Governance Committee are to:

- identify individuals qualified to become directors and recommend to the Board of Directors for its consideration the candidates for all directorships to be filled by the Board of Directors or to be elected by the stockholders;

- advise the Board of Directors with respect to the board composition, procedures and committees;

- develop and recommend to the Board of Directors a set of corporate governance principles applicable to ProAssurance;

- oversee the evaluation of the Board of Directors and the evaluation of ProAssurance s management;

- oversee the risks covered by ProAssurance s ERM process that are not the responsibility of the Audit Committee; and

- otherwise take a leadership role in shaping the corporate governance of ProAssurance.

The Nominating/Corporate Governance Committee is empowered to engage a third party search firm to assist in identifying and evaluating director candidates. However, the committee did not hire any search firm during 2012 and, accordingly, paid no fees to any such company.

Under our Corporate Governance Principles, the Nominating/Corporate Governance Committee will consider a nominee proposed by a stockholder for a vacancy on our board when such nomination has been submitted in accordance with the provisions contained in our By-Laws, which are described under the caption Stockholder Proposals in this proxy statement. A vacancy does not exist where:

- the Board of Directors desires to re-nominate an incumbent director for an additional term and the director consents to stand for re-election and to serve on our Board of Directors if elected; or
- the Nominating/Corporate Governance Committee has recommended to our Board of Directors a candidate to fill a vacancy and, prior to the receipt of a properly submitted stockholder nomination, such nominee has agreed to stand for election and serve on our Board if elected.

Our Board of Directors may elect not to fill a vacancy arising on the Board. The Board of Directors may elect to not recommend a director candidate nominated by a stockholder even if such director candidate is the only candidate submitted to the Nominating/Corporate Governance Committee to fill a vacancy.

The Nominating/Corporate Governance Committee is responsible for determining the appropriate composition of our Board and for the selection of individual candidates consistent with such determination. Our Corporate Governance Principles do not establish any specific requirements of minimum qualifications or skills that an individual candidate must possess other than the maximum age requirements described in the Corporate Governance Principles. Rather, the Corporate Governance Principles direct our Nominating/Corporate Governance Committee to take into account all factors it considers appropriate, including a candidate s reputation for ethical business dealings, knowledge, skill, experience, expertise, and the extent to which the candidate would fill a present need in the composition of the Board.

Subject to the qualifications described above, our Nominating/Corporate Governance Committee will consider a director candidate nominated by a stockholder in the same manner as candidates brought before the Nominating/Corporate Governance Committee from other sources. Generally, the Nominating/Corporate Governance Committee initially evaluates a prospective nominee on the basis of his or her résumé and other background information that has been made available to the Nominating/Corporate Governance Committee. A member of the Nominating/Corporate Governance Committee will contact for further review those candidates who the committee believes are qualified, who may fulfill a specific board need and who the committee believes would otherwise best make a contribution to the Board. If, after further discussions with the candidate and other further review and consideration as necessary, the Nominating/Corporate Governance Committee believes that it has identified a qualified candidate, it will make a recommendation to the Board.

The charter of the Nominating/Corporate Governance Committee provides for at least three members, each of whom must be an independent director. The current members of our Nominating/Corporate Governance Committee are John J. McMahon, Jr. (Chairman), Lucian F. Bloodworth and Drs. Tersigni and Wilson. Our Board of Directors has found that each member of our Nominating/Corporate Governance Committee is independent within the meaning of the NYSE Rules.

During 2012, our Nominating/Corporate Governance Committee met three (3) times.

Compensation Committee

Our Compensation Committee currently consists of three independent directors, and operates pursuant to a written charter, which is available in the Corporate Governance section of our website, www.ProAssurance.com. The primary purposes of the Compensation Committee are to:

- represent and assist the Board of Directors in discharging its oversight responsibility relating to compensation matters, including determining the compensation arrangements for the chief executive officer and reporting its determination to the Board of Directors for ratification by a majority of independent directors; and
- review and discuss with management the disclosure under the caption Compensation Discussion and Analysis and prepare the report of the Compensation Committee with respect to such disclosure, each of which is to be included in our annual proxy statement.

The Compensation Discussion and Analysis and the Report of the Compensation Committee begin on page 50 of this proxy statement.

The charter of the Compensation Committee charges the committee with the responsibility to determine and approve, subject to ratification by a majority of independent directors, the Chief Executive Officer s compensation level based on the committee s evaluation of the Chief Executive Officer s performance in light of the corporate goals and objectives relevant to the Chief Executive Officer s compensation as approved by the committee. The charter also charges the Compensation Committee with the responsibility to, among other duties, review the competitiveness of the non-Chief Executive Officer executive compensation programs of ProAssurance; approve change of control agreements or severance plans for executive officers of ProAssurance; and make recommendations for director compensation to our Board of Directors. The charter further provides that the Compensation Committee has the exclusive authority to retain outside compensation consultants and advisors as it deems appropriate to fulfill its responsibilities in accordance with the new NYSE rules and SEC Rule 10C-1. In selecting a compensation consultant, the Compensation Committee must consider the six independence factors set forth by the NYSE, as further discussed in **Executive Compensation - Compensation Discussion and Analysis** beginning on page 37 of this proxy statement.

The current practice of the Compensation Committee is to retain an outside consultant from time to time to gather data from peer companies and to use such data as a point of reference when reviewing ProAssurance s compensation practices. The Compensation Committee, with the assistance of ProAssurance s management and its consultant, identifies the peer companies to be used in the compensation analysis. The peer companies are publicly held property and casualty insurance organizations that are comparable to ProAssurance in total assets, market capitalization, revenues and operating margin.

After reviewing peer companies data, the compensation consultant provides a report to the committee that describes market practices with regard to executive compensation and identifies any gaps between the market and ProAssurance s executive compensation practices. In addition, from time to time the Compensation Committee retains a compensation consultant to provide a review and analysis of particular aspects of ProAssurance s compensation program, and the committee in making its recommendations also considers reports of these studies. The Compensation Committee customarily makes its compensation recommendations to our Board of Directors at its regularly scheduled meeting in the first quarter of each year.

ProAssurance s senior management makes no recommendations with respect to compensation of the Chief Executive Officer. The Compensation Committee is exclusively responsible for making compensation recommendations for adoption by the Board of Directors as to changes in base salary for the Chief Executive Officer and the number and type of long-term incentive compensation awards to be granted to the Chief Executive Officer. The Compensation Committee also approves the annual incentive award guidelines for non-equity incentive compensation to be paid to the Chief Executive Officer. All decisions of the Compensation Committee with respect to the Chief Executive Officer compensation are subject to ratification by a majority of the independent directors under the committee s charter.

In accordance with its charter, the Compensation Committee makes recommendations as to compensation of our directors. In 2012, the Compensation Committee engaged a compensation consultant to provide a review of the compensation of our Board of Directors and make recommendations for changes in the compensation of directors for their service on the Board of Directors and for their service on the various committees. These recommendations were approved by our Board of Directors at its meeting in the first quarter of 2013.

The Compensation Committee also administers equity and nonequity incentive plans with respect to awards granted under these plans, which plans currently include the 2008 Annual Incentive Compensation Plan and the 2008 Equity Incentive Plan.

During 2012, our Compensation Committee met three (3) times. The charter of the Compensation Committee provides for at least three members, each of whom must be an independent director (1) within the meaning of NYSE Rules, including, but not limited to, evaluating the independence factors set forth in SEC Rule

10C-1(b), (2) a non-employee director within the meaning of SEC Rule 16b-3 and (3) an outside director within the meaning of the regulations under Section 162(m) of the Internal Revenue Code. The current members of the Compensation Committee are Robert E. Flowers (Chairman), M. James Gorrie and John J. McMahon, Jr. Our Board of Directors has determined that each member of the Compensation Committee is independent and meets the requirements of the Compensation Committee charter. No member of the Compensation Committee has any interlocking relationships required to be disclosed under federal securities laws.

This year s report of the Compensation Committee is on page 50 of this proxy statement.

Audit Committee

Our Audit Committee consists of three independent directors, and operates pursuant to a written charter that is available in the Corporate Governance section of our website, www.ProAssurance.com. The primary purposes of our Audit Committee are to represent and assist the Board of Directors in discharging its oversight responsibility relating to:

- the accounting, reporting and financial practices of ProAssurance and its subsidiaries, including the integrity of our financial statements;
- the surveillance of our administration and financial controls and compliance with legal and regulatory requirements;
- the outside auditor s qualifications and independence;
- ProAssurance s policies on risk assessment and risk management with respect to financial reporting issues; and
- the performance of our internal auditors.

The Audit Committee also prepares the Report of the Audit Committee, which begins on page 21 of this proxy statement as required by the SEC rules.

Our Audit Committee is responsible for carrying out all of the duties and responsibilities required for audit committees under the Exchange Act, and the corporate governance rules of the NYSE for listed companies. A description of the specific duties and responsibilities of our Audit Committee can be found in its charter. Our Audit Committee and Board of Directors have established a procedure which establishes a confidential means for complaints or concerns with respect to accounting, internal controls and auditing matters to be submitted to the committee, which is described under the caption titled Other Matters Policies on Reporting of Concerns Regarding Accounting and Other Matters and Communicating with Directors in this proxy statement.

The charter of the Audit Committee provides for at least three members, each of whom must be an independent director. Drayton Nabers, Jr. is the Chairman, and Lucian F. Bloodworth and Ann F. Putallaz are the other members of our Audit Committee. Our Nominating/Corporate Governance Committee and our Board of Directors have determined that each member of the Audit Committee is independent within the meaning of the rules of both the SEC and NYSE; that each member of the Audit Committee is financially literate as such qualification is defined under the rules of the NYSE; and that Drayton Nabers, Jr., based upon his education and extensive experience in connection with the preparation of financial statements and knowledge of GAAP, including his leadership roles at Protective Life Corporation and as the former Finance Director of the State of Alabama, is an audit committee financial expert within the meaning of the rules of the SEC. No member of the Audit Committee is presently serving on the audit committee of another company.

During 2012, the Audit Committee met nine (9) times.

Executive Committee

Our Executive Committee has the authority during intervals between the meetings of the Board of Directors to exercise all powers and authority of the Board of Directors in the management of our business and affairs, except that the Executive Committee may not:

- alter or repeal any resolution adopted by the Board of Directors that by its terms is not subject to amendment or repeal by the Executive Committee or any resolution relating to the establishment or membership of the Executive Committee;
- act with respect to matters required to be passed upon by the full board, the independent directors, or by a committee comprised of independent directors; or
- act on any matter that has been delegated to the Audit Committee, the Nominating/Corporate Governance Committee or the Compensation Committee in their respective charters.

Our By-Laws provide that the Executive Committee has at least three members including the Chairman of the Board. The members of the Executive Committee are W. Stancil Starnes (Chairman), Victor T. Adamo, Robert E Flowers, and John J. McMahon, Jr. The Executive Committee met one (1) time in 2012.

PROPOSAL 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has appointed Ernst & Young LLP as our auditors for the current fiscal year ending December 31, 2013. Although ratification of the stockholders is not required for appointment of independent auditors under Delaware law or our By-Laws, the Board of Directors believes it is appropriate to seek stockholder ratification of the appointment of Ernst & Young LLP as independent auditor.

Ernst & Young LLP served as the independent auditor of ProAssurance for the year ended December 31, 2012. Representatives of Ernst & Young will be present at the 2013 annual meeting and will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Fees for 2012 and 2011

The table below sets forth the aggregate fees paid by ProAssurance for audit, audit-related, tax and other services provided by Ernst & Young LLP to ProAssurance during each of the last two years.

	2012	2011
Audit fees	$ 1,376,350	$ 1,519,810
Audit-related fees	0	0
Tax fees	0	0
All other fees	0	0
Total	$ 1,376,350	$ 1,519,810

All fees paid to Ernst & Young LLP in 2012 which required the pre-approval of the Audit Committee were approved in accordance with our pre-approval policies and procedures described below.

Pre-Approval Policies and Procedures

Under the Sarbanes-Oxley Act of 2002, the audit committee of the Board of Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. As part of this responsibility, the audit committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor s independence. To implement these provisions of the Sarbanes-Oxley Act, the SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client and governing the audit committee s administration of the engagement of the independent auditor. Our Audit

Committee has adopted an Audit and Non-audit Service Pre-approval Policy, which sets forth the procedures and the conditions pursuant to which services proposed to be performed by our independent auditor may be pre-approved.

For pre-approval of non-audit services, our Audit Committee will consider whether services are consistent with the SEC s rules on auditor independence. Our Audit Committee will also consider whether the independent auditor is able to provide effective and efficient service, for reasons such as its familiarity with our business, people, culture, accounting systems, risk profile and other factors, and whether the services will enhance our ability to manage or control risk or improve audit quality. Our Audit Committee is also mindful of the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services. All such factors will be considered as a whole, and no one factor should necessarily be determinative.

Our Audit Committee determines from time to time the eligible services that may be provided to ProAssurance by our independent auditors in accordance with the requirements and guidance of the SEC and the NYSE, or other exchanges or market systems on which our stock is traded. The Audit Committee also determines whether such services fit in the categories of Audit Services, Audit-related Services, Tax Services and other Permitted Non-audit Services as described below and as the description of such services may be modified under subsequent guidance and interpretation of the regulatory and self-regulatory organizations applicable to ProAssurance, including without limitation, the SEC and the NYSE. The independent auditor may not provide any non-audit services that are prohibited under the provisions of Section 10A of the Exchange Act and the rules and regulations promulgated thereunder.

Audit Services. Audit services in the annual audit engagement include the annual financial statement audit (including required quarterly reviews), subsidiary audits, equity investment audits and other procedures required to be performed by the independent auditor in order for the independent auditor to form an opinion on our consolidated financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control and consultations relating to the annual audit or quarterly review. Audit services also include the engagement for the independent auditor s report on the effectiveness of internal controls for financial reporting. In addition to the audit services included in the annual audit engagement, the Audit Committee may approve other audit services. Other audit services are those services that only the independent auditor can reasonably provide and include statutory audits or financial audits for our subsidiaries or affiliates, services associated with inclusion of acquired companies in our financial statements, and services associated with SEC registration statements, periodic reports and other documents we file with the SEC or other documents issued in connection with a securities offering.

Audit-related Services. Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of our financial statements or that are traditionally performed by the independent auditor. Because our Audit Committee believes that the provision of audit-related services does not impair the independence of the auditor and is consistent with SEC rules on auditor independence, the Audit Committee may grant pre-approval to audit-related services. Audit-related services include, among others: due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations relating to accounting, financial reporting or disclosure matters not classified as audit services; assistance with understanding and implementing new accounting and financial reporting guidance from rule-making authorities; financial audits of employee benefit plans; agreed upon or expanded audit procedures related to accounting and/or billing records required to respond or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements.

