

PROASSURANCE CORP  
Form DEF 14A  
April 16, 2014

# 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  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))**

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):

No fee required

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**PROASSURANCE CORPORATION**

**100 Brookwood Place**

**Birmingham, Alabama 35209**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**to be held May 28, 2014**

**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 28, 2014, 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 I directors, to serve until the 2017 annual meeting and until their successors are elected and qualified;
- (2) To ratify the appointment of Ernst & Young LLP as independent auditors;
- (3) An advisory vote to approve the compensation of our named executive officers disclosed in this proxy statement; and
- (4) 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 31, 2014 as the record date for the annual meeting. You are entitled to notice of, and to vote at, the annual meeting only 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, 2013, is enclosed, and is also available in the Investor Relations section of our website at [www.ProAssurance.com](http://www.ProAssurance.com). We hope you will find it informative.

By order of the Board of Directors,

Jeffrey P. Lisenby

Secretary

April 16, 2014

## **PROASSURANCE CORPORATION**

**100 Brookwood Place**

**Birmingham, Alabama 35209**

### **PROXY STATEMENT**

**Annual meeting of Stockholders**

**to be held May 28, 2014**

### **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 16, 2014. 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 28, 2014, 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 I directors, to serve until the 2017 annual meeting, and to ratify the appointment of Ernst & Young LLP as independent auditors. 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); and FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement (Proposal 3).

**What is the record date and what does it mean?**

The Board of Directors set March 31, 2014 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 62,146,770 issued shares of our common stock, par value \$0.01 per share ( Common Stock ). Of that amount, we hold 2,631,889 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](http://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 27, 2014. 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 2014 Annual Meeting of Stockholders (the 2013 Annual Report to the Stockholders, which includes our Annual Report on Form 10-K for the year ended December 31, 2013, proxy statement and proxy card) are available on the internet at [www.proxyvote.com](http://www.proxyvote.com). Our proxy statement and proxy card for the annual meeting and our 2013 Annual Report also will be available through the Investor Relations section of our website at [www.ProAssurance.com](http://www.ProAssurance.com) until at least May 27, 2015. 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 2013 Annual Report to the Stockholders and 2013 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](mailto: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](http://www.proxyvote.com) using your Control Number.

**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](http://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](mailto:Investor@ProAssurance.com).

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**SOLICITATION BY BOARD OF DIRECTORS**

Our Board of Directors is soliciting your proxy to vote at the 2014 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 I directors will expire at the 2014 annual meeting. The Board of Directors has nominated Samuel A. Di Piazza, Jr., Robert E. Flowers, M.D., and Ann F. Putallaz, Ph.D. for election to the Board of Directors at the 2014 annual meeting as Class I directors.

At the annual meeting, you will be asked to elect the following persons as Class I directors to hold office for terms ending at the annual meeting of stockholders to be held in 2017:

**Samuel A. Di Piazza, Jr.** (Age 63) has served as a director of ProAssurance since January 2014. Mr. Di Piazza most recently served as Vice Chairman of the Institutional Clients Group of Citibank from 2011 until his retirement in February. Prior to his service with Citibank, Mr. Di Piazza was a partner with PricewaterhouseCoopers LLP (and its predecessor, Coopers & Lybrand) for thirty years. During his tenure at PwC he served as the Global Chief Executive Officer of PricewaterhouseCoopers International Limited from 2002 to 2009. He also served as Chairman and Senior Partner at PricewaterhouseCoopers US, was a member of the firm's Global Leadership Team, led the firm's US and American Tax Practices, and led the local offices in Chicago, New York City, and Birmingham, Alabama. Mr. Di Piazza serves as a director for DIRECTV. Mr. Di Piazza is also a member of the Board of Trustees of Mayo Clinic and was appointed its Chairman in February 2014.

**Robert E. Flowers, M.D.** (Age 64) has served as a director of ProAssurance since June 2001 and 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 68) 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.

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 conditional 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.

