

## **MEMBER INFORMATION STATEMENT – PLEASE READ**

This Member (or policyholder) Information Statement contains important information about:

- (1) A Proposed Conversion of NORCAL Mutual Insurance Company from a mutual insurance company to a stock insurance company;
- (2) A Proposed Sale of at least 80% of the newly issued shares of common stock of the converted stock insurance company by Eligible Members to ProAssurance Corporation and PRA Professional Liability Group, Inc.;
- (3) How the Proposed Transaction with ProAssurance Corporation and PRA Professional Liability Group, Inc. would affect Members;
- (4) How Record Date Members can vote for or against the Amended and Restated Plan of Conversion; and
- (5) How Eligible Members may elect ONE of four forms of consideration with respect to their Allocable Equity in connection with the Proposed Conversion.

This Member Information Statement describes a proposed conversion (“**Proposed Conversion**”) of NORCAL Mutual Insurance Company, a mutual insurance company domiciled in the State of California (before the conversion, referred to as “**NORCAL Mutual**,” after the conversion, being referred to as “**NIC**,” and both before and after the conversion, being referred to as “**NORCAL**”), to a stock insurance company pursuant to an Amended and Restated Plan of Conversion (the “**Plan**”). Conversion is the process by which a mutual insurance company changes from a company that is owned by its policyholders into a stock insurance company that is owned by its shareholders.

This Member Information Statement also describes the offer by ProAssurance Corporation, a Delaware corporation (“**ProAssurance**”), and PRA Professional Liability Group, Inc., a Delaware corporation (“**PRA Professional**,” together with ProAssurance, “**PRA**”), to, immediately after the Proposed Conversion, acquire at least 80% of the common stock of NIC to be issued to Eligible Members pursuant to the Plan (the “**Offer**”).

If you have any questions or need assistance, please contact the Information Agent, Georgeson LLC at (888) 206-5970.

We refer to the Proposed Conversion and the Offer collectively as the “**Proposed Transaction**.” While the Proposed Conversion and the acquisition contemplated by the Offer are separate events, they are presented to Members together because one will not occur without the other. For example, under the terms of the Proposed Transaction, the Proposed Conversion will not occur and the acquisition contemplated by the Offer will not be completed unless (among other closing conditions): (1) Eligible Members tender at least 80% of the Conversion Stock to PRA and (2) the aggregate amount of the Contribution Certificates issued in the Proposed Conversion is less than \$200 million. In addition, even though NORCAL Mutual’s Board unanimously voted to approve the Proposed Transaction, it will not be completed unless the Plan is approved by at least two-thirds of the votes cast by Members who are present (in person or by proxy) at the Special

Meeting and who are entitled to vote on the Plan. In the event the Proposed Transaction does not occur, Eligible Members will not be entitled to Conversion Consideration (as defined herein). If completed, the Proposed Transaction would convert NORCAL Mutual from a mutual insurance company that is owned by its Members to a stock insurance company that is controlled and primarily owned by PRA.

As part of the Proposed Transaction with PRA, each Eligible Member who elects to receive Conversion Stock as consideration will be entitled to sell the Conversion Stock for such Eligible Member's pro rata share of the PRA Consideration. The "**PRA Consideration**" is the sum of (1) a fixed amount of \$450,000,000 (the "**Fixed PRA Consideration**") and (2) a contingent amount of up to \$150,000,000 (the "**Contingent PRA Consideration**"). The Contingent PRA Consideration is so named because its existence and amount are contingent on the occurrence of certain events explained in the attached materials. If these events do not occur, Contingent PRA Consideration will not be paid. The Fixed PRA Consideration and Contingent PRA Consideration assume that all Eligible Members are Stock Subscribers (*i.e.*, they receive Conversion Stock and do not elect to receive the Contribution Certificate or Conversion Cash Payment). The Fixed PRA Consideration and Contingent PRA Consideration will be payable only to Eligible Members who elect Choice 1 (receive Conversion Stock in the Proposed Conversion and sell it to PRA according to the Offer). These Eligible Members will have the right to immediately sell their shares to PRA for \$51.14 per share at the completion of the Proposed Transaction and up to \$17.04 per share of Contingent PRA Consideration.