Tax Services. Our Audit Committee believes that the independent auditor can provide tax services to ProAssurance such as tax compliance, tax planning and tax advice without impairing the auditor s independence, and the SEC has stated that the independent auditor may provide such services. Hence, our Audit Committee believes it may grant pre-approval to those tax services that:

- have historically been provided by the independent auditor;
- the Audit Committee believes would not impair the independence of the auditor; and
- are consistent with SEC rules on auditor independence.

The Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the sole business purpose of which may be tax

avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations. The Audit Committee will consult with the chief accounting officer or outside counsel to determine that tax planning and reporting advice is consistent with this policy.

Other Non-audit Services. Our Audit Committee believes, based on the SEC s rules prohibiting the independent auditor from providing specific non-audit services, that certain types of non-audit services are permitted. Accordingly, the Audit Committee believes it may grant pre-approval for those permissible non-audit services that it believes are routine and recurring services, would not impair the independence of the auditor, and are consistent with the SEC s rules on auditor independence. Our Audit Committee may not pre-approve any of the SEC s prohibited non-audit services.

Annual Audit Engagement. Our Audit Committee appoints the independent auditor of ProAssurance and pre-approves the services to be provided in connection with the preparation or issuance of the annual audit report or related work. The annual audit services are set forth in an engagement letter prepared by the independent auditor which is submitted to the Audit Committee for approval. The engagement letter provides that the independent auditor reports directly to the Audit Committee. Any audit services within the scope of the engagement letter are deemed to have been pre-approved by our Audit Committee.

Pre-approval of Other Audit and Non-audit Services. Other audit services, audit-related services, tax services, and other non-audit services may be pre-approved by our Audit Committee in accordance with the following procedure either on a specific case-by-case basis as services are needed or on a pre-approval basis for services that are expected to be needed. Our Audit Committee may delegate to one or more designated members of the Audit Committee, who are independent directors of the Board of Directors, the authority to grant pre-approval of these services to be performed by the independent auditors. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

Our management may submit requests for pre-approval of eligible services by the independent auditor from time to time to our Audit Committee or to the member or members of the committee to whom pre-approval authority has been delegated. The request for approval must be sufficiently detailed as to the particular services to be provided so that the Audit Committee knows precisely what services it is being asked to pre-approve and so that it can make a well-reasoned assessment of the impact of the service on the auditor s independence. Budgeted amounts or fee levels for services to be provided by the independent auditor must be submitted with the request for pre-approval. Requests for pre-approval of services by the independent auditor must include a joint statement of the independent auditor and our chief accounting officer as to whether, in their view, the request or application is consistent with the SEC s rules on auditor independence.

Our Audit Committee will be informed not less frequently than quarterly of the services rendered by the independent auditor. Our chief accounting officer will be responsible for tracking all independent auditors fees against the budget for such services and report at least quarterly to the Audit Committee.

The Audit Committee Charter designates our internal auditor to monitor the performance of all services provided by ProAssurance s independent auditor and to determine whether such services are in compliance with this policy. Our internal auditor reports to the Audit Committee on a periodic basis on the results of its monitoring. Both our internal auditor and management will immediately report to the Chairman of the Audit Committee any breach of this policy that comes to the attention of the internal auditor or any member of management. The Audit Committee will also review our internal auditor s annual internal audit plan to determine that the plan provides for monitoring of the independent auditor s services.

Vote Required

The ratification of Ernst & Young LLP as ProAssurance s independent auditor for 2013 will require the affirmative vote of a majority of the shares voting on the matter at the 2013 annual meeting. If you vote your shares without instructions to your proxy on this proposal, your shares will be voted **FOR** the ratification of the

appointment of Ernst &Young LLP. In the event that the appointment of Ernst & Young LLP as independent auditor for 2013 is not approved by the affirmative vote of a majority of the shares voting on the matter, the Board of Directors will request that the Audit Committee reconsider its appointment of independent auditors for the year ending December 31, 2013.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE RATIFICATION OF ERNST & YOUNG LLP AS INDEPENDENT AUDITOR OF PROASSURANCE FOR 2013.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is comprised of three independent directors and operates pursuant to a written charter. The charter is available in the Corporate Governance section of our website at www.ProAssurance.com. During 2012, the Audit Committee met nine (9) times. In conjunction with some of these meetings, the Audit Committee met in executive sessions and met in separate sessions with our independent auditor, our internal auditors, our Chief Executive Officer, Chief Financial Officer and our outside corporate counsel.

Our management is responsible for the preparation, presentation and integrity of ProAssurance s financial statements, accounting and financial reporting principles and the establishment and effectiveness of internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditor is responsible for performing an independent audit of ProAssurance s financial statements in accordance with generally accepted auditing standards and expressing an opinion as to their conformity with generally accepted accounting principles. The independent auditor is also required to review the adequacy and effectiveness of ProAssurance s internal controls on financial reporting. The Audit Committee is directly responsible in its capacity as a committee of the board for the appointment, compensation and oversight of the work of the independent auditor. The independent auditor reports directly to the Audit Committee.

In performing its oversight role, the Audit Committee has considered and discussed the audited financial statements with management and with Ernst & Young LLP, our independent auditor. The Audit Committee also has discussed with the independent auditor the matters required to be discussed by auditing standards and guidelines established by the SEC and the Public Company Accounting Oversight Board (United States) (the PCAOB). The independent auditor is required to have certain communications with the Audit Committee regarding the scope and results of its audit of ProAssurance s financial statements, including the following, if applicable: (i) overall audit strategy, timing of audit, and significant risks identified by the auditor; (ii) significant issues discussed with management in connection with the auditor s appointment; (iii) the auditor s responsibility under standards of the PCAOB; (iv) the quality; acceptability and disclosure of significant accounting policies and practices; (v) identification and assessment of critical accounting policies and estimates; (vi) significant unusual transactions; (vii) difficult or contentious matters subject to consultation outside the audit team; (viii) new accounting pronouncements; (ix) material alternative accounting treatments discussed with management; (x) corrected misstatements related to accounts and disclosures; (xi) uncorrected misstatements considered by management to be immaterial; (xii) significant deficiencies and material weaknesses in internal control over financial reporting; (xiii) adequacy of management s disclosures about its internal control assessment and any changes in internal control; (xiv) other information in documents containing audited financial statements; (xv) fraud and illegal acts that involve senior management or that cause a misstatement of the financial statements; (xvi) independence matters; (xvii) pre-approval of services to be performed by the independent auditors and fees billed for such services; (xviii) significant difficulties encountered in performing the audit; (xix) disagreements with management; (xx) management s consultations with other accountants on auditing matters; (xxi) provision of all material written communications between the auditor and management; (xxii) information regarding the auditor s use of third party services providers; (xxiii) the auditor s internal quality control procedures; (xxiv) material issues raised in quality control reviews of the auditor within the last five years and steps taken to deal with the issues; and (xxv) all relationships between the auditor and ProAssurance. In addition, the auditor is required to inquire as to whether the Audit Committee is aware of matters relevant to the audit such as fraud or possible violation of laws and is further required to communicate to the Audit Committee any other matters arising from the audit that are significant and relevant to the audit committee regarding its oversight of the financial reporting process.

The Audit Committee has received from Ernst & Young LLP a letter providing the disclosures required by PCAOB Rule 3526, Communications with Audit Committees Concerning Independence, with respect to any relationships between Ernst & Young LLP and ProAssurance that in its professional judgment may reasonably be thought to bear on independence. Ernst & Young LLP has discussed its independence with the Audit Committee, and has confirmed in such letter that, in its professional judgment, it is independent of ProAssurance within the meaning of federal securities laws and in compliance with PCAOB Rule 3520.

All audit and non-audit services performed by the independent auditor must be pre-approved by the Audit Committee or a member thereof. The Audit Committee approved the audit services rendered by our independent auditor during ProAssurance s most recent fiscal year. Ernst & Young LLP did not perform any non-audit services in 2012.

Members of the Audit Committee rely, without independent verification, on the information provided to them and on the representations made by management and the independent auditor. Accordingly, the Audit Committee s oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations.

Based on the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee referred to above and in the charter, the Audit Committee recommended to the Board of Directors that the audited financial statements of ProAssurance for 2012 be included in its Annual Report on Form 10-K for the year ended December 31, 2012, prior to the filing of such report with the SEC.

Audit Committee:

Drayton Nabers, Jr., Chairman

Lucian F. Bloodworth

Ann F. Putallaz

March 18, 2013

PROPOSAL 3 - APPROVAL OF THE PROASSURANCE CORPORATION

2014 ANNUAL INCENTIVE PLAN

Introduction

The 2008 Annual Incentive Compensation Plan (the 2008 Annual Incentive Plan) currently in place provides for the payment of annual incentive (bonus) compensation that is intended to qualify as performance based compensation within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). Except for performance based compensation, Code Section 162(m) disallows the deduction for annual compensation in excess of $1,000,000 that is paid to any of the Chief Executive Officer and other executive officers whose compensation is required to be disclosed under the SEC disclosure rules (the named executive officers). Performance based compensation is a significant element of our executive compensation because Code Section 162(m) allows all performance based compensation to be subtracted from an executive s compensation when calculating the Company s deduction of compensation that is subject to the $1,000,000 limitation.

In order to qualify as performance based compensation, the material terms of the performance goals under which the compensation is to be paid must be disclosed to the shareholders and approved by a vote of the shareholders. The material terms and conditions of the 2008 Annual Incentive Plan were disclosed in the proxy statement for the 2008 Annual Meeting of Shareholders and ProAssurance s shareholders approved the plan at the Annual Meeting. We have paid annual incentive compensation under the 2008 Annual Incentive Plan since 2009 and the annual compensation paid to our named executive officers has been disclosed in our proxy statements for annual meetings held in 2010 through 2013.

The 2008 Annual Incentive Plan grants to the Compensation Committee the authority to change the specific targets that must be met to satisfy the business criteria on which a performance goal is based. This

discretion is permitted under the Treasury Regulations under Code Section 162(m), but when this authority is vested in the Compensation Committee, the material terms of the performance goals must be disclosed and reapproved by the shareholders no later than the first shareholder meeting that occurs in the fifth year following the prior approval by the shareholders. Accordingly, the shareholders must reapprove the 2008 Annual Incentive Plan at the 2013 Annual Meeting in order for annual incentive compensation to continue to qualify as performance based compensation under Code Section 162(m).

Rather than reapproving the 2008 Annual Incentive Plan, our Board of Directors has adopted a new annual incentive compensation plan subject to approval of the stockholders at the 2013 annual meeting. The new annual incentive plan will be known as the ProAssurance Corporation 2014 Annual Incentive Compensation Plan (the 2014 Annual Incentive Plan) and will replace the 2008 Annual Incentive Plan effective January 1, 2014. The 2014 Annual Incentive Plan and will have substantially the same terms as the 2008 Annual Incentive Plan except that the new plan that will allow us to incorporate the following into a single document:

The 2008 Annual Incentive Plan includes categories of performance criteria that are generally applicable to insurance companies. Since the plan s adoption in 2008, the Compensation Committee has developed performance criteria within the general criteria set forth in the 2008 Annual Incentive Plan that are more specifically directed at targets for growth of the business of ProAssurance. These targets are disclosed in this proxy statement under the caption **Executive Compensation - Compensation Discussion and Analysis**. A new plan can specifically include the performance targets that have been developed by the Committee and allow these targets to be approved by our stockholders with the other criteria included in the previously approved plan.

The Compensation Committee has adopted policies and interpretive guidance to the 2008 Annual Incentive Plan to comply with requirements under federal legislation and SEC regulations that have been enacted since the plan was adopted.

The Compensation Committee has adopted policies and interpretive guidance to the 2008 Annual Incentive Plan to address issues that have arisen in connection with the operation of the plan and administration of awards granted thereunder.

Our Board of Directors, on the recommendation of the Compensation Committee, has recommended that the 2014 Annual Incentive Plan be submitted to the stockholders for approval at the 2013 Annual Meeting. The terms of the 2014 Annual Incentive Plan have been structured to qualify annual incentive awards as performance based compensation under Code Section 162(m) and to allow the Compensation Committee to continue the practice of adopting annual incentive award guidelines as a basis for paying annual incentive compensation to executives consistent with past practice.

Description of Plan

The principal features of the 2014 Annual Incentive Plan are described below. The description is subject to, and qualified by reference to, the definitive terms of the 2014 Annual Incentive Plan, which is set forth in its entirety as Exhibit A to this Proxy Statement.

Purpose. The purpose of the 2014 Annual Incentive Plan is to:

attract, retain and motivate key employees;

relate compensation to performance;

shift a portion of compensation expense from fixed to variable form; and

reinforce our objectives for profitable growth and continuation of sound overall financial and operating management.

The 2014 Annual Incentive Plan assumes the opportunity to earn incentive compensation in addition to a competitive base salary.

Eligibility. The Compensation Committee will designate participants from our executive officers and other key employees for payment of annual incentive compensation under the 2014 Annual Incentive Plan. Eligibility is conditioned on a participant s continuous employment with us from the date of designation until the committee determines the amount to be paid as incentive compensation for the year. The participants may include our named executive officers.

The number of eligible participants in the 2014 Annual Incentive Plan will vary from year to year in the discretion of the Compensation Committee. In 2013, all named executive officers (except for Mr. Adamo, who is expected to retire in 2013) and five additional key employees were designated to receive incentive compensation awards under the 2008 Annual Incentive Plan, and it is expected that approximately the same number of employees will be selected under the 2014 Annual Incentive Plan in 2014 and years following.

Performance Criteria. Prior to March 31 each year (or such earlier date as may be required under Code Section 162(m)), the Compensation Committee will establish performance objectives that must be attained in order for the payment of incentive compensation to participants under the 2014 Annual Incentive Plan. The performance objectives must be based on one or more of the following criteria:

combined ratio, operating ratio or any component thereof such as loss ratio, underwriting expense ratio, investment income ratio or a combination thereof;

retention rate measured by premium or unit count for all insureds or any subset of insureds;

total return (stock price appreciation divided by beginning share price, plus dividends paid during the year);

growth in book value;

premium revenue, whether new or renewal, for all or a subset of the Company s book of business;

profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures);

earnings (earnings per share or other corporate earnings measures);

net income (before or after taxes, operating income or other income measures);

cash (cash flow, cash generation or other cash measures);

economic value added;

return measures (including, but not limited to, return on assets, capital, equity, investments or sales);

market share;

improvements on capital structure;

business expansion (acquisitions);

investment income;

total revenue;

productivity measures; or

cost reduction measures.

The performance criteria may be described in terms of company-wide objectives or in terms of objectives that relate to the performance of a subsidiary, division, region or function, or in terms of relative performance as compared to an outside reference or peer group. In determining whether a performance objective has been satisfied, the Committee shall include a credit or allowance for dividends declared during the relevant year. Performance objectives with respect to the performance criteria may be specified in absolute terms, in percentages, or in terms of growth from period to period, or growth rates over time, as the Compensation Committee deems appropriate. Performance objectives need not be based upon an increase in positive results under any of the performance criteria.

