

Fox-Pitt Kelton Cochran Caronia Waller

## Small & Mid-Cap Bank and Insurance Conference

W. Stancil Starnes Chairman and Chief Executive Officer

Edward L. Rand, Jr. Chief Financial Officer

Frank B. O'Neil Investor Relations Officer

New York City  
June 17, 2009



PROASSURANCE<sup>®</sup>  
Treated Fairly

# Forward Looking Statements

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This presentation contains Forward Looking Statements and other information designed to convey our projections and expectations regarding future results. There are a number of factors which could cause our actual results to vary materially from those projected in this presentation. The principal risk factors that may cause these differences are described in various documents we file with the Securities and Exchange Commission, such as our current reports on Form 8-K, and our regular reports on Forms 10-Q and 10-K, particularly in “Item 1A, Risk Factors.” Please review this presentation in conjunction with a thorough reading and understanding of these risk factors.

## Non-GAAP Measures

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This presentation contains Non-GAAP measures, and we may reference Non-GAAP measures in our remarks. A reconciliation of these measures to GAAP measures is available in our latest quarterly news release, which is available in the Investor Relations section of our website, [www.ProAssurance.com](http://www.ProAssurance.com), and in the related Current Reports on Form 8K disclosing that release.

# ProAssurance: Quick Facts

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- 📄 Market Cap: \$1.5 Billion / Equity: \$1.4 Billion
- 📄 Fifth largest<sup>1</sup> writer of medical liability
  - 📄 Writing business in 49<sup>1</sup> jurisdictions
- 📄 More than 60,000<sup>2</sup> policyholders
  - 📄 45,000 physicians and dentists
  - 📄 7,000 ancillary and other healthcare professionals
  - 📄 8,100 attorneys
  - 📄 Majority in small or solo practice
- 📄 Highly rated by A. M. Best and Fitch

# ProAssurance: Long-Term Success

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- ▶ Successful performance in a challenging financial market *and* a difficult line of insurance
- ▶ Maintaining profitability
- ▶ Completion of three M&A transactions in 2009 that will allow us to grow the top line

# ProAssurance: Long-Term Success

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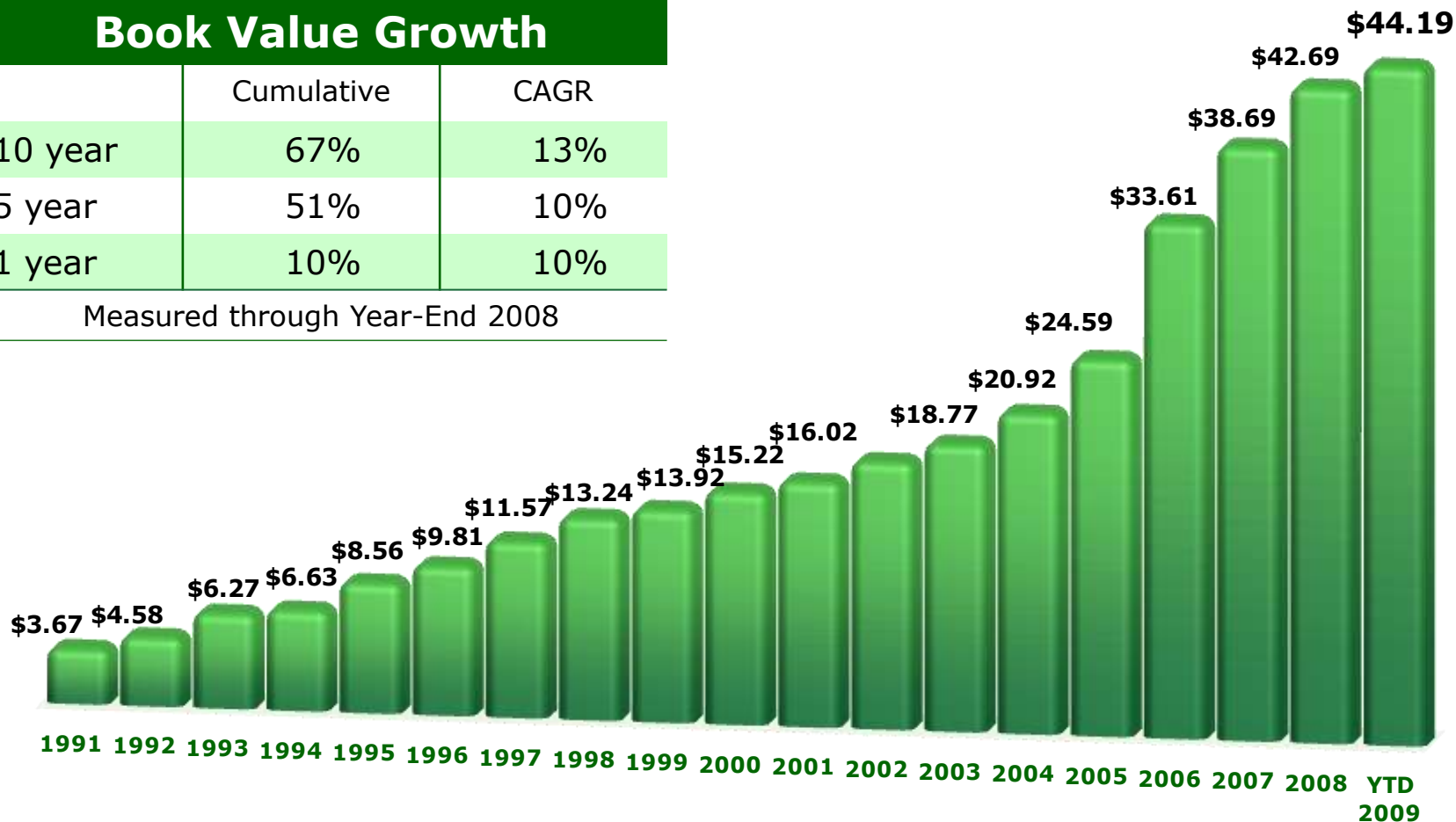
- ▶ Our Balance Sheet remains strong
  - ▶ Conservative investments
  - ▶ Little debt
  - ▶ Low leverage
- ▶ Solid stock performance over time
- ▶ Growing organically and through M & A
  - ▶ Adding over \$100 million in annualized premium to our top line in 2009 through M & A
  - ▶ Diversifying our risk profile

# ProAssurance: Long-Term Success

## Book Value Growth

	Cumulative	CAGR
10 year	67%	13%
5 year	51%	10%
1 year	10%	10%

Measured through Year-End 2008



# Opportunities & Strategies

# Key Opportunities

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- ▶ New insurance buyers will emerge as healthcare reform evolves
- ▶ The outcome of medical liability claims will become more transparent
- ▶ Financial issues will highlight the need for successful, long-term companies with superior balance sheets strength and outstanding ratings