Two of the current Class I directors, Lucian F. Bloodworth and Drayton Nabers, Jr., will retire from the Board of Directors because of the age requirements in our By-Laws. On January 22, 2014, our Board of Directors increased the size of the Board by adding one director and elected Samuel A. Di Piazza, Jr. to fill that vacancy until the 2014 Annual Meeting. Mr. Di Piazza has been nominated for election as a Class I Director at the 2014 Annual Meeting. Mr. Di Piazza, if elected will fill one of the vacancies resulting from the retirement of Messrs. Bloodworth and Nabers. The Board of Directors has elected not to fill the other vacancies.

In addition to Mr. Di Piazza, the Board of Directors has nominated Robert E. Flowers, M.D. and Ann F. Putallaz, Ph.D. for election to the Board of Directors at the 2014 annual meeting as Class I 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 II Directors Continuing in Office Term Expiring in 2015**

**M. James Gorrie** (Age 51) has served as a director ProAssurance since May 2012. Mr. Gorrie is the President and Chief Executive Officer of Brasfield & Gorrie, Inc. 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 Energen Corporation in Birmingham, among other entities.

**Frank A. Spinosa, D.P.M.** (Age 59) has served as a director ProAssurance since May 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 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 64) has served as a director ProAssurance since May 2012. Dr. Tersigni is the President and Chief Executive Officer of Ascension Health Alliance in St. Louis, Missouri, the 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 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 52) has served as a director of ProAssurance since May 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.

**Class III Directors Continuing in Office Term Expiring in 2016**

**William J. Listwan, M.D.** (Age 71) 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, 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. He continues to teach medical students as a volunteer and currently holds an appointment as Associate Clinical Professor of Medicine at the Medical College. He has served as a member of

the Board of Trustees of the Medical College of Wisconsin 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 71) has served as a director of ProAssurance since February 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 65) was elected to the Board of Directors on September 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.

### 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.  
Samuel A. Di Piazza, Jr.  
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 three 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 2013, ProAssurance's insurance subsidiaries wrote premiums through the Program in the amount of \$22,427,745, of which \$5,136,372 was paid by Ascension affiliates on behalf of the physicians. ProAssurance paid a reinsurance premium to AHIL in the amount of \$12,089,305 and AHIL paid to ProAssurance a ceding commission of \$1,905,981. 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, D.P.M. serves as a member of the Board of Trustees and will serve as President of the American Podiatric Medical Association (the Association ) in 2014. Dr. Spinosa is not an employee of the Association, but he will receive a one-time honorarium for his services as President of the Association of \$159,500. 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 \$174,000 per annum. In 2011, 2012 and 2013, PICA paid the Association \$388,700, \$355,250, and \$446,250 respectively, pursuant to the License Agreement and as miscellaneous donations. The current budget for the Association contemplates annual revenues of approximately \$13.5 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. Furthermore, the Board found that Dr. Spinosa is not precluded from being independent based on our understanding of the Governance Guidelines, which prohibit 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 2011, 2012 and 2013. Dr. Spinosa and his spouse have purchased individual policies of medical professional liability insurance from PICA during the last three years as follows: 2011-2012 Dr. Spinosa \$5,865 and spouse \$5,355; 2012-2013 Dr. Spinosa \$6,745 and spouse \$5,689; and 2013-2014 Dr. Spinosa \$5,052 and spouse \$7,352. 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: 2011-2012 \$49,163; 2012-2013 \$47,979; and 2013-2014 \$47,993. 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 \$208,885. 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 60%, and 20% is owned by a third party. 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. ProAssurance reimburses Hangar 24 for its share of the rent and 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 for rent and fuel reimbursement 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: 2011 \$20,944; 2012 \$9,000 (net of \$2,966 for reimbursement of expenses); 2013 \$9,464 (net of \$4,751 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 \$4,751 of the total amount paid to Dr. Spinosa's spouse in 2013 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 4, 2013, 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. Di Piazza's, Mr. Nabers' and Dr. Putallaz's only relationship with the Company is their service on the Board and the Audit Committee. The Board of Directors also carefully evaluated the independence of Dr. Tersigni with respect to the above described relationship with Ascension and determined that it should not impair his ability to be independent under the NYSE and SEC standards for members of the Audit Committee. As a result, the Board determined that each of these four directors was 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 as required by the NYSE Rules mandated by SEC Rule 10C-1. The Board determined that the existence of these relationships did not impact the ability of either Mr. McMahon or 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 has historically been 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 principal 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 operate in the financial services sector and 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 believe that it is important that our Board reflect the core values that guide us in fulfilling our mission to Protect Others, informed by our Guiding Principle of Treated Fairly. Those values are integrity, collaboration, communication, respect 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 Spinosa, D.P.M. and Thomas 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 obstetrics 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 President of the American Podiatric Medical Association. 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. Dr. 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. Dr. Tersigni holds a doctorate in the field of leadership and organizational development.