Payment of Annual Incentive Awards. If one or more of the performance objectives established by the Compensation Committee are satisfied in any year, the Committee may award annual incentive compensation to an eligible participant in an amount up to 300% of such participant s base salary, but not exceeding $3,000,000. Annual incentive compensation will be denominated in dollars and will be payable in shares of Common Stock, cash, or a combination as the Compensation Committee may determine. Shares of Common Stock will have a dollar value equal to the market value of the share on the date on the date specified by the Compensation Committee which must be on or after the date of the Committee s determination of the amount of annual incentive compensation to be paid and prior to the payment date for such compensation. Shares of Common Stock to be awarded as annual incentive compensation will be derived from the shares of Common Stock reserved for issuance under any equity compensation plan of ProAssurance that is then in effect and that has been approved by the stockholders. The delivery of shares of Common Stock to participants as incentive compensation will be considered to be awards or grants under the equity compensation plan for which they have been reserved, and the shares reserved for issuance under the equity compensation plan will be reduced by the number of shares delivered to participants as annual incentive compensation.

The Compensation Committee has the discretion to reduce the amount that would otherwise be payable to a participant as annual incentive compensation based on the performance criteria in the 2014 Annual Incentive Plan by reason of individual performance or other factors the Committee deems appropriate and may establish rules and procedures that will limit amounts paid to each participant to a level below the maximum amount authorized under the 2014 Annual Incentive Plan. The Compensation Committee also has the authority to pay incentive compensation to any participant based on other reasonable subjective criteria, including individual performance, as the committee deems appropriate, but the committee may not use subjective criteria for any executive officer whose incentive compensation is intended to qualify as performance based compensation for purposes of Code Section 162(m). The Compensation Committee may provide for a minimum amount of incentive compensation in a year in connection with the hiring of a named executive officer even if the performance criteria are not satisfied regardless of the requirements of Code Section 162(m).

The 2014 Annual Incentive Plan includes the policies adopted by our Board on December 1, 2010, regarding the one-year holding period for shares of stock paid to executive officers as annual incentive compensation and recoupment of annual incentive compensation paid to executive officers based on financial results in financial statements that are required to be restated after payment of the compensation. An executive officer is defined as the Chief Executive Officer, the Chief Financial Officer and all other senior executives whose compensation is individually reviewed by the Compensation Committee

Administration. The Compensation Committee will be responsible for the administration of the 2014 Annual Incentive Plan. The charter of the Compensation Committee requires that each member be an independent director under the corporate governance listing standards of the New York Stock Exchange, a non-employee director as defined in SEC Rule 16b-3, and an outside director as defined in Code Section 162(m).

The Compensation Committee is required to administer and interpret the 2014 Annual Incentive Plan in a manner that will qualify all payments to Covered Employees as performance-based compensation under Code Section 162(m). Covered Employees are defined as those designated by the Compensation Committee to receive

qualified performance based compensation within the meaning of Code Section 162(m) and the regulations promulgated thereunder. Prior to making any payment to a participant under the 2014 Annual Incentive Plan, the Compensation Committee is required to certify whether the established performance objectives have been obtained and to determine the amount and the method of payment of the incentive compensation payable to the participants.

Amendment and Termination. The Board of Directors or the Compensation Committee may at any time amend, terminate or discontinue the 2014 Annual Incentive Plan, except that no such action may adversely affect the right of any participant with respect to an award for any calendar year which has already commenced and no amendment will be effective without approval of the stockholders if such approval is required to continue to qualify the payments under the plan as performance-based compensation under Code Section 162(m). If the Compensation Committee determines that the 2014 Annual Incentive Plan or any payments to be made thereunder are not in compliance with Code Section 409A, the Committee may amend the plan or outstanding awards to the extent necessary to comply with Code Section 409A even if it affects awards previously made to a participant, but the amendment will be subject to stockholder approval if and to the extent necessary to continue to qualify the payments under the plan as performance-based compensation under Code Section 162(m).

Effective Date. If approved by our stockholders at the 2014 Annual Meeting, the 2014 Annual Incentive Plan will immediately be effective and will apply to incentive awards in annual periods beginning after December 31, 2013.

Deferral of Payment. Each participant who is entitled to participate in our nonqualified Deferred Compensation Plan may elect to defer payment of any award amount under the 2008 Annual Incentive Plan in accordance with the terms of such plan.

Federal Income Tax Consequences. Payments made under the 2014 Annual Incentive Plan will be taxable to the recipients when paid and we will be entitled to a federal income tax deduction in the calendar year for which the amount is paid unless the payment is subject to the limitation under Code Section 162(m).

Code Section 162(m) prohibits a public company from deducting executive compensation in excess of $1,000,000 paid in any year to its Chief Executive Officer and to any of the other four highest compensated executive officers required to be named in the summary compensation table in its proxy statement. Executive compensation includes base salary, annual bonus, stock option exercises, transfers of property (e.g. stock awards) and benefits paid under non-qualified plans. Code Section 162(m) exempts performance-based compensation from the limitation on the deduction for executive compensation. To qualify for the Code Section 162(m) exemption, performance-based compensation must meet the following requirements:

- the compensation is paid solely because one or more pre-established, objective performance goals have been attained;
- the performance goals are established by a compensation committee consisting of two or more outside directors;
- prior to payment the material terms for the payment of the performance-based compensation, including performance criteria must be disclosed to the stockholders and approved by a separate vote of the stockholders; and
- prior to payment, the compensation committee must certify that the pre-established performance objectives have been met.

The 2014 Annual Incentive Plan, if approved by our stockholders, has been structured to allow the Compensation Committee to award annual incentive compensation that will qualify as performance-based compensation under Code Section 162(m). The 2014 Annual Incentive Plan has been structured so that payments will be made as current compensation in compliance with Code Section 409A relating to the taxation of deferred compensation.

Recommendation by the Board; Vote Required

The affirmative vote of the holders of a majority of the shares present or represented by proxy at the 2013 Annual Meeting is required to approve the 2014 Annual Incentive Plan. In accordance with the requirements of the

NYSE, brokers may not vote on the 2014 Annual Incentive Plan without specific instructions from the beneficial owners of shares. **If you hold your shares in street name with your broker and you do not specifically instruct your broker how to vote on the ProAssurance Corporation 2014 Annual Incentive Plan, your broker will not vote for you on Proposal 3 (Approval of the ProAssurance Corporation 2014 Annual Incentive Plan).**

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE **FOR** THE APPROVAL OF THE PROASSURANCE CORPORATION 2014 ANNUAL INCENTIVE PLAN, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 4:

APPROVAL OF THE PROASSURANCE CORPORATION 2014 EQUITY INCENTIVE PLAN

Introduction

Our equity based incentive compensation has been provided under the 2008 Equity Incentive Plan (the 2008 Equity Plan) since 2009. The 2008 Equity Plan was designed to further our long-term growth profitability by offering proprietary interests in the company to those key officers, employees, consultants and directors who will be largely responsible for such growth, and to enhance our ability to retain such persons through long-term incentive compensation in the form of proprietary interests in ProAssurance.

The 2008 Equity Plan authorizes the issuance of performance shares which are intended to qualify as performance based compensation within the meaning of Code Section 162(m). The material terms of the 2008 Equity Plan, including performance goals under which performance shares are to be paid under the plan, were disclosed in the proxy statement for the 2008 Annual Meeting of Shareholders, and our shareholders approved the 2008 Equity Plan at the annual meeting as required under the NYSE Rules for equity compensation plans and as required by Code Section 162(m) for performance based compensation. Because the 2008 Equity Incentive Plan grants to the Compensation Committee the authority to change the specific targets that must be met to satisfy the business criteria on which an approved performance goal is based, the material terms of the performance goals must be disclosed and reapproved by the shareholders no later than the first shareholder meeting that occurs in the fifth year following the prior approval by the shareholders. Accordingly, our shareholders must reapprove the 2008 Equity Incentive Plan at the 2013 Annual Meeting in order for the performance shares to continue to qualify as performance based compensation under Code Section 162(m).

Our Board desires to continue to encourage stock ownership by our key employees through equity-based incentive compensation. Since 2009, the 2008 Plan has been the sole source for shares of Common Stock issued as equity-based annual incentive compensation in the form of stock awards and as equity-based long-term incentive compensation in the form of restricted stock units (RSUs) and performance shares. Rather than reapproving the 2008 Plan, our Board of Directors adopted a new equity-based incentive compensation plan subject to approval of the stockholders at the 2013 annual meeting. The new equity incentive plan will be known as the ProAssurance Corporation 2014 Equity Incentive Plan (the 2014 Equity Plan) and will replace the 2008 Equity Incentive Plan effective January 1, 2014. The 2014 Equity Plan will have substantially the same terms as the 2008 Equity Incentive Plan except that the new plan will allow us to incorporate the following into a single plan document:

- Final regulations under Code Section 409A were enacted after the adoption of the 2008 Equity Incentive Plan. The plan has been amended to comply with Code Section 409A, and our Compensation Committee has adopted interpretive guidance that allows for the amended plan to be interpreted in a manner that is in compliance with the regulations of Code Section 409A. A new plan can specifically address the 409A issues covered by the Committee s interpretive guidance.

- The Compensation Committee has adopted policies and interpretive guidance to the 2008 Equity Incentive Plan to comply with requirements under federal legislation and SEC regulations that have been enacted since the plan was adopted.

The Compensation Committee has adopted policies and interpretive guidance to the 2008 Equity Incentive Plan to address issues that have arisen in connection with the operation of the plan and administration of awards granted thereunder.

Our Board of Directors, on the recommendation of the Compensation Committee, has recommended that the 2014 Equity Plan be submitted to the stockholders for approval at the 2013 Annual Meeting. The terms of the 2014 Equity Plan have been structured to qualify performance shares, stock options and stock appreciation rights as performance based compensation under Code Section 162(m) and to allow the Compensation Committee to continue the practice of providing equity-based incentive compensation to our key employees consistent with past practice. The 2014 Equity Plan must be approved by our stockholders under the NYSE Rules for equity compensation plans. If the 2014 Equity Plan is adopted as a replacement for the 2008 Plan, no further approval of our stockholders will be required under Code Section 162(m) until the fifth anniversary of its adoption.

Description of the 2014 Equity Plan

The terms and conditions of the 2014 Equity Plan are similar to those of the 2008 Plan. The following constitutes a brief discussion of the material features of the 2014 Equity Plan. The description is subject to, and qualified by reference to, the definitive terms of the 2014 Equity Plan, which is set forth in its entirety as Exhibit B to this Proxy Statement.

Purpose. The purpose of the 2014 Equity Plan is to further our corporate profitability and growth in our share value by offering equity or other proprietary interests in ProAssurance to those key officers, employees, consultants and directors who will be largely responsible for such growth. A further purpose of the 2014 Equity Plan is to enhance our ability to recruit and retain qualified executives and key employees through long-term incentive compensation in the form of equity or other proprietary interests in ProAssurance.

Effective Date. If approved by our stockholders at the 2013 Annual Meeting, the 2014 Equity Plan will be the source for incentive awards in annual periods beginning after December 31, 2013. The 2014 Equity Plan will replace the 2008 Equity Plan for any awards granted after December 31, 2013. Awards granted prior to that date will continue to be governed by the 2008 Equity Plan.

Administration. The Compensation Committee will be responsible for the administration of the 2014 Equity Plan. The charter of the Compensation Committee requires that each member be an independent director under the NYSE Rules; a non-employee director as defined in SEC Rule 16b-3, and an outside director as defined in Code Section 162(m). The Compensation Committee will select from eligible participants those persons who in its judgment have the opportunity to influence our long-term profitability. The Committee will determine the awards to be made to participants under the 2014 Equity Plan and the conditions upon which awards will become payable under the plan.

Eligibility. The Compensation Committee may designate any of our employees or directors as participants in the 2014 Equity Plan and may also select as participants persons engaged by ProAssurance to provide services as a consultant or advisor, except that performance shares may be granted only to our employees. An employee is any person (including an officer) who is employed by ProAssurance or a subsidiary in a continuous and regular salaried relationship.

Awards. The Compensation Committee has the authority to make the following type of equity-based awards to participants under the 2014 Equity Plan: (1) performance shares; (2) stock options; (3) stock appreciation rights; (4) restricted stock; (5) restricted units; and (6) other stock based awards. No participant may receive more than a total of 200,000 shares of Common Stock subject to awards granted to such participant under the 2014 Equity Plan in any calendar year.

The 2014 Equity Plan includes the policies adopted by our Board on December 1, 2010, regarding the one-year holding period for shares of Common Stock paid to executive officers as equity incentive compensation or delivered to executives upon the exercise of options or stock appreciation rights and regarding recoupment of incentive compensation paid to executive officers based on financial results in financial statements that are

required to be restated after payment of the compensation. An executive officer is defined as the Chief Executive Officer, the Chief Financial Officer and all other senior executives whose compensation is individually reviewed by the Compensation Committee

Available Shares. Our Board of Directors has authorized the issuance of up to 4,000,000 shares of Common Stock under the 2014 Equity Plan. The number of shares is the same as were authorized under the 2008 Equity Plan after giving effect to the two-for-one stock split in December 2012. The shares may be made available from our authorized and unissued shares of Common Stock or from treasury shares. Awards payable solely in cash are not deducted from the number of shares available for issuance under the 2014 Equity Plan unless paid upon the exercise of a stock appreciation right. Shares subject to awards that are forfeited or cancelled will again be available for issuance under new awards under the 2014 Equity Plan.

If the 2014 Annual Incentive Plan and the 2014 Equity Plan are approved by the stockholders at the 2013 Annual Meeting, the shares of Common Stock issued as annual incentive compensation under the 2014 Annual Incentive Plan will be issued from the shares reserved under the 2014 Equity Plan as other stock based awards, and will reduce the number of shares available for awards under the 2014 Equity Plan.

The Compensation Committee is required to adjust the shares authorized under the 2014 Equity Plan and outstanding awards as necessary to preserve, but not to enlarge, the benefits under the 2014 Equity Plan as a result of a stock split, stock dividend, recapitalization, warrant or rights offering, large special cash dividend, or other similar event. In such event, the Compensation Committee may, in such manner as the committee deems equitable, adjust the number and kind of shares which may be awarded under the 2014 Equity Plan, the number and kinds of shares subject to outstanding awards under the 2014 Equity Plan, the grant, base or exercise price of any outstanding awards, and the performance goals for outstanding awards of performance shares, in each case, subject to the limitation that the adjustments must be made to prevent dilution or enlargement of rights and no such adjustment to performance shares may increase the amount of compensation that would otherwise be payable upon achievement of the performance criteria. In addition, the Compensation Committee may, in its discretion, modify the terms of outstanding awards in anticipation of any of the previously described corporate events or transactions as well as any merger, consolidation or exchange of shares involving ProAssurance in order to settle the awards in cash, accelerate vesting or exercisability of awards, provide for the assumption or conversion of such awards, modify the performance targets and performance periods for performance shares, or effect any combination of the foregoing. The Compensation Committee has no authority to make adjustments solely as a result of the decline in the market value of our Common Stock.