# Strategy: Targeted M & A

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- ▶ Podiatry Insurance Company of America (PICA)
  - ▶ Dominant (70%), profitable, national company
  - ▶ ~\$96 million Direct Premium in 2008
  - ▶ Podiatry is growing in importance as a specialty
    - ▶ Involved in treating complications in a population with an increasing prevalence of diabetes
  - ▶ Increases our understanding of policies that are higher volume, lower cost

# Strategy: Targeted M & A

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## Mid-Continent General Agency

- Large writer of ancillary healthcare

- Healthcare reform will emphasize care delivery from a larger array of lower-cost providers

- Home health care

- Physician-extenders

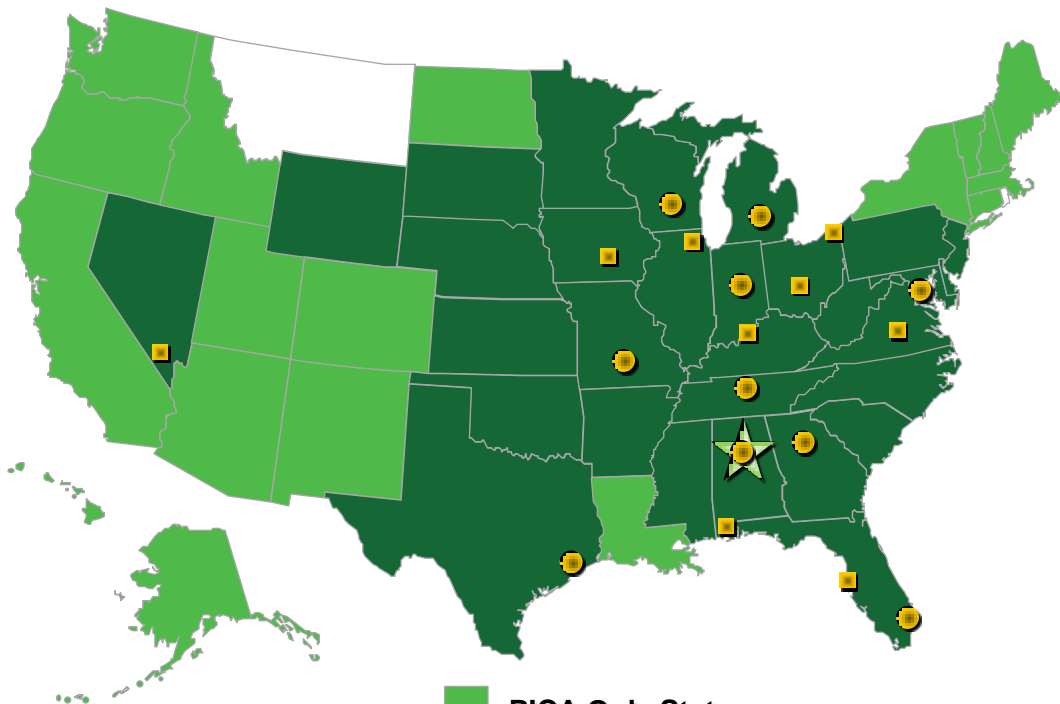
- ~\$26 million in total premium in 2008

- \$20 million healthcare related—most will come to PRA

# Local Strategy on a National Scale

Local knowledge remains the key to our business

We leverage the benefits of our many M & A transactions through long-term customer relationships and enhanced local knowledge



 PICA Only States

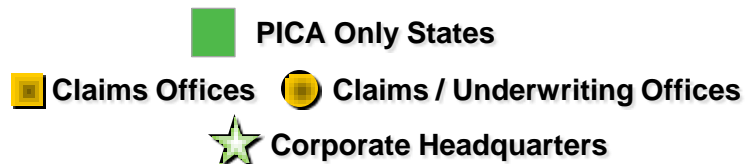
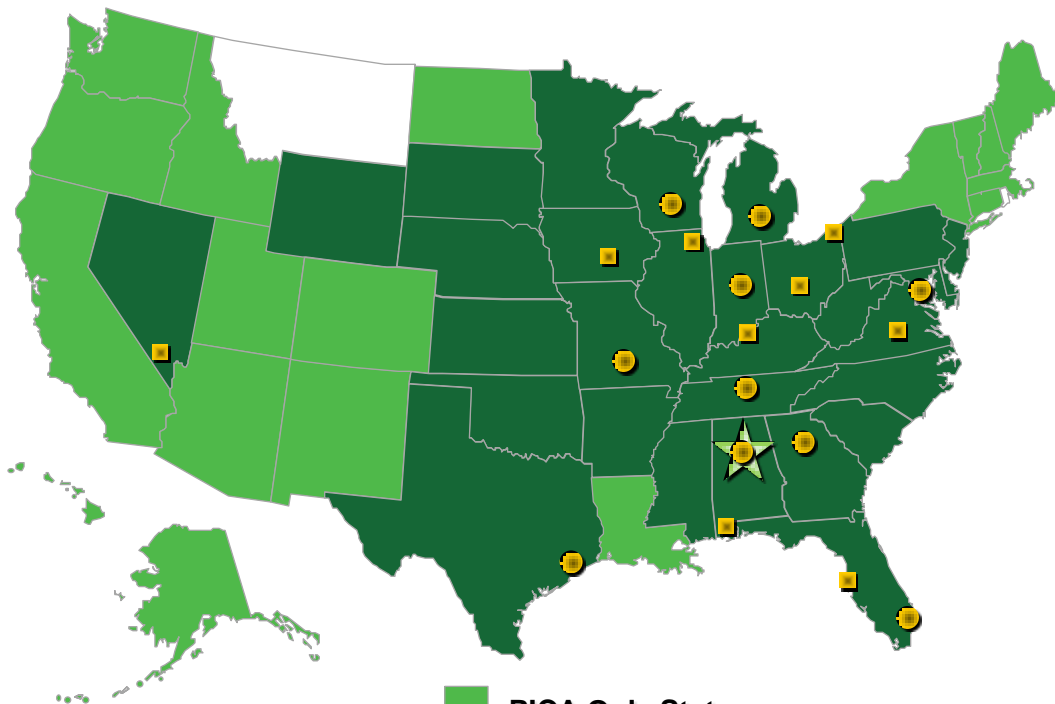
 Claims Offices  Claims / Underwriting Offices

 Corporate Headquarters

# Spreading Risk is Vital

▶ Broad geographic diversification provides an unmatched spread of risk

- ▶ Our spread of risk provides better market awareness and more data points to gauge loss trends
- ▶ Our *internal* actuarial depth allows us to assess emerging trends and respond quickly