If the Proposed Transaction is completed, Members will surrender their ownership interests in NORCAL Mutual. These interests are known as membership interests, and they provide owners of in-force policies (the "**Members**") with the right to vote on certain matters, including the right to participate in Members meetings, and the right to participate in dividends and other surplus distributions.

Section 4097 *et seq.* of the California Insurance Code governs the Proposed Conversion and defines the policyholders entitled to vote on the Proposed Conversion and the policyholders entitled to receive consideration from the Proposed Conversion, as well as the types of consideration.

NORCAL Mutual is responsible (i) for determining the Members eligible to vote on and receive consideration from the Proposed Conversion, based on the dates provided in Section 4097 *et seq.* of the California Insurance Code, and (ii) for determining the appropriate amount of consideration each Eligible Member is eligible to receive, based on the requirements of Section 4097 *et seq.* of the California Insurance Code.

*NORCAL Mutual Members with policies in effect as of February 18, 2020 and as of the date of the closing of the Proposed Transaction (including policyholders holding any successor policy to a policy in effect as of February 18, 2020 that is rewritten under a new policy, resulting in uninterrupted, continuous coverage through and including the date of the closing of the Proposed Transaction) are "**Eligible Members.**" **Only** Eligible Members are entitled to receive Conversion Consideration.*

As part of the Proposed Conversion and as required by Section 4097 *et seq.* of the California Insurance Code, NORCAL Mutual has determined that the Eligible Members' collective equity in NORCAL Mutual (the "**Equity**") totals \$440 million. This amount is based upon the August 25, 2020 revised and restated appraisal of the fair value of NORCAL Mutual which was performed by Boenning & Scattergood, Inc. Boenning & Scattergood, Inc. was appointed by NORCAL Mutual and approved by the Commissioner of the Department of Insurance of the State of California (the "**Commissioner**"). According to the Plan, the Equity will be allocated and distributed to each Eligible Member ("**Allocable Equity**") based on an allocation formula comprised of the length of each Eligible Member's policyholder relationship with NORCAL Mutual, and the earned premium and profitability associated with that relationship. This methodology is described in more detail in the "*Questions and Answers About the Proposed Transaction and the Vote*" section on page 8.

In connection with the Proposed Conversion, Eligible Members may elect **ONE** of the following four forms of consideration (the "**Conversion Consideration**"):

- **Choice 1. RECEIVE AND SELL CONVERSION STOCK TO PRA (Recommended).** Exchange the value of your Allocable Equity for common stock of NIC (*i.e.*, the Conversion Stock) at the Subscription Price (\$50.00 per share). Then, immediately sell it to PRA Professional for cash consideration of \$51.14 per share of Fixed PRA Consideration and up to \$17.04 per share of Contingent PRA Consideration. NIC will transfer the Conversion Stock on your behalf and you will receive the PRA Consideration (consisting of a combination of the Fixed PRA Consideration of cash equal to \$51.14 per share and the Contingent PRA Consideration in an amount up to \$17.04 per share).

OR

- **Choice 2. RECEIVE AND HOLD CONVERSION STOCK.** Exchange the value of your Allocable Equity for Conversion Stock and become a stockholder of NIC. The shares of Conversion Stock will not be registered under the federal or state securities laws and will be subject to substantial restrictions on transfer. There is no public market for the Conversion Stock, and it is unlikely that a public market will develop. If you elect to hold shares of Conversion Stock, you will have to bear the economic risk of the investment for an indefinite period of time. However, PRA's intention is to acquire directly or indirectly 100% of the Conversion Stock by acquiring your shares through a recapitalization, reorganization or reverse stock split at a price comparable to Choice 1 (though the price possibly may be less), so your ownership of Conversion Stock may be temporary. Further information about PRA's intention to acquire 100% ownership may be found under the Q&As.