Performance Shares. A performance share is the equivalent of one share of Common Stock which becomes vested upon the attainment of performance objectives established by the Compensation Committee. The Compensation Committee establishes the performance objectives and the length of the performance period to attain such objectives at the time a performance share is awarded. The Committee may prescribe different conditions for different participants. If the Committee intends for performance shares awarded to an executive to qualify as performance based compensation under Code Section 162(m), the performance objectives must relate to at least one of the criteria listed below:

Combined ratio, operating ratio or any component thereof such as loss ratio, underwriting expense ratio, investment income ratio or a combination thereof;

Retention rate measured by premium or unit count for all insureds or any subset of insureds;

Total return (stock price appreciation divided by beginning share price, plus dividends paid during the year);

Growth in book value;

Premium revenue, whether new or renewal, for all or a subset of the Company s book of business;

- Profit (net profit, gross profit, operating profit, economic profit, profit margins or other corporate profit measures);
- Earnings (earnings per share or other corporate earnings measures);
- Net income (before or after taxes, operating income or other income measures);
- Cash (cash flow, cash generation or other cash measures);
- Economic value added;
- Return measures (including, but not limited to, return on assets, capital, equity, investments or sales);
- Market share;
- Improvements in capital structure;
- Business expansion (acquisitions);
- Total Revenue;
- Investment Income; or
- Cost reduction measures.

The performance objectives for performance shares may be described in terms of company wide objectives or in terms of objectives that relate to the performance of the participant or a subsidiary, division, region or function within the company, or in terms of relative performance as compared to an outside reference or peer group.

The Compensation Committee will determine whether the performance objectives for the performance shares awarded to a participant have been attained at the end of the performance period, or if one or more interim periods are authorized by the committee, at the end of an interim period within the performance period. In determining whether a performance objective has been satisfied, the Committee is directed to include a credit or allowance for dividends declared during the performance period. In addition, the Committee may provide at the time performance shares are awarded that any evaluation of performance objectives may include or exclude any of the following described events that occur during the performance period: (i) changes in capital structure as described in the plan; (ii) the effect of changes in tax laws, accounting principles or other laws and provisions affecting reported results; or (iii) acquisitions or divestitures. Any such inclusions and exclusions that affect performance shares awarded to named executive officers must be in accordance with the requirements of Code Section 162(m) for deductibility.

If a participant is employed at the close of the performance period and the Committee determines that performance objectives have been obtained, the participant will be entitled to receive payment for each performance share in an amount equal to the value of one share of Common Stock except that the performance shares will be forfeited if the participant s employment is terminated for cause or without good reason after the close of the performance period and prior to payment. Unless otherwise directed by the Compensation Committee, payment is to be made partly in shares of Common Stock and partly in cash, with the cash portion being approximately equal to the withholding required for taxes.

Stock Options and Stock Appreciation Rights. The Compensation Committee may grant participants incentive stock options within the meaning of Section 422 of the Code or nonqualified stock options that fail to meet one or more requirements of an incentive stock option. The exercise

price for each option must not be less than 100% of the market value of a share of Common Stock on the date specified by the Committee at the time the option is granted. Under the terms of the 2014 Equity Plan, the options become exercisable in five equal

annual installments or at such other time(s) as may be specified by the Compensation Committee at the time of grant. Options may be exercised upon payment of the exercise price to ProAssurance. The exercise price is payable in cash or by delivery of shares of Common Stock having a market value equal to the option price on date of exercise. A participant may effect a cashless exercise by directing ProAssurance to withhold shares otherwise issuable upon the exercise of the option with a market value equal to the option price.

A Stock Appreciation Right, or SAR, is a contractual right to receive the appreciation in the value of a share of Common Stock from date of grant to the date of exercise payable in cash, Common Stock or a combination. The Compensation Committee may grant SARs in tandem with options granted under the 2014 Equity Plan or independent of any option. The base price for SARs must not be less than 100% of the market value of a share of Common Stock on a date specified by the Committee at the time the SAR is granted in the case of SARs granted independent of options or the option price of related options in the case of SARs granted in tandem with options. SARs granted in tandem with options may be exercised only at such times as the related options are exercisable and the exercise of a SAR (or option) will result in the cancellation of any option (or SAR) issued in tandem to the extent of the number of shares in respect of which such option or SAR has been exercised. Under the 2014 Equity Plan, SARs that are independent of options may be exercised at such time as may be determined by the Compensation Committee, or if no determination is made, they will become exercisable in five equal annual installments.

Restricted Stock Grants and Restricted Units. The Compensation Committee may award shares of Common Stock under a restricted stock grant. The grant will set forth a restriction period (without limitation, a specified period of time or a period related to the attainment of performance goals) during which the shares of restricted stock granted will remain subject to forfeiture. The grantee cannot dispose of the shares prior to the expiration of the restriction period. During this period, the grantee will generally have all the rights of a stockholder, including the right to vote the shares and receive dividends. During the restriction period, each certificate will be held in the custody of ProAssurance and bear a legend giving notice of the restrictions in the grant.

The Compensation Committee may grant awards of restricted units, which grant will set forth the terms of a restriction period in the same manner as those applicable to the grant of restricted stock. No shares of Common Stock will actually be issued to a participant at the time a restricted unit award is made. Instead, ProAssurance will establish a separate account for the participant and will record in such account the number of restricted units awarded to the participant. The Compensation Committee will determine whether outstanding restricted units will be credited with amounts equal to any dividends paid by ProAssurance with respect to the corresponding number of shares of Common Stock.

If a participant is employed at the close of the restricted period and the Committee determines that any other conditions to vesting have been satisfied, the participant will be entitled to receive payment of the restricted stock or restricted units subject to the award, except that the restricted stock and restricted units will be forfeited if the participant s employment is terminated for cause or without good reason after the close of the performance period and prior to payment. Awards of Restricted Stock are payable by delivery of the shares of Common Stock subject to the award. Awards for restricted units are payable in an amount equal to the value of one share of Common Stock, and unless otherwise directed by the Compensation Committee, payment is to be made partly in shares of Common Stock and partly in cash, with the cash portion being approximately equal to the withholding required for taxes.

Other Stock-Based Awards. The Compensation Committee is authorized to grant other awards under the 2014 Equity Plan that are denominated or payable in shares of Common Stock. The Committee may determine the terms of such awards so long as they are consistent with the purposes and are subject to the terms of the 2014 Equity Plan.

Dividends on Awards. Dividends paid on restricted stock will be held for the account of the recipient of the award during the restricted period subject to the restrictions and risk of forfeiture on the restricted stock. The Compensation Committee may determine at the time it grants awards for performance shares or restricted units whether and to what extent to credit to the account of the recipient receiving the award, an amount equal to the dividend equivalent on the number of shares of Common Stock subject to the Award. A dividend equivalent is

defined as an amount equal to any dividends paid by ProAssurance with respect to a share of Common Stock during the performance period in the case of performance shares or during the restricted period in the case of restricted units. Dividends on restricted stock that are not forfeited are payable in cash at the time of payment of the restricted stock. Dividend equivalents on performance shares and restricted units, if any, are payable after the Committee determines that the performance objectives have been met in the case of performance shares or the restrictions and conditions have been satisfied in the case of restricted units and are added to any cash payment to be made to a participant with respect to the subject performance shares or restricted units.

Termination of Employment by Reason of Death or Disability. If a participant s employment is terminated by reason of death or disability and the termination occurs prior to the close of any performance period for outstanding awards of performance shares held by the participant, the performance shares will be deemed to have been earned at the target level and the participant will be paid for the performance shares deemed to have been earned. Each restricted share or restricted unit held by a participant at the time of his or her termination for death or disability will vest become free of all restrictions and conditions. Each outstanding option and SAR held by a participant at the time of his or her termination for death or disability will be fully exercisable for a period of 180 days after termination.

Termination of Employment by a Participant upon Retirement or for Good Reason. If a participant terminates employment by reason of his or her normal retirement or termination for good reason and such termination occurs prior to the close of any performance period for outstanding awards of performance shares held by the participant, the Compensation Committee will determine the number of performance shares that would have been earned if the performance periods had ended at the end of the last complete year prior to the participant s termination, except that any performance shares awarded in the year of termination will be automatically cancelled. The participant will be entitled to payment of a pro rata portion of the performance shares deemed to be earned based on the ratio that the number of months that the participant was actually employed in the performance period bears to the total number of months in the performance period.

Unless the Compensation Committee otherwise determines, each stock option and SAR held by a participant at the time of his or her termination upon normal retirement or for good reason will be fully exercisable for 180 days after termination.

If a participant terminates employment by reason of his or her resignation for good reason and such termination occurs prior to the close of any restricted period for outstanding awards of restricted stock or restricted units held by the participant, the participant will be entitled to payment of a pro rata portion of the restricted stock or restricted units based on the ratio that the number of months that the participant was actually employed in the restricted period bears to the total number of months in the restricted period, except that any restricted stock or restricted units awarded in the year of termination will be automatically cancelled.

A participant will be deemed to have terminated for good reason if the terms of his or her employment or severance agreement or the award notice provides for constructive termination under certain circumstances; conversely, if good reason or constructive termination is not defined in such an agreement or award notice, then a participant has no ability to terminate for good reason under the 2014 Equity Plan. Normal retirement is defined as retirement after the participant reaches sixty years of age or if later, the earliest age at which the participant may retire under any qualified retirement plan maintained by the Companies. The Compensation Committee may consent to an earlier retirement in which event the participant will be treated under the 2014 Equity Plan as if he or she terminated upon normal retirement.

Change of Control. Upon a change of control of ProAssurance (as defined in the 2014 Equity Plan), outstanding performance shares will be deemed to be earned at the target level and paid to participants; all options and SARs will become fully exercisable, and all time based vesting restrictions on restricted stock and restricted units will lapse. In addition, the Compensation Committee may, in its discretion, provide that upon acceleration of vesting upon the change of control, any of the following may occur:

outstanding stock options and SARs will expire if not exercised within a period fixed by the committee;

outstanding awards will be settled in cash rather than shares of Common Stock;

outstanding awards (other than performance shares) will be assumed by the surviving entity or otherwise equitably converted or substituted;

stock options may be settled by payment in cash of the difference between the exercise price and fair market value of a share of the Common Stock; or

any combination of the foregoing.

If the Compensation Committee elects to have outstanding awards assumed or equitably converted or substituted after a change of control, all of the stock options and SARs will become fully exercisable, and all time based vesting restrictions on the awards will lapse, after giving effect to the assumption, conversion or substitution.

Amendment and Termination. Our Board of Directors may terminate or suspend the 2014 Equity Plan at any time, but such termination or suspension will not affect any awards then outstanding under the 2014 Equity Plan. Unless terminated earlier by action of the Board, the 2014 Equity Plan will continue in effect until May 22, 2023, but awards granted prior to such date will continue in effect until they expire in accordance with their terms. The Board of Directors may also amend the 2014 Equity Plan as it deems advisable. Our stockholders must approve any amendment that would result in a material change to the terms of the 2014 Equity Plan that requires stockholder approval under the corporate governance listing standards of the New York Stock Exchange, or under Code Section 162(m), or under SEC Rule 16b-3. The Compensation Committee may amend the terms of any outstanding award, retroactively or prospectively, but no such amendment will adversely affect any such award without the participant s consent, and no amendment may increase compensation payable with respect to a performance share or reduce the exercise price of an outstanding option or the base price of an outstanding SAR (except as permitted for stock splits, stock dividends and other relevant changes affecting the Common Stock).

Federal Income Tax Consequences

The following is a brief summary of the significant aspects of federal income tax treatment of awards that may be granted under the 2014 Equity Plan based upon the federal income tax laws in effect on the date hereof. This summary is not intended to be exhaustive and does not describe state or local tax consequences.

Performance Shares. A participant will not realize taxable income upon the grant of a performance share award. When the performance shares are earned and paid, the participant will realize ordinary income equal to the fair market value of the shares of Common Stock delivered (or the amount of cash paid in lieu of such shares). We will be entitled to a tax deduction at the same time and in the same amount.

Incentive Stock Options. A participant will not realize taxable income upon the grant or exercise of an Incentive Stock Option. If a participant does not sell the stock received upon the exercise of an Incentive Stock Option for at least two years from the date of grant and within one year from the date of exercise, any gain (loss) realized from the sale of the shares will be long-term capital gain (loss). In such circumstances, we will not be allowed a deduction for federal income tax purposes.

If shares purchased on exercise of an Incentive Stock Option are disposed of before the expiration of the holding periods described above, the participant generally will realize ordinary income at that time equal to the excess, if any, of the fair market value of the shares at exercise (or, if less, the amount realized on the disposition of the shares) over the price paid for such shares. We will be entitled to a tax deduction at the same time and in the same amount. The shares so disposed of will have a tax basis equal to their fair market value on date of exercise and the participant will have short-term or long-term capital gain or loss to the extent the amount realized on the disposition exceeds the basis in the shares. Subject to certain exceptions for disability or death, if an Incentive Stock Option is exercised more than three months following the termination of the participant s employment, the option will generally be taxed as a nonqualified stock option.

Nonqualified Stock Options. A participant will not realize taxable income upon the grant of a nonqualified stock option under the 2014 Equity Plan because the plan requires that the option price must be at least 100% of the fair market value of a share on date of grant. When a nonqualified stock option is exercised, the

participant generally will realize ordinary income in an amount equal to the difference between the fair market value of the shares on the date of exercise and the price paid for the shares. We will be entitled to a tax deduction at the same time and in the same amount. Any further gain or loss realized by the participant after the date of exercise will be either short-term or long-term capital gain or loss, depending upon the length of time that the participant has held the shares.

Stock Appreciation Rights. A participant will not realize taxable income upon the grant of a SAR under the 2014 Equity Plan because the plan requires that the base price must be at least 100% of the fair market value of a share on date of grant. When a SAR is exercised, the participant will generally realize ordinary income in an amount equal to the amount of cash and the fair market value of any shares received. We will be entitled to a tax deduction at the same time and in the same amount. If the participant receives Common Stock upon exercise of a SAR, the post-exercise gain or loss will be treated as discussed above under Nonqualified Stock Options.

Restricted Stock. A participant who receives restricted stock generally will realize ordinary income in the amount of the fair market value of the restricted stock at the time the stock is no longer subject to forfeiture, less any consideration paid for the stock. We will be entitled to a tax deduction at the same time and in the same amount. The holding period to determine whether the participant has long-term or short-term capital gain or loss on a subsequent sale will generally begin when the restriction period expires, and the participant s tax basis for such shares will generally equal the fair market value of such shares on such date.

However, a participant may elect, under Section 83(b) of the Code, within 30 days of the grant of the stock, to realize ordinary income on the date of grant equal to the excess of the fair market value of the shares of restricted stock (determined without regard to the restrictions) over the purchase price of the restricted stock. By reason of such an election, the participant s holding period will commence on the date of grant and the participant s tax basis will equal the fair market value of the shares on that date (determined without regard to restrictions). Likewise, we will be entitled to a tax deduction at the date of grant in an amount equal to the ordinary income realized by the participant. If shares are forfeited after making such an election, the participant will be entitled to a deduction, refund, or loss for tax purposes only in an amount equal to the purchase price of the forfeited shares.