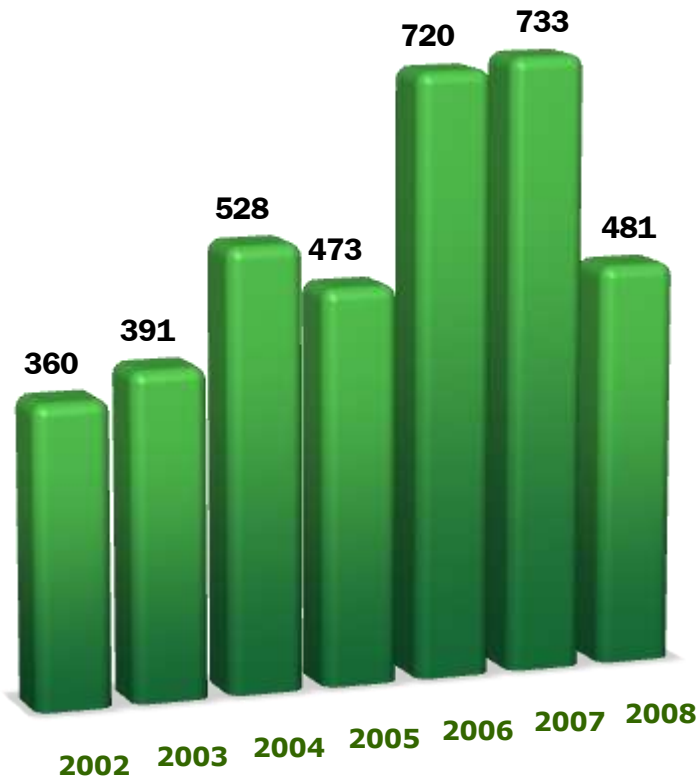
# Strategy: We Dare to Defend

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- Our balance sheet strength and deep expertise ensures our insureds have the option of an uncompromising defense of their claim
  - We defend our insureds at trial more often than any other company in our line
- Provides a long-term financial and marketing advantage
- A key differentiating factor in the market as claims data becomes public

# Claims Trends Remain Favorable

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**ProAssurance Claims Tried**

- Frequency trends are stable after declining since 2005/2006
  - The results is fewer cases to try
- Severity trends also stable
- Trends are much the same in states with or without Tort Reform

# The Tort Reform Question

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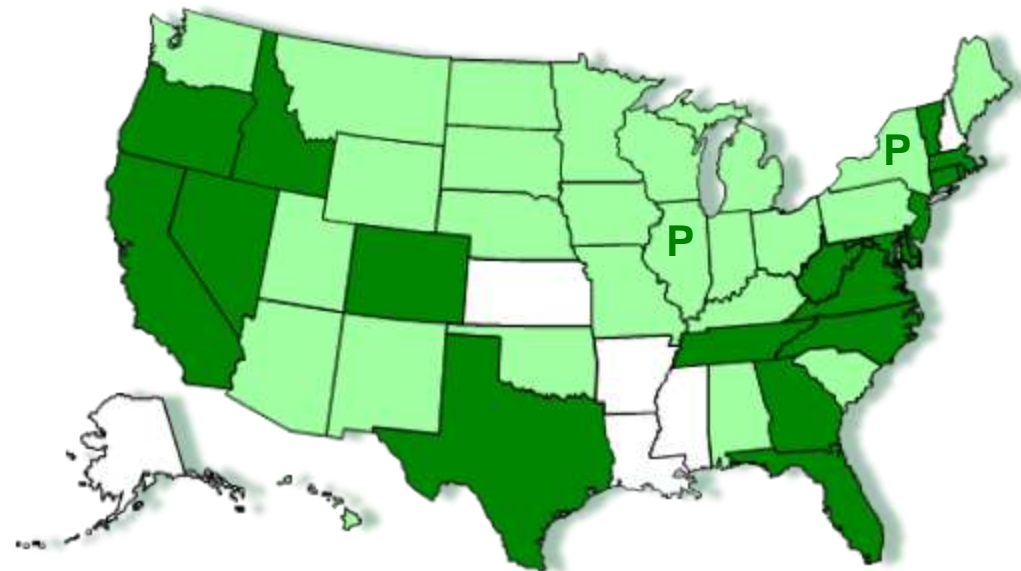
- ▶ Obama signaled a willingness to consider limited reforms in his speech on Monday
  - ▶ Unlikely that Washington will provide the full reforms physicians seek
  - ▶ Major decisions likely left up to each state
  - ▶ Illinois, Florida and Ohio rulings expected this year
- ▶ We set prices and reserves as if there is no tort reform, until results reflect otherwise
- ▶ We are prepared, operationally and financially, if reforms are struck down in our states

# Strategy: Respond to Transparency

Malpractice judgments/settlements now disclosed in 17 states

Public access to the National Practitioner Data Bank is the next step

Disciplinary actions now disclosed in almost every state



Board / Discipline  
Board / Discipline / Med Mal  
P Med Mal disclosure legislation proposed




# Strategy: Maintain Discipline


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## Pricing Discipline

-  Using credits allows us to maintain existing rate filings

-  Pricing developed using multiple years

-  Not unduly influenced by current market conditions

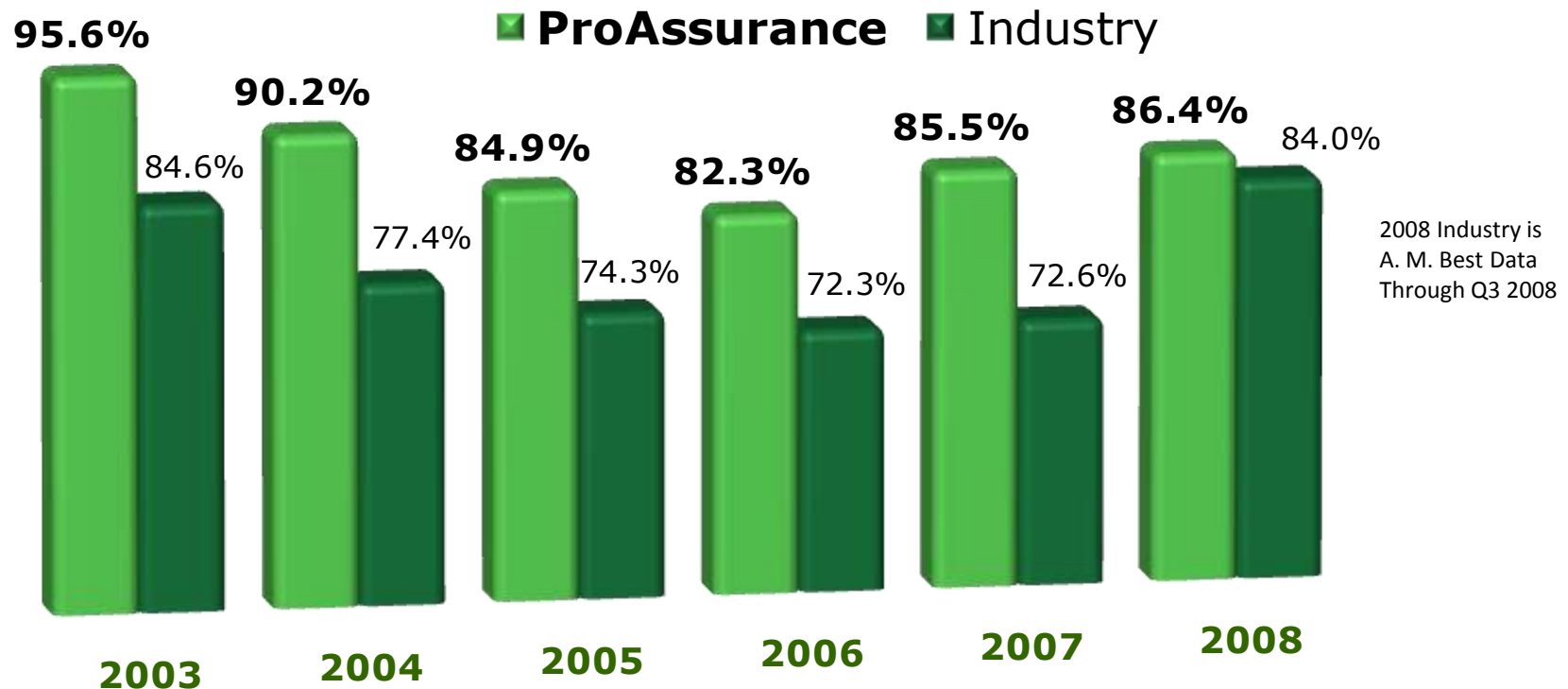
-  Rates on renewing physician business down less than 10% from peak pricing in 2006