Samuel A. Di Piazza, Jr. has served on the Board of Trustees of Mayo Clinic since 2010 and was recently appointed to act as Chairman of the Board of Trustees on February 21, 2014. Mayo Clinic is a nonprofit worldwide leader in medical care, research and education. The Board of Trustees is the governing body of Mayo Clinic and has overall responsibility for the charitable, clinical practice, scientific and educational mission and purposes of Mayo Clinic.

*Insurance and Other Business Experience:* 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. Starnes is a director of Infinity Property and Casualty Corporation and Mr. McMahon is a director of Protective Life Corporation, both of which are public insurance companies.

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. Messrs. Nabers and Bloodworth will retire from the Board upon the completion of their current terms at the 2014 annual meeting.

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.

Mr. 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 Energen Corporation in Birmingham, Alabama.

Mr. Di Piazza served in numerous leadership positions during his career with PricewaterhouseCoopers LLP, including serving as the firm's Global Chief Executive Officer. Following his tenure at PricewaterhouseCoopers, Mr. Di Piazza served as a leader of the Citi International Client Group at Citigroup, where he was Vice Chairman at the time of his retirement in February 2014. The Citi International Client Group provides corporate, institutional, public sector and high net worth international clients with a full range of wholesale banking products and services.

*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, Starnes and Di Piazza 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, Mr. Di Piazza, Ms. Putallaz and Dr. Tersigni 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. Upon the retirement of Mr. Nabers, it is expected that Mr. Di Piazza will replace Mr. Nabers as the chair of our Audit Committee and will be designated as our audit committee financial expert based on his expertise in accounting and experience from his leadership positions at PricewaterhouseCoopers LLP. In addition to his positions at PricewaterhouseCoopers, Mr. Di Piazza has served as a trustee of the London based International Financial Reporting Standards Foundation and a trustee of the US based Financial Accountancy Foundation.

**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 it 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 2013, the independent directors selected Dr. Flowers as the independent director to preside at the executive sessions. During 2013, 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 our insurance lines of 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 2013. 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 all of the meetings of the Board of Directors and the committees of the board on which he or she served during 2013 (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 22, 2013.

#### **Nominating/Corporate Governance Committee**

Our Nominating/Corporate Governance Committee currently consists of four independent directors, and operates pursuant to a written charter, which is available in the Corporate Governance section of our website, [www.ProAssurance.com](http://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 2013 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, Frank A. Spinosa, and Thomas A. S. Wilson, Jr. M.D. 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 2013, 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](http://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 23 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 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 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 23 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 non-equity incentive plans with respect to awards granted under these plans, which plans currently include the 2014 Annual Incentive Compensation Plan and the 2014 Equity Incentive Plan.

During 2013, 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, 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 34 of this proxy statement.

#### **Audit Committee**

Our Audit Committee currently consists of five independent directors, and operates pursuant to a written charter that is available in the Corporate Governance section of our website, [www.ProAssurance.com](http://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, Samuel A. Di Piazza, Jr., Ann F. Putallaz, and Anthony R. Tersigni are the other members of our Audit Committee. In anticipation of the retirement of Messrs. Nabers and Bloodworth at the expiration of their current terms in 2014, we appointed Dr. Tersigni as a member of the Audit Committee in May 2013, and we appointed Mr. Di Piazza as a member of the Audit Committee upon his election to the Board of Directors in January 2014. 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. Messrs. Nabers and Bloodworth, Dr. Tersigni, and Ms. Putallaz are not presently serving on the audit committee of another company. Mr. Di Piazza is currently on the audit committee of DIRECTV.

During 2013, the Audit Committee