Restricted Units. A participant will not realize taxable income when restricted units or dividend equivalents are credited to the participant s account. The participant will realize ordinary income equal to the fair market value of the shares of Common Stock delivered (or the amount of cash paid in lieu of such shares) when the shares and/or cash are delivered or paid in accordance with the Plan. We will be entitled to a tax deduction at the same time and in the same amount.

Code Section 162(m) Limitation. Code Section 162(m) exempts performance based compensation from the limitation on the deduction for executive compensation in excess of $1,000,000. We have designed the 2014 Equity Plan to qualify the stock options and SARs as performance based compensation under Code Section 162(m) and to allow the Compensation Committee to issue performance shares in such manner as will qualify them as Code Section 162(m) performance based compensation. Restricted Stock, Restricted Units and Other Stock Based Awards granted under the 2014 Equity Plan will not be considered performance based compensation under Code Section 162(m).

Code Section 409A. Generally the payment of awards of equity based compensation under the 2014 Equity Plan will not constitute nonqualified deferred compensation subject to Code Section 409A. However, performance shares granted to retirement eligible employees are subject to Code Section 409A, and we have structured payment of the awards of performance shares so that it will comply with Code Section 409A.

Recommendation of the Board; Vote Required

The affirmative vote of the holders of a majority of the shares present or represented by proxy at the Annual Meeting is required to approve the 2014 Equity Plan. If you submit a proxy and do not give instructions on this proposal to your proxy, your shares will be voted **FOR** the approval of the 2014 Equity Plan. In accordance with the requirements of the NYSE, brokers may not vote on the 2014 Equity Plan without specific instructions from the beneficial owners of the shares. Broker non-votes and abstentions will be included in the calculation of the number of shares present at the 2013 Annual Meeting and will have the same effect as a negative vote.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE **FOR** THE APPROVAL OF THE 2014 EQUITY INCENTIVE PLAN.

Securities Authorized under Equity Compensation Plans

The following table sets forth information as of December 31, 2012, with respect to equity securities authorized for issuance pursuant to equity compensation plans previously approved by stockholders of ProAssurance and equity compensation plans not previously approved by ProAssurance s stockholders.

Plan Category	Number of Securities to be issued upon exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity Compensation plans approved by security holders	909,021	$23.22*	2,507,279
Equity Compensation plans not approved by security holders			

*Applicable only to approximately 20,000 outstanding options none of which are held by any officers or directors. Other outstanding share units have no exercise price.

The above table does not reflect 4,000,000 shares (adjusted to reflect the two for one stock split in December 2012) of ProAssurance s Common Stock that are proposed to be reserved for issuance under the 2014 Equity Plan. The terms and provisions of the 2014 Equity Plan are similar to those of the 2008 Equity Plan. If the 2014 Equity Plan is adopted by the stockholders, the 2014 Equity Plan will replace the 2014 Plan effective January 1, 2014. In such event, the Compensation Committee will grant future awards under the 2014 Equity Plan and no further awards will be made from the shares reserved for future issuance under the 2008 Plan. As of March 27, 2013, the number of shares available for future issuance of awards under the 2008 Plan was 2,462,591 shares.

The Compensation Committee cannot determine the amount and nature of awards that will be granted under the 2014 Equity Plan. The disclosure under Executive Compensation Grants of Plan Based Awards on page 53 reflects certain information respecting certain stock awards, performance shares, and restricted units that were granted to our individual executive officers under the 2008 Equity Plan for the year ended December 31, 2012. In addition, the table under Director Compensation on page 65 reflects equity compensation granted to our directors under the 2008 Equity Plan for the year ended December 31,2012. The following sets forth the amount and nature of awards granted to our directors, executive officers and non-executive employees by group.

		2008 Plan[3]	
	Number of Shares Awarded[1]	Number of RSUs Granted[2]	Number of Performance Shares Awarded[3]
Executive Group	22,700	21,505	117,575
Non-Executive Director Group[4]	12,700	812	
Non-Executive Officer Employee Group	18,600	52,309	148,198

(1) All shares reflected in the table have been adjusted to reflect the two for one stock split in December 2012. The number of RSUs and performance shares were also adjusted to eliminate dilution in market value in a share of stock as a result of the special cash dividend paid in December 2012. See Note 1 to the Grants of Plan Based Awards Table .

(2) Shares were awarded as annual incentive compensation for 2012 on February 21, 2013. See Note 5 to the Summary Compensation Table .

(2) The number of RSUs granted on February 27, 2012 , and are payable for the restricted period ending December 31, 2014. The dollar value of these RSUs shares as of the date of grant is reflected as part of the 2012 compensation for the Named Executive Officers in the Summary Compensation Table.

(3) The maximum number of performance shares which were granted on February 27, 2012, and are payable for the performance period ending December 31, 2014. The dollar value of these performance shares as of the date of grant is reflected as part of the 2012 compensation for the Named Executive Officers in the Summary Compensation Table.

(4) Non-management directors were each awarded 635 Shares awarded to non-management directors as compensation for service as directors on May 16, 2012. The dollar value of these shares as of the date of grant is reflected in the Directors Compensation Table .

Recommendation by the Board; Vote Required

The affirmative vote of the holders of a majority of the shares present or represented by proxy at the 2013 Annual Meeting is required to approve the 2014 Equity Incentive Plan. In accordance with the requirements of the NYSE, brokers may not vote on the 2014 Equity Incentive Plan without specific instructions from the beneficial owners of shares. **If you hold your shares in street name with your broker and you do not specifically instruct your broker how to vote on the ProAssurance Corporation 2014 Equity Incentive Plan, your broker will not vote for you on Proposal 4 (Approval of the ProAssurance Corporation 2014 Equity Incentive Plan).**

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE **FOR** THE APPROVAL OF THE PROASSURANCE CORPORATION 2014 EQUITY INCENTIVE PLAN, AS DISCLOSED IN THIS PROXY STATEMENT.

PROPOSAL 5 ADVISORY VOTE ON EXECUTIVE COMPENSATION

Section 14A of the Exchange Act, which was enacted in July 2010 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, requires that we provide our stockholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of our Named Executive Officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC.

As described in detail in this proxy statement under the heading Compensation Discussion and Analysis, we seek to closely align the interests of our Named Executive Officers with the interests of our stockholders. Our compensation programs are designed to reward our Named Executive Officers for the achievement of short-term and long-term strategic and operational goals and the achievement of increased total stockholder return, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. The Compensation Committee and the Board of Directors believe the policies and procedures articulated in the Compensation Discussion and Analysis are effective in implementing our compensation philosophy and in achieving its goals and that the compensation of our executive officers in 2012 reflects and supports these compensation policies and procedures.

The vote on this resolution is not intended to address any specific element of compensation; rather, the vote relates to the compensation of our Named Executive Officers, as described in this proxy statement in accordance with the compensation disclosure rules of the SEC. The vote is advisory, which means that the vote is not binding

on us, our Board of Directors or the Compensation Committee of the Board of Directors. To the extent there is any significant vote against our Named Executive Officer compensation as disclosed in this proxy statement, the Compensation Committee will evaluate whether any actions are necessary to address the concerns of stockholders.

The approval of this Proposal 5 requires the affirmative vote of a majority of the shares voting on the matter at the 2013 annual meeting without regard to broker non-votes or abstentions. Accordingly, we will ask our stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the stockholders of ProAssurance Corporation approve, on an advisory basis, the compensation paid to the Named Executive Officers, as disclosed in ProAssurance Corporation s proxy statement for the 2013 Annual Meeting of Stockholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2012 Summary Compensation Table and the other related tables and disclosure.

Recommendation by the Board; Vote Required

In accordance with the requirements of the NYSE, brokers may not vote on the advisory vote on executive compensation without specific instructions from the beneficial owners of shares. **If you hold your shares in street name with your broker and you do not specifically instruct your broker how to vote on the advisory vote on executive compensation, your broker will not vote for you on Proposal 5 (Advisory Vote on Executive Compensation).**

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE **FOR** THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following discussion will address our compensation practices with respect to our Chief Executive Officer and the other executive officers named in the Summary Compensation Table on page 51 of this proxy statement, which we refer to as our executives in the discussion.

Overview

We seek to offer competitive compensation that is designed to attract and retain qualified and motivated individuals and reward them based on performance and to closely align the interests of our executive officers with the interests of our stockholders. Our executive compensation includes three elements: base salary, annual incentive awards and long-term incentive awards.

We emphasize incentive compensation that rewards our executive officers for the achievement of short-term and long-term strategic and operational goals that are directed at increased total stockholder return. We place the majority of their potential compensation at risk, while at the same time avoiding the encouragement of unnecessary or excessive risk-taking. The amount of an executive s incentive compensation (annual incentive and long-term incentive compensation) at risk relative to base salary is intended to be significant and in 2012 was approximately 75.4% of total compensation for our Chief Executive Officer and ranged from approximately 68% to 70% of total compensation for our other executives. This reflects our objective to reward performance and to link rewards to our strategic business objectives.

Our annual incentive compensation is intended to maximize the efficiency and effectiveness of our operations by providing compensation based on annual corporate performance measures for all executives. Compensation is also based on individual performance measures for executives other than the Chief Executive Officer (and the President prior to 2011).

Our long-term incentive compensation for executives is focused on long-term corporate growth, principally reflected as the increase in book value per share and in the market value of our shares.

On December 1, 2010, our Board adopted resolutions that have affected our executive compensation for years commencing in 2011. These changes to our compensation programs are designed to enhance our corporate governance and build upon our overall pay-for performance philosophy. The resolutions:

- direct ProAssurance and its subsidiaries not to execute any new agreements with executive officers that include a gross-up for the excise tax imposed by Sections 280G and 4999 of the Internal Revenue Code, or an obligation to reimburse executive officers for such excise tax;
- direct ProAssurance and its subsidiaries not to make any new grants of stock-based awards to any executive officer who has not first agreed in writing to hold such stock-based award for a minimum of one year from the date of issue of the stock subject to an award; and
- institute a recoupment requirement (a clawback) for incentive compensation, beginning with 2010 incentive compensation, which requires current and former executive officers to repay erroneously awarded incentive compensation if there is an accounting restatement triggered by material non-compliance with any financial reporting requirement.

We have undertaken to request our shareholders to conduct an advisory vote on our executive compensation at each annual meeting; and in the event of a substantial negative vote, to consider the reasons that we believe prompted that vote. The above described actions along with a summary of our executive compensation were disclosed to our shareholders in the proxy statement for last year s annual meeting at which we received the favorable vote of over 97% of the shareholders who voted on the advisory vote on the executive compensation.

During 2012, we conducted a detailed review of the peer companies used in the evaluation of our executive compensation to develop a peer group that better reflects our financial position and market segment as well as the preferences of selected investors and analysts who are familiar with our business.

Our authority to grant incentive compensation has been provided under the 2008 Annual Incentive compensation Plan and the 2008 Equity Incentive Plan. Our Board has adopted a new annual incentive compensation plan and a new long term equity incentive compensation plan and directed that these plans be submitted to our stockholders for approval at the 2013 Annual Meeting. Each of these plans must be approved by the stockholders at the 2013 annual meeting so that performance based compensation granted under the plans will continue to qualify under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Board elected to adopt new plans to replace the existing plans in order to incorporate into the plan documents certain amendments and policies that we have implemented since 2008 in order to address changes in law and to provide operational and administrative improvements. The new plans are described in this Proxy Statement under **Proposal 3 - Approval of ProAssurance Corporation 2014 Annual Incentive Compensation Plan** and **Proposal 4 - Approval of the ProAssurance Corporation 2014 Equity Incentive Plan** and copies of these plans are attached as Exhibit A and Exhibit B, respectively, to this proxy statement.

Compensation Review Process

As the Compensation Committee, we recommend compensation for our Chief Executive Officer, review compensation recommended by our Chief Executive Officer for other executives, and administer our incentive compensation plans. All of the members of the Compensation Committee are directors of ProAssurance, and our Board has determined that each member is independent under the independence requirements for compensation committee members under the new NYSE Rules regarding independence of members of the Compensation Committee. Our recommendation for the compensation of our CEO is subject to ratification by a majority of the independent directors on our Board.

To aid in our evaluation of the reasonableness of our executive compensation and the competitiveness of such compensation with market practices, we use compensation data from a group of peer companies as a point of reference in reviewing our executive compensation. We use the peer group compensation data with respect to

base salaries, annual incentive compensation and long-term incentive compensation payable to senior level executives. We use this information for the purpose of evaluating the reasonableness of our senior executive compensation and the competitiveness of such compensation with market practices. However, we do not attempt to benchmark our compensation to the peer group.

We retained Total Compensation Solutions (TCS) to assist the Compensation Committee in the evaluation of our executive compensation for the current year and the years covered in the Summary Compensation Table. We also engaged TCS to assist the Compensation Committee in evaluating the compensation levels for directors serving on our Board and its committees for years beginning in 2013. The Compensation Committee has been directly responsible for the appointment and oversight of TCS in the years covered in the Summary Compensation Table. TCS has performed no services for ProAssurance other than those performed for the Compensation Committee during this period. The compensation payable to TCS for its services to ProAssurance has been fixed by the Committee and funded by ProAssurance. ProAssurance does participate in an industry survey prepared each year by TCS at an annual cost to ProAssurance of less than $1,000.

As required by rules recently enacted by the SEC and the NYSE, we evaluated the independence of TCS in connection with its engagement as compensation consultant for the Compensation Committee for 2013. We determined that TCS is independent after making inquiry of TCS with respect to the factors set forth in the NYSE guidance for evaluation of the independence of compensation consultants. Among the factors that we considered were that TCS performed no services for ProAssurance other than those performed for the Compensation Committee and the industry survey referenced above; that the fees paid by ProAssurance comprised less than 3.7% of TCS s revenues in 2012 and less than 2.5% of TCS s revenues in 2011, and that neither TCS nor any of the individuals providing consulting services to ProAssurance own any shares of common stock of ProAssurance and none of them have had a relationship with any executive officers or directors of ProAssurance.

With assistance of our senior management, TCS recommended a list of peer companies to be used as comparators for our executive compensation and compiled compensation data of the peer companies with respect to base salaries, annual incentive compensation, and long-term incentive compensation. TCS evaluated each element of our executive compensation in comparison to the compensation information compiled from the peer companies. The peer companies used as our peer group in 2012 included twenty companies, namely: Alleghany Corporation; Allied World Assurance Co. Holdings, Ltd.; ARCH Capital Group Ltd.; Argonaut Group, Inc.; CNA Surety Corporation; Erie Indemnity Company; FPIC Insurance Group, Inc.; Harleysville Group Inc.; HCC Insurance Holding, Inc.; Horace Mann Educators Corporation; Infinity Property & Casualty Corporation; Markel Corporation; Meadowbrook Insurance Group; Mercury General Corporation; Montpelier Re Holding Ltd.; The Navigators Group, Inc.; RLI Corp.; Selective Insurance Group, Inc.; State Auto Financial Corporation; and W. R. Berkley Corporation.