  -  Rates down 2% in 2007

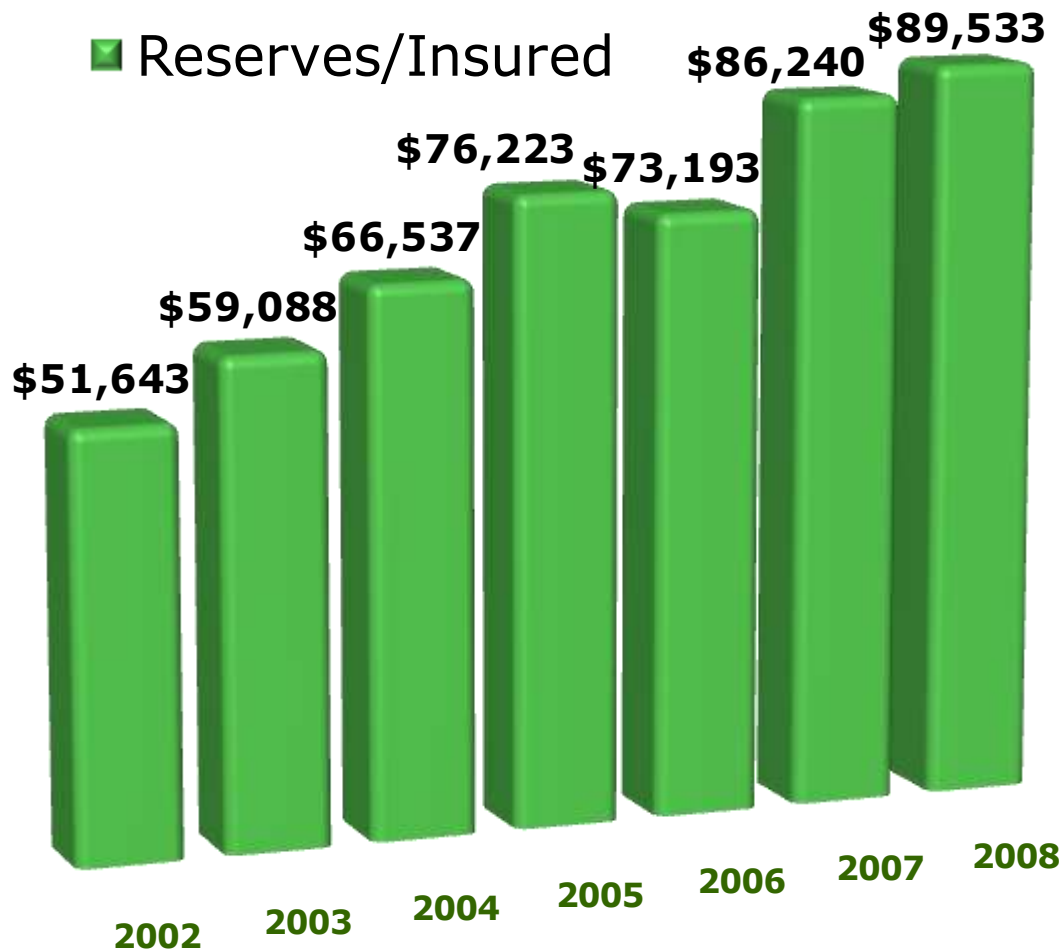
  -  Rates down 6% in 2008

# Strategy: Actuarial Conservatism

Consistent and conservative reserving practices throughout the market cycle



# Strategy: Actuarial Conservatism



Reserve History (billions)	
2008	\$ 2.4
2007	\$ 2.6
2006	\$ 2.6
2005	\$ 2.2
2004	\$ 1.8