OR

- **Choice 3. RECEIVE A CONTRIBUTION CERTIFICATE.** Receive a Contribution Certificate Equal to 100% of your Allocable Equity Payable Within Ten Years Only Out of NIC's Excess Surplus. Your Contribution Certificate will bear interest at the rate established in California Insurance Code Section 10489.4 for minimum standard valuation of all life insurance policies of more than 20 years' duration issued in the year (the current

rate would be 3.00% per annum). Your Contribution Certificate will be payable within 10 years but only with the prior written approval of the Commissioner and only if following such payment NIC will have a surplus in an amount exceeding the greater of (1) “Total Adjusted Capital” (as defined in Section 739(m) of the California Insurance Code) equal to 150% of its “Company Action Level RBC” (as defined in Section 739(j)(1) of the California Insurance Code) as reflected in NIC’s most recent “RBC Report” (as defined in Section 739(l) of the Code) filed with the Commissioner or (2) the amount of surplus required by the laws of any jurisdiction in which NIC is licensed to do business to retain unimpaired its Certificate of Authority therein. The Contribution Certificate will not be registered under the federal or state securities laws and will be subject to substantial restrictions on transfer. There is no public market for the Contribution Certificates, and it is unlikely that a public market will develop. If you elect to receive the Contribution Certificate, you will have to bear the economic risk of the investment for an indefinite period of time.

OR

- **Choice 4. RECEIVE A CONVERSION CASH PAYMENT.** Receive a cash payment equal to 50% of your Allocable Equity. Members electing Choices 1 or 4 will receive a cash payment, but if you elect Choice 4 you will receive a cash payment that is less than 50% of the cash payment available to you if you elect Choice 1.

If you do not make your election by 5:00 p.m. Pacific Time on April 27, 2021, you will automatically (pursuant to Section 4097.04 of the California Insurance Code) be deemed to elect to receive Choice 3.

**Only Eligible Members electing to receive Conversion Stock [Choice 1] will have the opportunity to sell such Conversion Stock to PRA Professional for \$51.14 per share of Fixed PRA Consideration at the consummation of the Proposed Transaction and up to \$17.04 per share of Contingent PRA Consideration.**

In order to complete the Proposed Transaction:

- Eligible Members holding at least 80% of the outstanding Conversion Stock must validly tender their shares to PRA in exchange for the PRA Consideration (Choice 1); and
- the total amount of the Contribution Certificates (Choice 3) to be issued cannot exceed \$200 million.

The Proposed Transaction will not affect coverage under the in-force policies issued by NORCAL Mutual, and will not increase policy premiums.

The Proposed Transaction is the result of careful deliberation by the NORCAL Mutual Board of Directors. The NORCAL Mutual Board of Directors determined the Proposed Transaction is in the best interest of policyholders and unanimously approved the Proposed Transaction on February 18, 2020.

Even though NORCAL Mutual's Board of Directors unanimously voted to approve the Proposed Transaction, it will not be completed unless the Plan and the Proposed Transaction are approved by the Commissioner (including any modifications to the Plan requested by the Commissioner) and at least two-thirds of the votes cast by Members who are entitled to vote on the proposed Plan (Record Date Members).

**“Record Date Members”** are NORCAL Mutual Members with policies in effect as of February 11, 2021. Only Record Date Members are permitted to vote on the Plan, with the votes allocated to such Members according to NORCAL Mutual's Bylaws.

There are conditions to the Proposed Transaction that may be material to your decision whether to vote for or against the Plan. These conditions are described below.

Additionally, if an Acquisition Event or Recommendation Event (as defined in the Glossary of Key Terms below) occurs or the Members of NORCAL Mutual do not hold the special meeting to approve the Plan within 120 days after the Commissioner approves the Proposed Conversion, NORCAL Mutual will be required to pay PRA a \$15,000,000 termination fee.