We used the same group of peer companies for our evaluation of executive compensation in 2012 as we did in 2011 with the exception of two medical professional liability insurance companies that were acquired in 2010, namely American Physicians Capital Inc (acquired by a nonpublic mutual insurer) and American Physicians Service Group, Inc. (acquired by ProAssurance). The specialty insurers included in the peer companies had total assets ranging from $1.8 billion to $17.5 billion with a median of $4.7 billion at the end of 2010 as compared to ProAssurance s year-end total assets of $4.9 billion, and they had a market capitalization ranging from $0.5 billion to $4.0 billion with a median of $1.07 billion at the end of 2010 as compared to ProAssurance s year-end market capitalization of $1.86 billion. The median revenues for all of the peer companies were $1.1 billion as compared to ProAssurance s revenue of $692 million for the year ended December 31, 2010, and the median operating income (before income taxes) for the peer companies was $177 million as compared to $333 million for ProAssurance for the year ended December 31, 2010.

During 2012, we conducted a comprehensive analysis of the companies included in our compensation peer group. The peer group that we used in 2012 and prior years to evaluate our executive compensation was developed by the lead underwriter for our common stock offering in 2002 as part of its due diligence. We have continued to use this peer group to evaluate our executive compensation since then; however, over time a number

of the peer companies have been eliminated due to acquisitions and the financial statistics of the remaining companies and ProAssurance have changed. We asked TCS to assist us in reviewing the peer companies in our peer group and to recommend a peer group for use in 2013 that will better reflect ProAssurance s financial status and market segment.

In developing the 2013 peer group, TCS considered approximately 30 insurance companies, including those in our current peer group. The Compensation Committee selected 20 publicly traded domestic property and casualty insurance companies for use in its evaluation of executive compensation for 2013 in accordance with TCS s recommendation. TCS used the following criteria to support its recommendation of the companies to be included in the peer group:

- TCS began its analysis with the companies in the 2012 peer group.

- During 2012 management of ProAssurance developed a list of approximately 40 specialty insurance companies using financial screens to limit the survey to companies that were within a range of approximately 2x to 1/2x of ProAssurance s total assets, market capitalization or premiums. ProAssurance then conducted a survey of selected investors and analysts, all of whom were familiar with the business of ProAssurance, to rate the listed companies as comparators of ProAssurance. TCS reviewed the results of the survey and considered the preferences of those who participated in the survey in developing its recommendation as to comparators to be included in ProAssurance s peer group.

- TCS reviewed the list of peer companies compiled by Institutional Shareholder Services (ISS) for its use in its evaluation of the executive compensation of ProAssurance.

From these sources TCS selected its recommended peer companies for selection by the Compensation Committee. TCS compared the peer companies under consideration by total assets, operating margin, revenues and market capitalization. The insurance companies for the 2013 peer group had total assets ranging from $1.94 billion to $18.5 billion with a median of $5.7 billion at the end of 2011 as compared to ProAssurance s total assets of $5.0 billion at the end of 2011, and they had a market capitalization ranging from $0.5 billion to $4.62 billion with a median of $1.09 billion at the end of 2011 as compared to ProAssurance s year end market capitalization of $2.16 billion. The annual revenues for the peer companies ranged from $0.46 billion to $5.16 billion with a median of $1.46 billion for 2011 as compared to ProAssurance s annual revenues of $0.72 billion for 2011. The operating margin used by TCS in its evaluation of the peer companies ranged from ProAssurance s high of 57.8% to a low of (0.7%) with a median operating margin of 9.2% for 2011.

In its recommendation for the 2013 peer group, TCS eliminated three companies from the 2012 peer group (CNA Surety Corporation, FPIC Insurance Group, Inc., and Harleysville Group, Inc.) because they are no longer standalone companies. TCS also eliminated one company from the 2012 group (Montpelier Re Holdings Ltd) because it is Bermuda based and the group was limited to domestic companies and because TCS considered it to be engaged a different market segment (reinsurance). TCS recommended that four additional companies be included in the peer group for 2013, namely: OneBeacon Insurance Group, AmTrust Financial Services, Employers Holdings, Inc. and Tower Group, Inc. Each of the added companies is similar in size to ProAssurance in at least one of the financial measures used by TCS; all were recommended as comparators in the survey conducted by ProAssurance; and all are included in the list of peer companies developed by ISS.

In the course of its duties as our compensation consultant, TCS compiles data on executive compensation arrangements from the peer companies and provides us with a report that includes a summary of the compiled data and its observations and recommendations on the competitiveness of the elements of ProAssurance s executive compensation (base salary, annual incentives and long-term incentives). Our senior management provides us information for use in developing our recommendations on executive compensation in the following respects:

- calculation of the incentive compensation payable to each of the senior executives in accordance with the performance criteria in the annual incentive award guidelines as approved by the Compensation Committee for that year;

- review and analysis of the performance criteria for performance shares to be granted as long-term compensation in the current year in view of the long-term corporate goals and objectives;
- calculation of the results of performance criteria and corresponding awards under maturing performance shares;
- estimate of the value of equity compensation in accordance with generally accepted accounting principles in the United States;
- analysis of the performance criteria in the annual incentive award guidelines for the current year in light of current corporate goals; and
- analysis of the form and mix of the compensation elements included in our executive compensation.

Our Chief Executive Officer recommends to the Compensation Committee the appropriate changes in compensation for executive officers (other than the Chief Executive Officer) within the compensation framework established by the Compensation Committee. The Chief Executive Officer has access to the compensation consultant s reports when making these recommendations. We review these recommendations at a Compensation Committee meeting usually held in February after the financial results of the prior year are reasonably certain. We receive the recommendations of the Chief Executive Officer together with supporting material, and we review this information along with the report of the compensation consultant. After analysis of the information, we make our decisions which are transmitted to the full board through the minutes of the Compensation Committee. We accepted the recommendations of the Chief Executive Officer for the current year and all years covered in the Summary Compensation Table.

Our senior management makes no recommendations with respect to compensation of the Chief Executive Officer because our charter vests in the Compensation Committee the exclusive responsibility for making compensation recommendations as to changes in base salary for the Chief Executive Officer and as to the opportunity for payment of annual incentive compensation and long-term incentive compensation to the Chief Executive Officer. All recommendations of our recommendations with respect to the Chief Executive Officer s compensation, which are subject to approval by the independent directors under our charter, were unanimously approved by the independent directors on our Board of Directors for the current year and all years reflected in the Summary Compensation Table.

Chief Executive Officer

W. Stancil Starnes has been our Chief Executive Officer since July 2007. The Summary Compensation Table reflects the compensation paid to Mr. Starnes for 2010, 2011 and 2012 pursuant to an employment agreement between him and the Company. The employment agreement provides that Mr. Starnes will be paid a base salary to be fixed annually by the Board of Directors; that he will be eligible for annual incentive compensation based on corporate objectives consistent with the criteria established for our other executives; and that he will be granted long-term incentive compensation having a value on each date of grant of not less than $500,000. The Compensation Committee and the independent directors approved compensation for Mr. Starnes consistent with these terms and such compensation is described in the following discussion.

Base Salary

Base salary for our executives is established and adjusted according to the following criteria: areas of responsibility; experience; company expense objectives; annual rate of inflation; and individual performance. For 2013, the Compensation Committee increased Mr. Starnes base compensation by 3% to $886,676 effective April 1, 2013, and also generally increased the base compensation of the other executives by 3% of their current base salaries, except that Mr. Friedman s base salary was increased by approximately 10% in view of his responsibilities and to make it more competitive with his peers at other companies in the peer group and Mr. Adamo s base salary remained at the current level in anticipation of his expected retirement during 2013. The increases in base salary for 2013 are consistent with past practice in terms of the ratio of base salary to total direct compensation.

Annual Incentive Compensation

In 2008, our stockholders approved the ProAssurance Corporation 2008 Annual Incentive Compensation Plan. The 2008 Annual Incentive Compensation Plan is designed to permit annual incentive awards to qualify as performance based compensation under Code Section 162(m). Under Code Section 162(m), no federal income tax deduction is allowed for annual compensation in excess of $1 million paid to the Chief Executive Officer and other executives named in the Summary Compensation Table included in our proxy statement unless the excess compensation is considered performance based compensation. Annual incentive compensation awards for years beginning in 2009 have been paid under the 2008 Annual Incentive Plan. The annual incentive compensation for our Chief Executive Officer as reflected in the Summary Compensation Table (on page 51 of this proxy statement) was structured to qualify as performance based compensation under Code Section 162(m).

Our annual incentive compensation program for executives proceeds from and assumes a base salary that is competitive in the market. Annual incentive compensation is intended to maximize the efficiency and effectiveness of our operations by providing significant at risk compensation opportunities for our executives and other selected key employees.

Annual incentive award targets are established during the first quarter for the current year and are expressed as a percentage of base salary. The Compensation Committee establishes guidelines for annual incentive compensation for our executives and other key employees. The Compensation Committee with the assistance of its compensation consultant considers whether our guidelines are reasonable in comparison with the performance measures used by the insurance industry and the likelihood that the guidelines may cause executives to assume material risks in order to achieve their performance measures. Annual incentive awards for executives have been primarily based on corporate performance. For executives other than the Chief Executive Officer (and Mr. Adamo prior to 2011), individual performance is also considered. The Compensation Committee assigns a goal and a relative weight for each of the performance criteria in order to determine whether and to what extent the executive receives an award. Annual incentive awards are subject to increase or decrease to the extent actual performance is greater or less than the target guidelines and within the respective guidelines established by the Compensation Committee. The Compensation Committee uses the guidelines to determine the annual incentive award for our Chief Executive Officer. Our Chief Executive Officer recommends annual incentive awards for the other executives pursuant to the guidelines established by the Committee, and for 2013, the Committee provided the Chief Executive Officer additional discretion to increase or decrease by not more than 10% the percentage of base salary used for annual incentive compensation to executives and to increase the weight attributable to individual performance in the determination of annual incentive for executives (subject to a cap). The recommendations of the Chief Executive Officer are subject to review and modification by the Compensation Committee. The Compensation Committee determines that the goals and incentives are set at a level that are reasonable and consistent with past practice, relate to the sound financial management of ProAssurance and do not involve unnecessary or excessive risk that would threaten the value of ProAssurance.

In 2010, we tracked the following corporate performance measures to determine annual incentive compensation: stock performance; combined ratio performance; achievement of the Company s retention goal; and individual performance. A summary of the weighted percentage for each of the performance criteria and the performance guidelines follows:

	Stock Performance	**Combined Ratio**	**Retention Goal**	**Individual Goals/ Evaluations**
CEO/Adamo	20%	60%	20%	N/A
Other Executives	20%	40%	20%	20%

<u>Stock Performance</u> Stock performance is benchmarked against the SNL Property/Casualty Insurance Index for publicly traded property and casualty insurance companies, which is the peer group index used in our prior proxy statements. Our stock performance must exceed the index by a certain percentage goal at the end of the applicable year in order to receive the full weighted percentage for the stock

performance criteria. No credit is given if our stock performance is less than the index. Less than full credit is given if our stock performance exceeds the index but is less than the percentage goal above the index. If our stock performance exceeds the index by more than the percentage goal, a maximum of up to 120% of the weighted percentage could be earned.

Combined Ratio Performance The combined ratio is included as a performance measure because it is a traditional measure of bottom line economic success for a property and casualty insurance company that does not directly equate to forecasting earnings if publicly disclosed. Our combined ratio (the sum of our loss ratio and expense ratio based on our GAAP annual income statement) must achieve or exceed the goals as established each year by the Compensation Committee. No credit is given if the ratio does not meet the threshold ratio; less than the full weighted percentage is given if the ratio is between the threshold ratio and the target ratio; and if the ratio is better than the target ratio, a maximum of up to 150% of the weighted percentage could be earned.

Retention Goal The retention goal focuses on the overall retention rate of physician insureds. Our focus on this element is on the long-term need to maintain a loyal policyholder base for our largest segment of business. No credit is given if the ratio does not meet the threshold ratio; less than the full weighted percentage is given if the ratio is between the threshold ratio and the target ratio; and if the ratio is better than the target ratio, a maximum of up to 130% of the weighted percentage could be earned.

Individual Performance This element involves a subjective evaluation of individual performance, which is principally based on the evaluation and recommendation of the Chief Executive Officer. We believe the subjective individual performance criteria is an appropriate measurement of incentive compensation for executives (other than the Chief Executive Officer) because it allows for a general assessment of the executive s quality of performance, leadership effectiveness, and contribution to the success of the enterprise regardless of corporate performance. The incentive compensation for the Chief Executive Officer is based exclusively on corporate performance in order to preserve deductibility under Code Section 162(m) and because the Compensation Committee believes that corporate performance is the most appropriate measurement for that position.

We modified the corporate performance measures used to determine annual incentive compensation in 2011 and 2012 and used the modified measures for the 2013 guidelines for annual incentive compensation. A summary of the weighted percentage for each of the performance criteria and the performance guidelines follows:

	Return on Equity	**Book Value Growth**	**Combined Ratio**	**Retention Goal**	**New Premium**	**Individual Goals/Evaluation**
CEO	10%	10%	60%	10%	10%	N/A
Other Executives	10%	10%	40%	10%	10%	20%

The modifications to the performance measures were designed to expand the performance measures considered in the annual incentive plan to promote profitability for ProAssurance by using traditional performance measures in the property and casualty insurance industry. We also mitigate risks associated with specific performance measures by selecting other performance measures that are intended to provide a counterbalance to the risk associated with such measure. The changes are discussed below:

The stock performance measure was eliminated as a performance measure in the annual incentive plan. Although the performance of ProAssurance s common stock is an important measure of our performance, management does not have control over the market price of our shares. The change removes stock performance as a short-term measure for incentive compensation. However, as discussed below, we have retained stock performance as a long-term incentive compensation measure in the form of performance shares in order to allow the market to reflect the comparative value of ProAssurance over a longer period of time.

Combined ratio is retained as the predominant annual performance measure. The combined ratio is the traditional insurance measure that recognizes underwriting profitability of an insurance business. We use the calendar year as opposed to the accident year to determine the combined ratio because the loss development for the calendar year includes both the current accident year as well as changes to prior accident years. The risk in the use of this measure is mitigated because management remains at risk for adverse loss development if losses are underestimated in current accident years.

Retention is retained as an annual performance measure because it is an important measure of customer satisfaction as well as the major component of our premium revenue. The risk of using retention as a performance measure is counterbalanced by the use of the combined ratio as a performance measure. Efforts to increase retention based on insufficient pricing or relaxed underwriting standards would likely have the effect of increasing the combined ratio and thereby reduce the incentive compensation awarded for that measure.