# Strategy: Treated Fairly

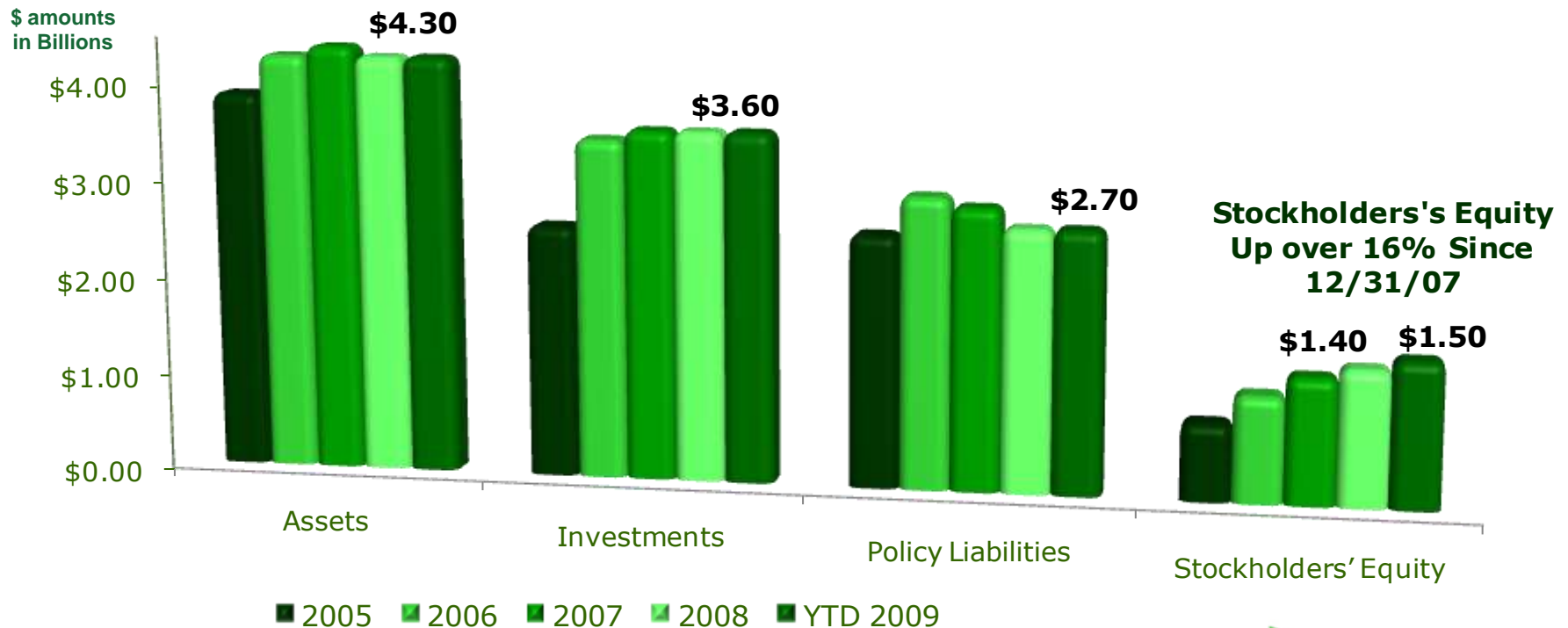
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- 📖 Treated Fairly is our brand enhancement initiative
- 📖 Affirms our existing, enduring commitment to every stakeholder
  - 📖 Insureds
  - 📖 Agents
  - 📖 Investors
  - 📖 The public
- 📖 We run our business as owners who are rewarded for long-term success

# Financial Highlights

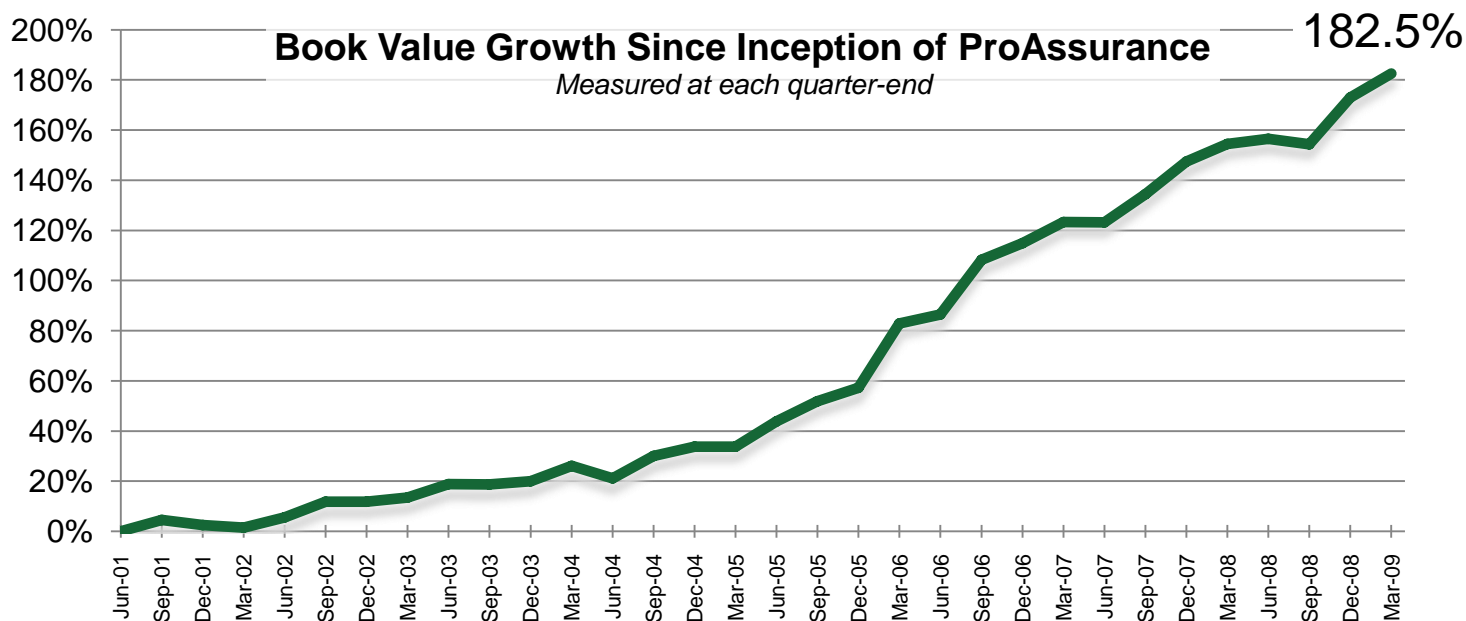
# Strategy: Enduring Financial Strength

- Emphasizing an appropriate balance of risk vs. return
- Committed to enduring balance sheet strength
- Responding to the low interest rate environment



