

**ProAssurance**

Medical Professional Liability Insurance  
100 Brookwood Place  
Birmingham, AL 35209

August 9, 2024



**Subject: Contingent PRA Consideration**

Dear former NORCAL Stock Subscriber:

As you are aware, ProAssurance Corporation, PRA Professional Liability Group, Inc. (collectively, "PRA"), and NORCAL Mutual Insurance Company ("NORCAL") entered into an Agreement and Plan of Acquisition on February 20, 2020 (the "Agreement"). Pursuant to the Agreement and the Amended and Restated Plan of Conversion, you acquired NORCAL Common Stock. You then sold that stock to PRA Professional Liability Group, Inc. in exchange for the Fixed PRA Consideration, which was paid at the time of closing, and became eligible for the Contingent PRA Consideration, should it become payable.

This communication is formal notice that, for the reasons described below, and in accordance with the terms of the Agreement, no Contingent PRA Consideration will be payable.

When the parties entered into the Agreement in 2020, PRA prepared an estimate of NORCAL's ultimate losses as of December 31, 2020. Then, in June 2024, an independent actuarial consultant prepared their own estimate of NORCAL's ultimate losses as of December 31, 2023. The amount by which the 2020 estimate exceeded the 2024 estimate was a negative number. In other words, NORCAL's estimated ultimate losses as of December 31, 2023 were higher than estimated in 2020. The independent actuarial consultant then prepared a report of his determination, which was reviewed by PRA and the NORCAL Committee (three persons appointed by NORCAL prior to closing). Both PRA and the NORCAL Committee accepted the actuarial report and its conclusions.

Because the amount by which the 2020 estimate exceeded the 2024 estimate was a negative number, the Contingent PRA Consideration is zero. Accordingly, no Contingent PRA Consideration will be paid.

For additional information about the Contingent PRA Consideration, please see the attached Question 15 and its corresponding Answer 15 in the QUESTIONS AND ANSWERS ABOUT THE PROPOSED TRANSACTION AND THE VOTE, which was set forth in the Member Information Statement you received with your transaction packet in early 2021. A copy of the Member Information Statement, as well as Frequently Asked Questions (FAQ) and other transaction documentation, can be found on our website, at [www.proassurance.com/norcal](http://www.proassurance.com/norcal).

If you have any additional questions about the Contingent PRA Consideration, please call us at 844-466-7225 and select option 3.

Sincerely,

Edward L. Rand, Jr.  
President and Chief Executive Officer  
ProAssurance Corporation

**ProAssurance**

Medical Professional Liability Insurance  
100 Brookwood Place  
Birmingham, AL 35209



**Excerpt from the**  
**QUESTIONS AND ANSWERS ABOUT THE PROPOSED TRANSACTION AND THE VOTE**  
**Provided in the Member Information Statement**

**Q15. How is the Contingent PRA Consideration determined and when will it be paid?**

A15. The Contingent PRA Consideration will be determined based on the development of NORCAL's loss reserves at December 31, 2020 for accident years ended on or before December 31, 2020 through December 31, 2023, as determined by an independent actuarial consultant in the beginning of 2024. More specifically, the aggregate amount of Contingent PRA Consideration will be an amount that is equal to the product determined by multiplying (X) the after-tax percentage and (Y) the amount by which PRA's current estimate of NORCAL's ultimate losses as of December 31, 2020 exceeds the estimate of ultimate losses as of said date as determined by an independent actuarial consultant at December 31, 2023. However, in no event will the total amount of the Contingent PRA Consideration exceed \$150,000,000. **If the amount determined in (Y) is zero or a negative number, the Contingent PRA Consideration will be zero. [emphasis added]** If the sum of the face amount of the Contribution Certificates to be issued to Eligible Members, the cash to be paid to Eligible Members and the value of the Fixed PRA Consideration allocable to the shares of Conversion Stock to be issued to Eligible Members exceeds \$450,000,000 (the "Excess Amount"), PRA will only pay Contingent PRA Consideration in excess of the Excess Amount, and the total possible Contingent PRA Consideration of \$150,000,000 will be reduced dollar-for-dollar by an amount equal to the Excess Amount.

The after-tax percentage will be determined by using 100% and subtracting the maximum federal income tax marginal rate for corporations for the 2023 taxable year. However, if any reserves of NORCAL or any of its subsidiaries are released in the 2020, 2021, or 2022 taxable years, the after-tax percentage will be adjusted to reflect (on a proportional basis) the maximum federal income tax for corporations during the taxable year in which the reserves are released.

PRA's current estimate of NORCAL's ultimate losses as of December 31, 2020 is equal to the sum of:

- (1) \$3,627,000,000 (representing PRA's estimate of consolidated ultimate losses and loss adjustment expenses net of reinsurance of NORCAL and its subsidiaries for the accident years ending on or before December 31, 2018), plus
- (2) 102% of the consolidated net earned premium of NORCAL and its subsidiaries for 2019 (representing PRA's estimated loss ratio for the 2019 accident year), plus (continued)

**ProAssurance**

Medical Professional Liability Insurance  
100 Brookwood Place  
Birmingham, AL 35209



(3) 98% of the consolidated net earned premium of NORCAL and its subsidiaries for 2020 (representing PRA's estimated loss ratio for the 2020 accident year).

The estimate of ultimate losses as of December 31, 2023 will be determined by an independent actuarial consultant and be based on the ultimate consolidated losses and loss adjustment expenses of NORCAL and its subsidiaries as of December 31, 2020 net of reinsurance. The estimate of ultimate losses will be completed on or before June 30, 2024.

A NORCAL Committee, consisting of three persons appointed by NORCAL Mutual prior to Closing, will review the actuarial report of the independent actuarial consultant. If either PRA or the NORCAL Committee disputes the actuarial report, the parties will select a second independent actuarial consultant and resolve the dispute according to the terms of the Acquisition Agreement. The NORCAL Committee expenses, including expenses incurred in connection with any dispute, will reduce any Contingent PRA Consideration. If the Contingent PRA Consideration is less than the expenses, the expenses will be paid by PRA by first applying the Contingent PRA Consideration to cover the expenses with any remaining expenses to be paid directly by PRA.

Promptly after determining the estimate of ultimate losses, resolving any disputes regarding the actuarial report, and calculating the amount of the Contingent PRA Consideration to be paid to the Selling Stockholders after deducting payment of applicable expenses, PRA will deposit with the Exchange Agent cash in an amount equal to the Contingent PRA Consideration. The Exchange Agent will pay any costs incurred by the NORCAL Committee in the determination of the Contingent PRA Consideration from the amount deposited by PRA, and the amount of the Contingent PRA Consideration to be paid for the Conversion Stock sold to PRA Professional will be reduced by that amount. Promptly after receipt of these deliverables from PRA, the Exchange Agent will then distribute payment of the amount of Contingent PRA Consideration to each of the Selling Stockholders.