Return on equity (ROE) is a commonly used annual measure that measures profitability of a company by reflecting as a ratio the amount of earnings generated with the stockholders equity. We compute ROE by dividing annual net income by the average of beginning and ending stockholders equity. We believe the risk of using ROE as an incentive is mitigated because the considerations of rating agencies and regulators limits our incentive to reduce the size of the equity of our insurance subsidiaries in order to increase our ROE. In addition, the risk of using ROE as a performance measure is mitigated by our addition of book value growth as an annual performance measure for the reasons discussed below.

Book value growth is commonly used to measure annual growth. We determine Book value growth on a per share basis and use it to measure annual growth by dividing the stockholders equity at the beginning and end of each year (excluding SFAS 115 adjustments for unrealized gains and losses but including adjustments to account for dividends declared during the year) by the number of our outstanding shares on each of those dates. We believe growth in book value per share and return on equity provide a balance for the risk associated with each of them as performance measures for incentive compensation. Share repurchases at prices above book value will likely result in an increase in ROE, but will likely depress book value per share. Likewise, increases in book value will likely depress ROE unless there is a corresponding growth in earnings.

New premium measures the amount of premiums that were not previously being written by our insurance subsidiaries (it does not include premium added by acquisition). By placing a weight of only 10% on this measure, we do not believe that it will incent large scale and rapid premium growth to the detriment of our insurance subsidiaries. We also believe the risk of using new premiums as a performance measure will be offset by the likely adverse effect that insufficient premiums would have on combined ratio and book value growth performance measures.

The maximum percentage of base salary to be paid to the Chief Executive Officer as annual incentive compensation if performance measures are achieved was 125% of base salary in 2010 and was increased to 135% of base salary in 2011 and 2012. The maximum percentages for the other executives was at 85% of base salary in each of those years, except that the maximum percentage payable to Mr. Adamo as President was 95% in 2010 and 85% in 2011 and 2012.

In addition to the above described changes, the annual incentive awards for 2011 included an overlay that allowed an executive to increase annual incentive compensation if our 2011 operating earnings per share exceeded our 2010 operating earnings per share. As set forth in our Annual Report on Form 10K for the year ended December 31, 2011, we use operating earnings to evaluate the performance of our operations. Operating earnings exclude the after-tax effects of realized gains or losses, guaranty fund assessments and debt retirement loss. Executives were eligible to receive additional annual incentive compensation in an amount up to 15% of the annual incentive compensation due to be paid to the executive if the 2011 operating earnings per share exceeded the 2010 operating earnings per share. In 2011, the annual incentive compensation paid to our Chief Executive Officer and other executives was equal to the maximum percentage of their base salaries. In addition, each of them received an amount equal to 15% of their annual incentive compensation pursuant to the annual incentive overlay for the maximum allowable increase in operating earnings from 2010 to 2011.

We elected to retain the additional incentive to be paid as an overlay of annual incentive compensation in 2012 and 2013, but the performance measure for the additional incentive overlay was substantially modified. We used the 2011 objective performance measures and the 2011 maximum percentages of base salaries in establishing guidelines for annual incentive awards for 2012 and 2013. We determined that the additional incentive compensation should have a broader focus than solely on operating earnings and elected to use as the basis for the additional incentive the five performance measures used in the calculation of the annual incentive awards (ROE, Book Value Growth, Combined Ratio, Retention and New Premium). For 2012 and 2013, executives are eligible for an increase in annual incentive compensation if the sum of the points awarded for achievement of the five performance measures is more than the sum of the points required for the executive to earn the target level of each objective performance measure. The Chief Executive Officer is eligible for an increase from 135% of base salary to a maximum of 165% of base salary and the other executives are eligible for an increase from 85% of base salary to a maximum of 110% of base salary. The Chief Executive Officer and each of the other executives will be entitled to increase the percentage of base salary to be paid as annual incentive compensation by one percentage point for each point above the sum of the target level points for the performance measures up to the maximum percentage.

Long-term Incentive Compensation

Our long-term incentive compensation is intended to align the interests of our executives with the interests of our stockholders by rewarding long-term corporate performance and increases in share value. Our grants of long term incentive compensation have consisted of two thirds performance shares and one third RSUs with the number of units of each depending upon the executive s position in the organization, except that we modified the grant structure in 2010 to discontinue RSUs for executives who are retirement eligible (age 60 and over) during the term of the grant. This decision was made since the RSUs, as awarded by ProAssurance, do not provide for a partial payment in the event of retirement, whereas the performance shares do allow for a partial payment in the event of retirement subject to achieving the performance goals established at the time of the grant.

We believe that the performance shares and RSUs align our executives with the stockholders by providing equity compensation based on our long-term objective of growth in stockholder value. The performance shares will reward executives if corporate value is enhanced through achievement of either the Total Return or the Economic Value Added performance measures, as discussed further below. Further, the RSUs will enhance executive retention as executives will have an incentive to remain employed during the vesting period to obtain the RSUs even if the stock price declines.

We also believe an effective long-term incentive compensation program is necessary to attract and retain well-qualified and experienced executives and other key employees. In establishing the amount of our annual grants of long-term incentive compensation, we consider past practice, recommendations of the compensation consultant and the value of the award (including the value attributable to the award for financial reporting purposes). We monitor the level of awards based on the findings of our compensation consultant, and we believe that our long-term incentive opportunities are appropriate when compared to awards made available to executives at our peer companies. The number of Performance Shares and RSUs granted to our Chief Executive Officer and other executives has remained constant (on a split adjusted basis) for the years covered in the Summary Compensation Table and for 2013; however, the grant date value of these awards as well as the realizable value of the awards that vested during this period has substantially increased due to the increase in the market value of our shares of Common Stock.

Our practice has been to make long-term incentive grants to our current executives and other key employees at the first meeting of the Compensation Committee in each fiscal year, which is usually held in February after the financial results of the prior year are reasonably certain. Where a market price is required, long-term grants are priced on a date after our financial results for the prior year have been released. We believe that pricing the grants at this time is most appropriate since the market is then in possession of our earnings and any other material information. We occasionally make long-term grants at other meetings of the Board of Directors, for example, when we retain new senior level executives.

Performance shares are based on pre-established performance criteria that must be achieved over a period of three years. Each executive is granted a target and maximum award expressed as a number of shares of our Common Stock. Performance shares will be paid to our executives if at the end of the three-year measurement period either of the following performance criteria is achieved:

Stock Performance (Total Return) Stock performance is measured by total return in comparison to the SNL Property/Casualty Insurance Index, which is the index we have used to compare our performance to other public insurance companies. If performance is equal to the index, 75% of target award is earned; if our stock performance is 10% greater than the index, 100% of target award is achieved; and, if our stock performance is 20% greater than the index, then 125% of target award is achieved. If our stock performance is less than the index, no performance shares are awarded under this measure.

Economic Value Added (Book Value Growth) Economic value added measures the compound annual growth rate, or CAGR, in book value per common share (excluding SFAS 115 adjustments for unrealized gains and losses but including adjustments to account for dividends declared during the year). If CAGR is equal to at least 10%, the target award is earned. If CAGR is equal to at least 7.5%, 75% of the target award is earned and if CAGR is equal to 15% or more, 125% of the target award is earned. If CAGR is less than 7.5%, no performance shares are awarded pursuant to this measure.

Performance shares will be paid to executives if the Compensation Committee finds that either of the performance measures is met in the measurement period. Performance shares for results falling between the stated goals are interpolated. If an executive terminates employment prior to the expiration of the performance period by reason of retirement or resignation for good reason , a portion of the performance shares may be paid based on service during the performance period if the Committee finds that the performance criteria had been satisfied at the end of the year preceding termination of employment. Upon a change of control of ProAssurance or termination by reason of death or disability, performance shares are payable to executives at the target level.

Each RSU is equal to one share of Common Stock and is subject to a restricted period of approximately three years from the date of grant. RSUs vest after the restricted period if the grantee remains continuously employed with ProAssurance or a subsidiary during the restricted period unless sooner vested upon termination by reason of death, disability, or for good reason.

Adoption of New Incentive Plans

Our authority to grant incentive compensation is provided under the 2008 Annual Incentive Compensation Plan (the **Annual Plan**) for annual incentive awards and under the 2008 Equity Incentive Plan (the **Equity Plan**) for long term incentive awards. These plans authorize the payment of performance based compensation within the meaning of Code Section 162(m). Code Section 162(m) limits the deductions for compensation paid to our executives to $1,000,000; however, performance based compensation is fully deductible under Code Section 162(m) and is excluded when calculating the compensation subject to the deduction limitation.

The Annual Plan and the Equity Plan were approved by our stockholders at the 2008 Annual Meeting as required by Code Section 162(m). In order for us to continue to be able to grant awards of performance based compensation under these plans, we would be required to resubmit these plans to our shareholders for approval at the 2013 Annual Meeting. Rather than seeking re-approval of the 2008 Plan, our Board has recommended the adoption of a new annual incentive plan in the form of the 2014 Annual Incentive Compensation Plan and a new long term equity incentive plan in the form of the 2014 Equity Incentive Plan in order that the new plan documents will reflect the following:

The final regulations under Code Section 409A were enacted after the adoption of the Equity Plan. Since its adoption, the plan has been amended to comply with Code Section 409A and we have had to adopt interpretive guidance to ensure that the operation of the plan will comply with Code Section 409A. A new plan can specifically address these issues in a single document.

We have also adopted other policies and interpretive guidance for the 2008 Plans to comply with requirements under federal legislation and SEC regulations that have been enacted since the plans were adopted and to address issues that have arisen during this period with respect to the operation of the plans and administration of awards granted under the plans.

The 2008 plans include general performance measures that are applicable to insurance companies. As disclosed in this proxy statement and in our proxy statements for prior years, we have developed performance measures that are more specifically directed at targets for growth of our business and for return to our stockholders. The new plans will specifically address these performance measures and allow our stockholders to vote on the measures we have been using to provide incentive compensation.

We are submitting new plans for approval by the stockholders at the 2013 Annual Meeting. If approved by the stockholders, the 2014 Annual Incentive Compensation Plan will replace the 2008 Annual Incentive Compensation Plan and the 2014 Equity Incentive Plan will replace the 2008 Equity Incentive Plan. No further awards will be granted under the 2008 Plans after January 1, 2014.

A copy of the 2014 Annual Incentive Compensation Plan is attached to the proxy statement as Exhibit A and is more particularly described in this proxy statement under **Proposal Number 3 - Approval of ProAssurance Corporation 2014 Annual Incentive Plan** which begins on page 22 of this proxy statement. A copy of the 2014 Equity Incentive Plan is attached to this proxy statement as Exhibit B and is more particularly described in **Proposal Number 4 - Approval of ProAssurance Corporation 2014 Equity Incentive Plan** which begins on page 27 of this proxy statement .

Stock Ownership Policies

Our Board has adopted stock ownership targets for our directors and executive officers to further align their interests with our stockholders. The level of stock ownership for executive officers varies by position and their stock ownership targets are as follows: five times base salary for our Chief Executive Officer; three times base salary for the President; and two times base salary for other executives. In addition, for awards granted after 2010, our executives must agree in writing to hold shares of our stock issued pursuant to stock-based awards, including any options, for a minimum of one year from the date of issue. We have adopted an anti-hedging policy for our executives and other employees with respect to their ownership of our common stock, in accordance with the Dodd Frank Wall Street Reform and Consumer Protection Act.

Recoupment of Incentive Compensation

Our Board of Directors has established a recoupment requirement (a clawback) for incentive compensation as required by the Dodd Frank Wall Street Reform and Consumer Protection Act and suggested by emerging corporate best practices. This clawback requires current and former executive officers to repay erroneously awarded incentive compensation to the extent the award is based on financial statements that are required to be restated due to material non-compliance with any financial reporting requirement. This clawback is to be applied whether or not there is misconduct and requires a three-year look back period. The clawback has been in effect incentive compensation paid for years beginning after 2010, and we have incorporated the clawback in all annual incentive and performance share agreements going forward. The clawback will be included in the new incentive plans proposed for approval by the stockholders at the Annual Meeting.

2011 Stock Ownership Plan

On December 1, 2010, our Board of Directors, on the recommendation of the Compensation Committee, terminated our existing open market stock purchase plan known as the Amended and Restated ProAssurance Corporation Stock Ownership Plan (the 2002 Stock Ownership Plan) and adopted a new stock purchase plan known as the ProAssurance Corporation 2011 Stock Ownership Plan (the 2011 Stock Ownership Plan). Like the 2002 Stock Ownership Plan, the 2011 Stock Ownership Plan is available to our employees and directors who have at least six months of service.

Shares purchased under the 2011 Stock Ownership Plan are issued from the shares reserved for issuance of awards under the 2008 Equity Incentive Plan, and matching grants under the 2011 Stock Ownership Plan are issued to employees as awards of RSUs under the 2008 Equity Incentive Plan. If the 2014 Equity Incentive plan is approved by the stockholders at the Annual Meeting, shares purchased by participants and RSUs issued to participants under the 2011 Stock Ownership Plan will be issued from the shares reserved for issuance under the 2014 plan for years beginning after December 31,2013.

Other Compensation

Executive perquisites are not intended to be a material element of compensation for executives. Our executives participate in our qualified retirement plan on terms generally available to our employees. In addition, we have adopted a non-qualified deferred compensation plan for executives and other highly compensated employees that provides for a matching contribution with respect to deferrals by employees whose base compensation exceeds the compensation limit established by the Internal Revenue Code for qualified retirement plans. The matching contributions are comparable to the employer contributions to our qualified retirement plan within the compensation limits under the Internal Revenue Code.

Post-termination and Change of Control Compensation

We offer executives severance compensation in the event we terminate the executive without cause or the executive terminates his or her employment for good reason. The severance agreements are intended to aid in recruitment and retention of qualified executives. We believe our severance benefits for executives are appropriate and do not present a risk to our company.

We believe that severance protection, particularly in the context of a change of control transaction, plays a valuable role in attracting and retaining key executives. Although we occasionally elect to engage our senior executives under employment agreements, our general approach has been to avoid employment agreements and to rely on severance agreements to define the terms of severance when an executive is involuntarily terminated without cause or elects to terminate for good reason. In change of control situations, severance agreements provide key executives with a level of comfort that allows them to devote their energies to the completion of the transaction for the benefit of the stockholders. In other situations, severance agreements facilitate changes in management by providing for a clean departure of terminated executives with a pre-negotiated set of benefits that are acceptable to all parties.

We have provided for severance benefits in the employment agreement with Mr. Starnes and in severance agreements with other key executives (including our other Named Executive Officers) in the amounts reflected in the table which begins on page 63 of this proxy statement. Each arrangement is described briefly below and in detail in Payments on Termination and Change of Control.

The employment agreement with Mr. Starnes was the result of arms length negotiations prior to his employment in 2007. The severance benefits under his employment agreement differ from the other executives severance agreements in two respects: the severance compensation is payable in an amount equal to his annual base salary for the remainder of the term of his employment (currently 60 months); and the severance compensation is payable to him in a lump sum upon a change of control.