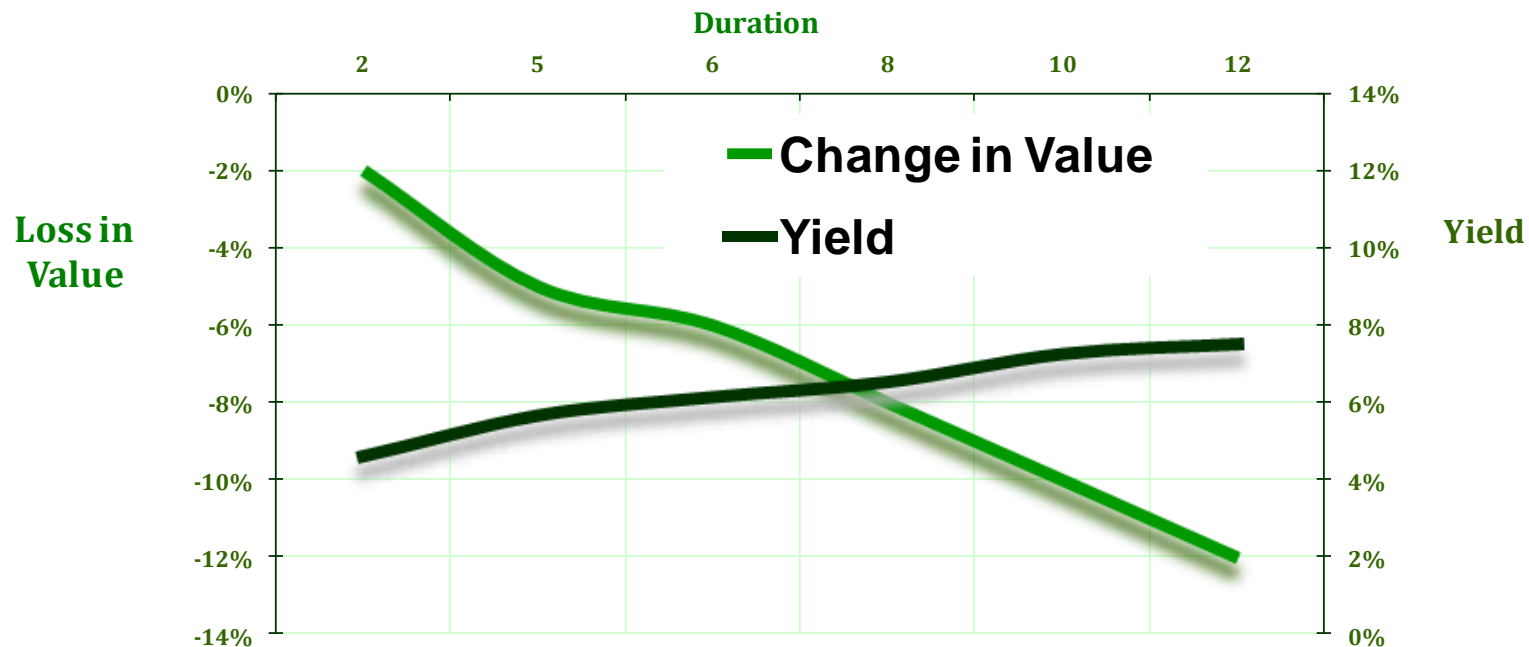
# Strategy: Use Capital Prudently

- Using capital to build through M&A
- Preserving capital for future opportunities
- Enhancing shareholder value by repurchasing shares at prices that *build* Book Value



# Strategy: Investment Discipline

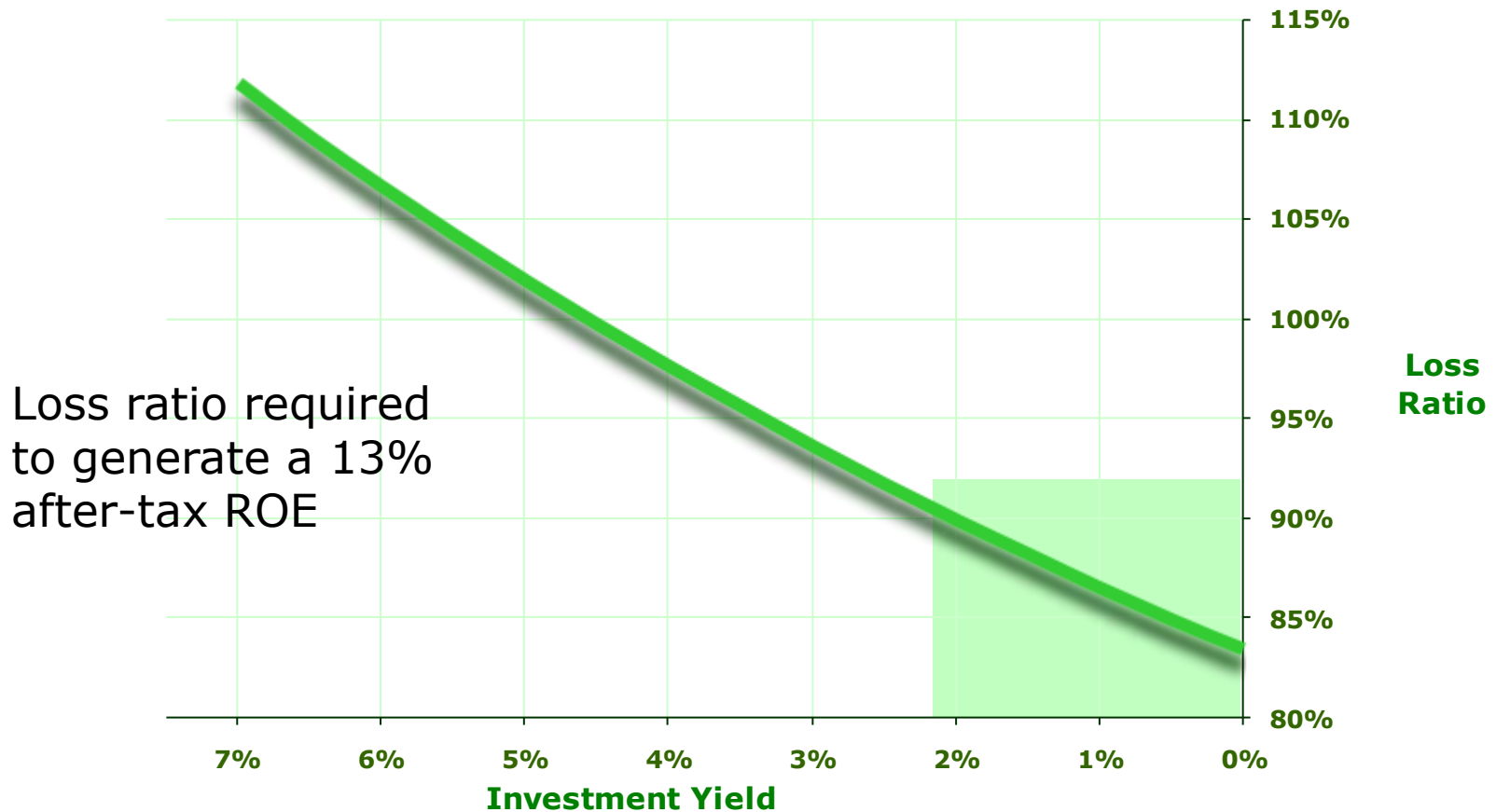
- 📌 The choice: Chase yield or extend duration
- 📌 We are maintaining duration, looking for opportunities





# Responding to Low Interest Rates

## Our Pricing Discipline is Even More Critical

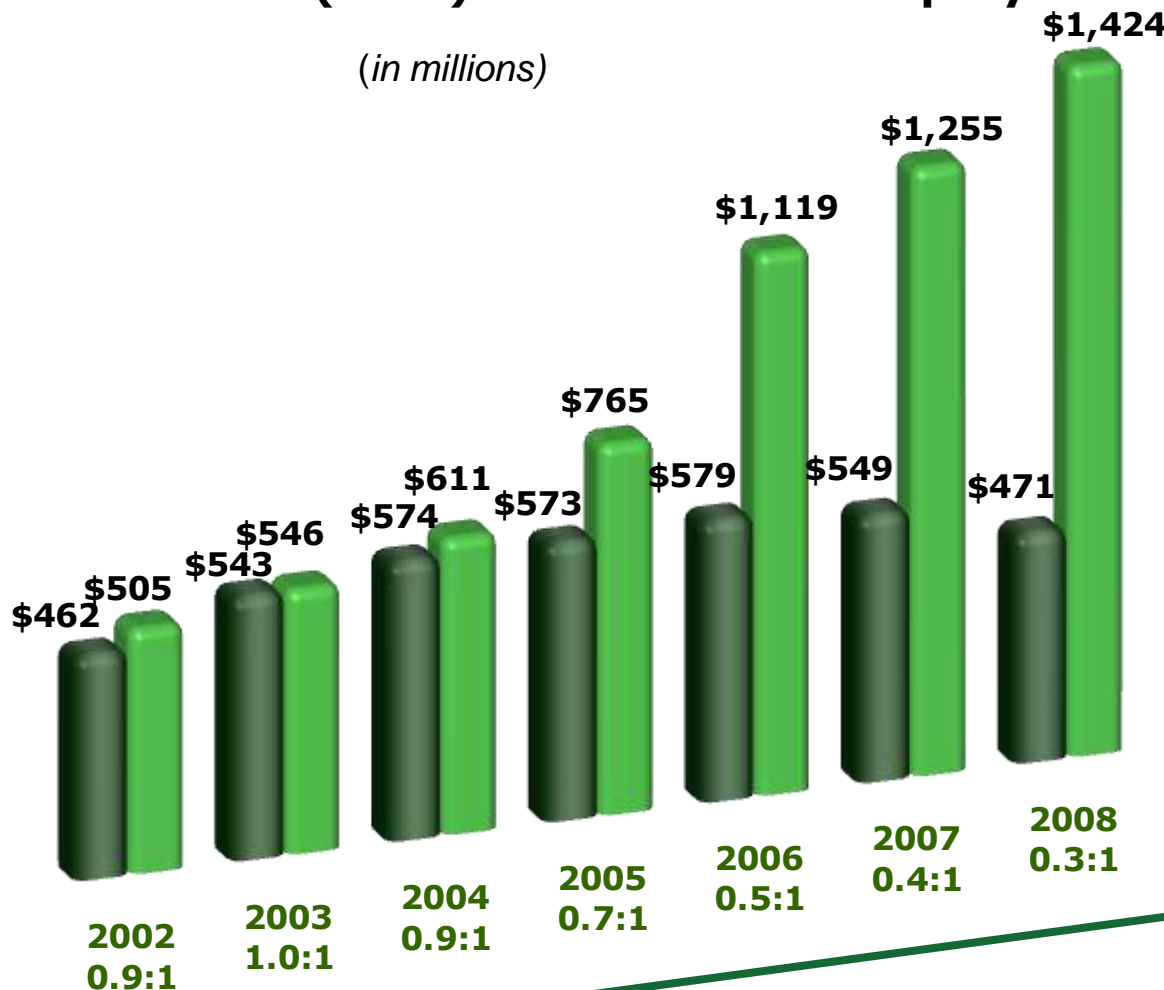


# Our Strong Capital/Low Leverage Position

■ Premiums (GPW) ■ Stockholders' Equity

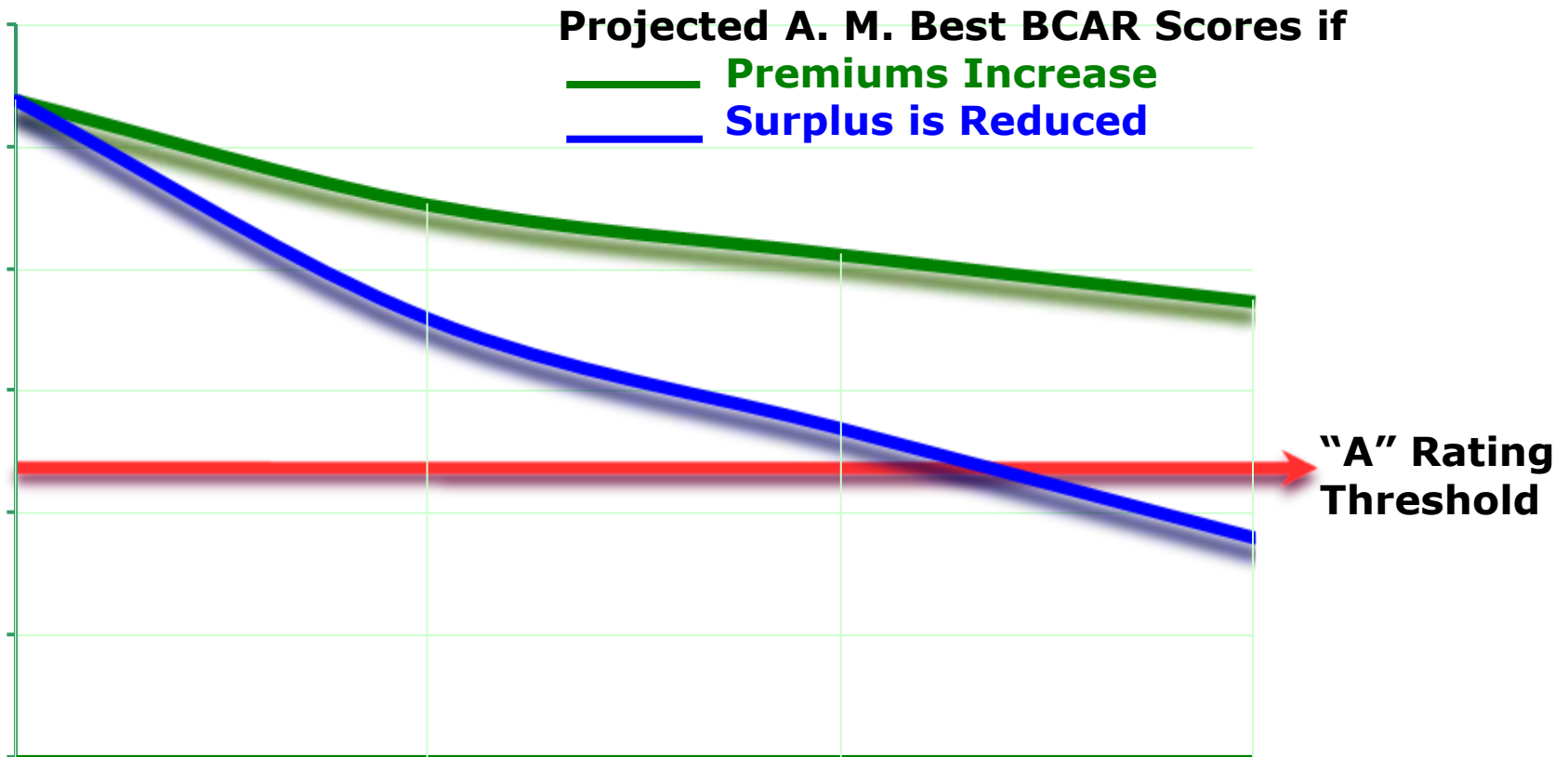
(in millions)