We entered into an employment agreement with Jerry D. Brant in connection with our acquisition of PICA on April 1, 2009. The employment agreement provided for Dr. Brant to serve as the President and Chief Executive Officer of PICA for a term of three years. As required under the terms of his employment agreement, we entered into a new severance agreement with Dr. Brant upon the expiration of the term of his employment agreement on April 2, 2012. As was intended, Dr. Brant immediately elected to terminate his employment and receive severance compensation payable over a period of three years as severance compensation under his severance agreement. The severance agreement was structured to encourage Dr. Brant to assist ProAssurance in the transition of leadership at PICA by providing for severance compensation if he served his agreed three year term as PICA s Chief Executive Officer. Dr Brant signed a release of claims and continued payment of his severance compensation is conditioned upon compliance with a three year noncompetition covenant.

The terms of the severance agreements with other key executives generally provide for severance compensation in an amount equal to the executive s base salary and average annual incentive compensation if we terminate the executive without cause or the executive resigns for good reason. However, an executive will be entitled to twice that amount if the executive is terminated without cause or resigns for good reason within two years after the occurrence of a change of control. The severance agreements retain the double trigger for the payment of the increased benefits, e.g. a change of control must occur and the executive must be terminated without cause or must terminate for good reason after the change of control. All executives are required to sign a general release of claims as a condition to the receipt of severance benefits, and all the agreements include a covenant not to compete with our insurance subsidiaries for not less than one year. Severance compensation is paid in monthly installments during the life of the covenant and is subject to forfeiture upon a breach of the covenant.

Under the terms of his severance agreement, Mr. Adamo had the right to unilaterally terminate his employment prior to December 31, 2010, and to receive cash severance compensation in the amount of approximately $1,934,896. In December 2010, in order to encourage Mr. Adamo to continue his at-will employment as a senior executive, we entered into a Deferred Compensation Plan and Agreement with Mr. Adamo, effective December 31, 2010, which provides for the establishment of a deferred compensation account for Mr. Adamo in the amount of $1,680,000. The deferred compensation is payable to Mr. Adamo upon termination of his employment and the satisfaction of certain conditions in the Deferred Compensation Plan and Agreement, including a release of claims and compliance with a three-year covenant not to compete. Mr. Adamo s severance agreement was terminated effective December 31, 2010.

Mr. Adamo is expected to retire during 2013, at which time he will be entitled to the deferred compensation that is payable under his Deferred Compensation Plan and Agreement. Due to his anticipated retirement, Mr. Adamo is not eligible for annual incentive compensation for 2013 nor for awards performance shares granted under the 2008 Equity Incentive plan in 2013. At the time of his retirement, we expect that Mr. Adamo will be eligible to receive a prorated portion of the Performance Shares granted to him in 2011 and 2012 because we understand that the performance criteria for those shares were satisfied on December 31,2012. In addition, in order to compensate Mr. Adamo for the loss of the opportunity to receive incentive compensation for 2013, we have vested in the Chief Executive Officer the authority to approve, in his discretion, a supplemental cash payment to Mr. Adamo up to the amount by which the value of the target level of Performance Shares awarded to Mr. Adamo in 2011 and 2012 exceeds the value of the Performance Shares paid to Mr. Adamo upon his retirement.

In accordance with the resolutions regarding executive compensation adopted by the Board in December 2010 we do not plan to execute a new agreement with an executive officer that includes a gross-up for the excise tax imposed by Internal Revenue Code Sections 280G and 4999, or an obligation to reimburse executive officers for such excise tax, nor do we plan to execute a new agreement with an executive officer that includes any single trigger change of control features similar to a lump sum cash payment payable upon the occurrence of only a change of control of the company. The Board s action does not change, alter or amend any employment agreement or other agreement with an executive officer that was in effect prior to December 1, 2010.

As a result of a pre-existing agreements, we are currently required to reimburse executives, other than Mr. Adamo, for the excise tax that is payable by the executives if the severance benefits paid after a change of control are deemed to be excess parachute payments under Code Section 280G. Although the severance benefits payable after a change of control for our executives are substantially below the threshold of three times annual compensation, the calculation of severance benefits for purposes of Code Section 280G includes the value of benefits accelerated on a change of control under other compensation arrangements. Mr. Adamo s Deferred Compensation Plan and Agreement provides no change of control benefits and no gross up for excise taxes payable with respect to excess parachute payments under Code Sections 280G and 4999.

Changes in Board Compensation

We review director compensation every two years. During 2012 we engaged TCS to review the compensation payable to the non-management directors serving on our Board and its Committees and to recommend compensation levels for their service. TCS compiled data regarding compensation of directors, lead directors and committee chairmen and members at the peer companies and reviewed compensation practices in the insurance industry. TCS observed that the compensation mix for our directors was substantially below market for the cash component of their annual retainers and slightly above market for the equity component of their annual retainers. After considering the observations and recommendations of TCS, we recommended an increase in the annual cash retainer for all non-management directors from $28,000 to $40,000; an increase in the annual cash retainer for the Chairman of the Audit Committee from $14,000 to $20,000; an increase in the annual cash retainer for the other members of the Audit Committee from $8,000 to $10,000; an increase in the annual cash retainer for the Chairman of the Compensation Committee from $5,000 to $10,000; and an annual cash retainer for the Chairman of the Nominating/Corporate Governance Committee of $10,000. The Board approved our recommended changes to director compensation effective January 1, 2013.

Report of Our Compensation Committee

The Compensation Committee has reviewed and discussed the above Compensation Discussion and Analysis with our management, and based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

The Compensation Committee:

Robert E. Flowers, M.D., Chairman

M. James Gorrie

John J. McMahon, Jr.

March 21, 2013

Compensation Committee Interlocks and Insider Participation

No executive officer of ProAssurance served as a member of the Compensation Committee (or other board committee performing equivalent functions or, in the absence of such committee, the entire board) of another entity, one of whose executive officers served on the compensation committee of ProAssurance. No executive officer of ProAssurance served as a director of another entity, one of whose executive officers served on the compensation committee of ProAssurance.

Compensation of Executive Officers

The following table sets forth a summary of the compensation paid or accrued by ProAssurance and its subsidiaries during the last fiscal year with respect to ProAssurance s principal executive officer, principal financial officer and the three other most highly compensated persons considered to be executive officers or their equivalent. The individuals required to be included in the table are referred to as the Named Executive Officers.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards (2)(3)(4) ($)	Option Awards (4)($)	Non-Equity Incentive Plan Compensation (5)($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation (6)($)	Total ($)
W. Stancil Starnes	2012	854,100		1,344,154		1,420,402		293,055	3,911,711
Chief Executive Officer and Director[1]	2011	833,667		771,946		1,297,544		235,472	3,138,829
	2010	821,940		645,840		1,034,378		200,991	2,703,149
Edward L. Rand, Jr.	2012	443,475		563,400		491,698		60,349	1,558,922
Chief Financial Officer and Senior Vice President	2011	432,970		403,807		424,198		58,192	1,319,167
	2010	426,777		339,516		365,215		56,649	1,188,157
Victor T. Adamo	2012	463,462		563,400		495,000		61,117	1,582,979
Vice Chairman and Director[1]	2011	510,699		403,807		488,750		65,557	1,468,813
	2010	542,692		405,900		519,046		1,767,134	3,234,772
Howard H. Friedman	2012	476,325		563,400		528,099		64,201	1,632,025
Senior Vice President	2011	465,042		403,807		455,620		67,916	1,392,385
	2010	458,390		339,516		392,268		60,488	1,250,662
Darryl K Thomas	2012	432,798		563,400		479,841		59,707	1,535,746
Senior Vice President	2011	422,546		403,807		413,985		57,123	1,170,246
	2010	416,502		339,516		356,423		57,805	1,109,030

(1) Management directors of ProAssurance do not receive any additional compensation, whether cash, stock or otherwise, in their capacity as directors.

(2) For 2010, the shares acquired with grant proceeds under the 2002 Stock Ownership Plan are treated as stock awards in the Summary Compensation Table. The 2002 Stock Ownership Plan provided for employee contributions and matching grants from ProAssurance used to purchase shares of ProAssurance s Common Stock in the open market for the account of participating employees prior to vesting. The

amounts reflected in the table for 2010 include $6,000 as the value of the matching grant to each of the Named Executive Officers as of the date of grant in 2010. All shares purchased with matching grants under the 2002 Stock Ownership Plan vested on termination of the plan on December 1, 2010; the value of the vested shares is not reflected in the table because the matching grants were reported as compensation in prior years. For 2011, the dollar value of the matching RSUs granted under the 2011 Stock Ownership Plan are treated as stock awards in the Summary Compensation Table. The 2011 Stock Ownership Plan allows employees and directors to elect to make payroll deductions to purchase our Common Stock in an amount not to exceed $5,000 in a twelve month period ending September 30 in each year (approximately $3,300 in the initial nine month period after start-up of the plan in January, 2011). The participant is granted one RSU for each share purchased with the participant s contributions. RSUs are equal in value to one share of Common Stock and will vest upon the sooner of three years continuous employment or termination of employment by reason of death or disability or for good reason. The value of each RSU granted under the 2011 Stock Ownership Plan reflect the value of one share of Common Stock on date of grant ($90.07 on October 5, 2012) for a total of $4,954 for each of the named executive officers.

(3) The performance shares are also treated as stock awards in the Summary Compensation Table. The performance shares granted are earned if one of the two criteria is achieved during the period ending three years after the award is granted, except that performance shares are payable at the target level upon the

participant s death or disability and are payable upon the participant s retirement or termination for good reason after the year of grant if the performance level has been achieved for the last year prior to the participant s termination with such award to be prorated based on the time the participant is employed during the performance period. The value of performance shares represents the value for the shares expected to be earned based on their closing market price on the date of the award (all prices are before the two for one stock split effected in December 2012: $89.28 on February 27, 2012, $64.08 on February 25, 2011 and $53.32 on February 25, 2010) as follows: Mr. Starnes $1,339,200 in 2012, $768,960 in 2011 and $639,840 in 2010; Mr. Adamo $558,446 in 2012, $400,820 in 2011 and $399,900 in 2010; and for each of Messrs. Rand, Friedman and Thomas $372,297 in 2012, $267,214 in 2011 and $222,344 in 2010. The amounts do not correspond to actual value that will be recognized by the Named Executive Officers, which depends on the achievement of the specified performance criteria over the performance period and the market value of a share of ProAssurance Common Stock at the end of the performance period. The performance criteria are discussed in the Compensation Discussion and Analysis beginning on page 37 of this proxy statement.

(4) RSUs granted as long term incentive compensation are also included as stock awards in the Summary Compensation Table. Each RSU is equal in value to one share of Common Stock and will vest upon the sooner of three years of continuous employment or termination of employment by reason of death or disability or for good reason. The value of the RSUs granted as long term incentive compensation are based on the value of a share of our Common Stock on the date of the award (all prices are before the two for one stock split effected in December 2012: $89.28 on February 27, 2012; $64.08 on February 25, 2011; $53.32 on February 25, 2010) as follows for each of Messrs. Rand, Friedman and Thomas $186,149 in 2012, $133,607 in 2011 and $111,172 in 2010. In 2010 we discontinued granting RSUs to retirement eligible executives (including Mr. Starnes and Mr. Adamo) for our tax reasons and granted them performance shares instead. Messrs. Starnes and Adamo have not received any RSU grants as long-term incentive compensation since 2009. The amounts do not correspond to actual value that will be recognized by the Named Executive Officers which depends on the market price of a share of Common Stock at the end of the vesting period.

(5) The Non-Equity Incentive Plan Compensation reflects the amount paid under the ProAssurance Corporation Annual Incentive Award Guidelines for 2012, 2011 and 2010. The non-equity incentive plan compensation payable to Named Executive Officers is denominated in dollars and is payable in cash and Common Stock. Awards of annual incentive compensation for a year are made in the first quarter of the following year after the financial information for the preceding year is available. The shares of Common Stock are issued as stock awards under the ProAssurance Corporation 2008 Equity Incentive Plan and are valued at the closing price of a share on the NYSE (prices in 2011 and 2012 are adjusted to reflect the two for one split effected in December 2012) $46.97 on February 21, 2013, $44.64 on February 27, 2012 and $32.04 on February 25, 2011. The non-equity incentive plan compensation includes the following number of shares of Common Stock for the Named Executive Officers(number of shares in 2011 and 2010 are also adjusted to reflect the two for one split effected in December 2012): Mr. Starnes 15,200 shares in 2012, 16,140 shares in 2011 and 15,200 shares in 2010; Mr. Rand 1,000 shares in 2012, 2011 and 2010; Mr. Adamo 1,000 shares in 2012, 2011 and 2010; and Mr. Friedman 2500 shares in 2012 and 2011 and 1,000 shares in 2010; and Mr. Thomas 3500 shares in 2012 and 2,000 shares in 2011 and 2010.

(6) Other compensation in 2012 includes the amounts set forth in the following table:

	Qualified Retirement Plan ($)	Nonqualified Deferred Compensation Plan ($)	Bonus and Service Awards ($)	Perquisites ($)
W. Stancil Starnes	25,000	57,018	3,272	207,765
Edward L. Rand, Jr.	25,000	19,698		15,651
Victor T. Adamo	25,000	20,000		16,117
Howard H. Friedman	25,000	23,009		16,192
Darryl K. Thomas .	25,000	18,622		16,085

Bonus and Service awards are 25 shares, plus reimbursement for taxes attributable to the award) granted to Mr. Starnes under ProAssurance s Longevity Award Program and are issued from shares reserved under the 2008 Equity Plan. The perquisites include $195,829 for Mr. Starnes for personal use of the corporate aircraft as the aggregate incremental cost for his personal use. The compensation attributable to personal use was computed by multiplying the number of hours the airplane was used for his personal benefit by the amount of the variable expenses incurred in the use of the airplane per flight hour. The variable expenses per flight hour was calculated by dividing the total flight hours during each year into the sum of the variable expenses incurred (e.g., fuel, airport charges, travel and lodging expense for the crew during such year) and the tax effect resulting from the nondeductibility of these expenses. As was the case in 2010 and 2011, the cost of the loss of the tax deduction was spread over the personal use hours instead of all hours of usage in 2012.

GRANTS OF PLAN-BASED AWARDS (1)

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[3]			Estimated Future Payments Under Equity Incentive Plan Awards[4]			All Other Stock Awards; Number of Shares of Stock or Units[5]	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
Name	**Grant Date[2]**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**(#)**	**(#)**	**($/Sh)**	**($)**
W. Stancil Starnes				1,420,402							
	2/27/12				11,250	15,000	18,750				1,339,200
	2/27/12										
	10/5/12							55			4,954
Edward L. Rand, Jr.				491,698							
					3,130	4,170	5,210				372,297
	2/27/12										
	2/27/12							2,085			186,149
	2/27/12										
	10/5/12							55			4,954
Victor T. Adamo				495,000							
	2/27/12				4,691	6,255	7,818				558,446
	2/27/12										
	3/5/12							55			4,954
Howard H. Friedman				528.099							
					3,130	4,170					
	2/27/12										
	2/27/12										
	2/27/12										
	10/5/12										