- Prepared for an improving market
- Prudent capital management



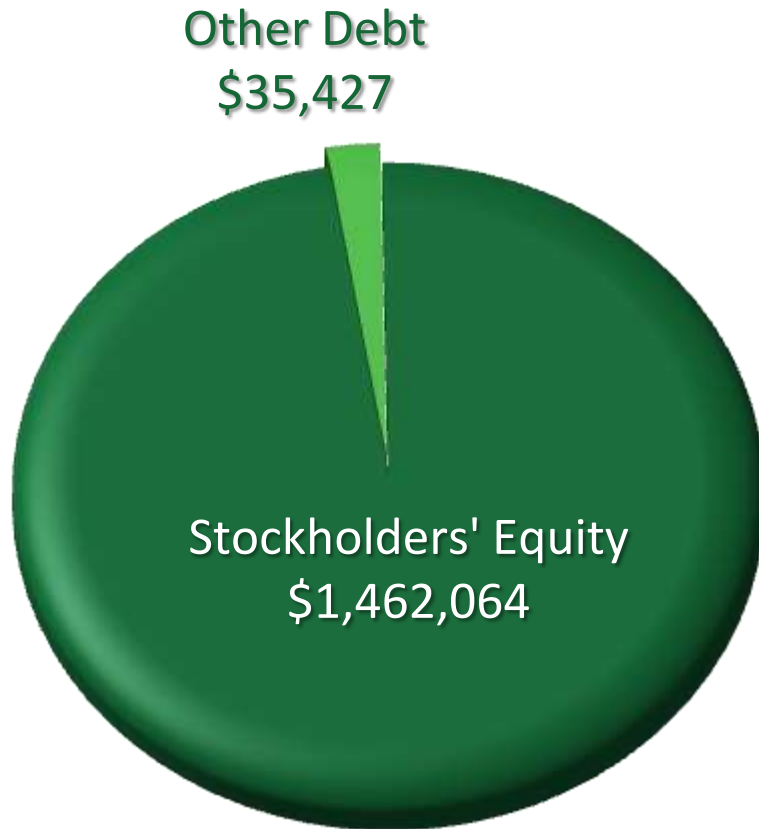
Premiums to Surplus  
for Each year

# Excess Capital vs. Excess Capacity



# Strategy: Balance Risk vs. Return

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3/31/2009

- Little Dependence on Debt
  - Low Debt to Cap Ratio
  - Little strain on cash flow
  - Repurchased additional \$23 million of debt in Q4
- \$25 million debt added in the PICA transaction
  - Includes \$7 million in surplus notes
    - Evaluating potential call later this year

# Strategy: Balance Risk vs. Return

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## \$3.6 Billion Portfolio



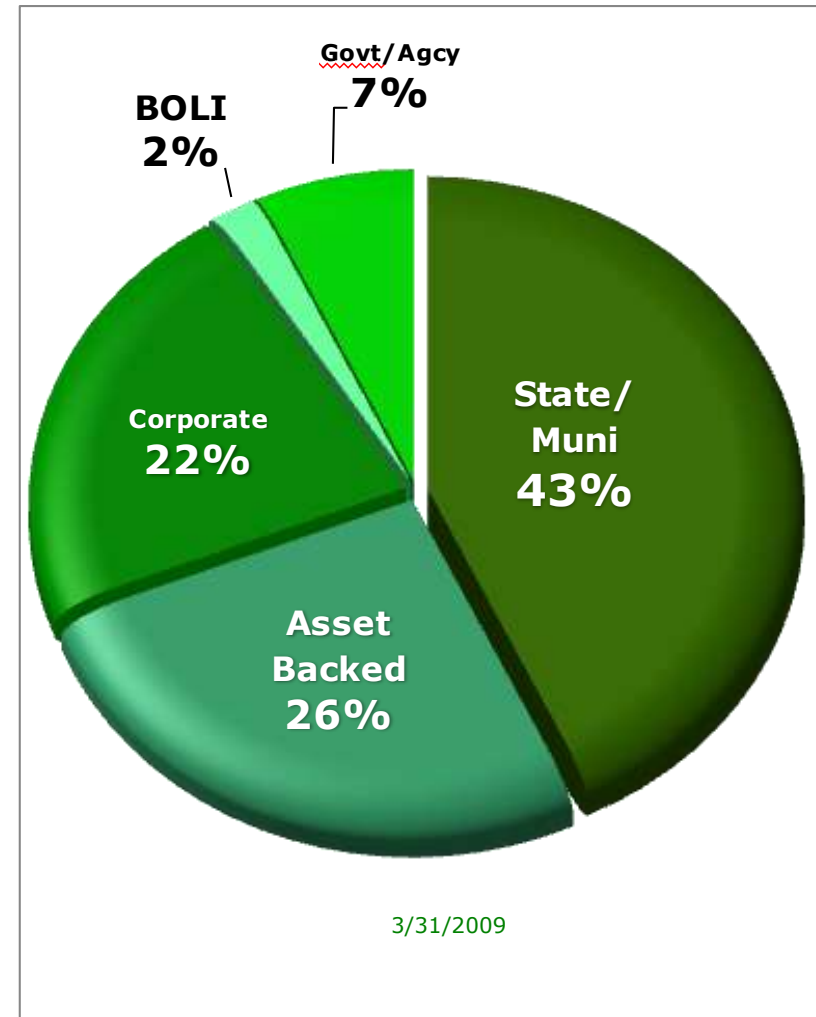
- ▶ We will reduce cash and short-term balances as we see improving credit environment
- ▶ Low equity allocation helps mute the impact of the volatile equity markets
- ▶ Complete portfolio disclosure on our website:

[www.proassurance.com/investorrelations/supplemental.aspx](http://www.proassurance.com/investorrelations/supplemental.aspx)

**Short Term: 10%**  
**BOLI: 2%**   **Equity and Other Investments: 3%**

# Fixed Income: \$3.1 Billion

- Average fixed maturity duration: 3.8 years
- Average tax-equivalent yield: 5.2%
- 97.7% investment grade
- Weighted average: AA



# Summary

# ProAssurance

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- ▶ Producing sustainable shareholder value
  - ▶ Growing Book Value per Share
  - ▶ Finding the right M & A opportunities
  - ▶ Significant share ownership at all levels
- ▶ Focusing on long-term
  - ▶ Preparing for a changing market
  - ▶ Leveraging financial strength
    - ▶ Protecting the balance sheet
    - ▶ Maintain our leading market position
    - ▶ Building strength for the next cycle turn



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