This document provides a brief overview of the Proposed Transaction. The Member Information Statement that follows includes key transaction documents and provides detailed information about how the Proposed Transaction will affect your interests in NORCAL. For example:

- a glossary of key terms (page 1);
- questions and answers about the Proposed Transaction and vote (page 8);
- pros and cons of the Proposed Transaction (pages 21 and 22);
- financial information regarding NORCAL Mutual (page 28);
- a background discussion of the Proposed Transaction, including the Board of Directors' reasons for approving the Proposed Transaction and its recommendation to Members (page 29);
- a summary of Director Nominees to be elected effective upon consummation of the Proposed Transaction (page 40);
- an explanation of the Member vote, including the rules governing it (page 42);
- a summary of the Plan (page 44);
- a summary of the Acquisition Agreement (page 49);
- a summary and copy of the fairness opinion of Piper Sandler & Co. (page 62);

- a description and copy of the revised and restated appraisal report from Boenning & Scattergood, Inc. as to the fair value of NORCAL Mutual (page 71);
- Members' risks and considerations relating to the Proposed Transaction (page 72);
- U.S. federal income tax consequences of the Proposed Transaction (page 77); and
- a cautionary statement concerning forward-looking information (page 86).

A PRA Tender Offer Statement is also enclosed. The Tender Offer Statement (prepared by PRA) describes the Offer terms and how to sell shares of Conversion Stock to PRA Professional.

This Member Information Statement is being sent to Record Date Members and NORCAL Mutual policyholders as of February 18, 2020. Record Date Members (NORCAL Mutual Members with policies in effect as of February 11, 2021) are eligible to vote on (1) the proposed Plan, (2) the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, and (3) the election of a new slate of NIC directors. Eligible Members (NORCAL Mutual Members with policies in effect as of February 18, 2020 and the date the Proposed Transaction is closed, including policyholders holding any successor policy to a policy in effect as of February 18, 2020 that is rewritten under a new policy, resulting in uninterrupted, continuous coverage through and including the date of the closing of the Proposed Transaction) are eligible to elect to receive **ONE** of the four forms of Conversion Consideration.

**Record Date Members are strongly encouraged to vote on the Plan.** To cast your vote, (1) submit your proxy online using the instructions on the enclosed proxy card, (2) complete and return the enclosed proxy, or (3) vote virtually at the special meeting of Record Date Members. *The Board of Directors of NORCAL Mutual recommends voting FOR:*

- *the approval of the Plan;*
- *the approval of the Amended and Restated Articles of Incorporation;*
- *the approval of the Amended and Restated Bylaws of NIC; and*
- *the NIC director nominees.*

If you have questions or need assistance with voting, please call (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or Saturday from 9:00 a.m. to 3:00 p.m. until April 30, 2021.

# NORCAL Mutual Insurance Company

## Member Information Statement

February 26, 2021



**RICARDO LARA**  
CALIFORNIA INSURANCE COMMISSIONER

**NOTICE OF PUBLIC HEARING REGARDING THE DEMUTUALIZATION OF  
NORCAL MUTUAL INSURANCE COMPANY**

NOTICE IS HEREBY GIVEN that the Insurance Commissioner of the State of California (the "Commissioner") will hold a VIRTUAL public hearing on the plan of NORCAL Mutual Insurance Company ("NORCAL Mutual") to convert from a mutual insurer into a stock insurer. Anyone may attend and ask to speak at the hearing. Anyone may provide written comments or documents to the Commissioner by sending them to the email address listed below. You are not required to attend the hearing in order to provide written comments or documents. NORCAL Mutual members, particularly "Eligible Members," may be especially interested in attending. An Eligible Member is one who: (i) owned a NORCAL Mutual policy that was in effect on February 18, 2020, or the owner of a replacement policy for which the predecessor policy was in effect on February 18, 2020; and (ii) owns a NORCAL Mutual policy on the date of the closing of the Acquisition (defined below). Please refer to the Amended and Restated Plan of Conversion for the detailed definition of "Eligible Member." You are not required to be an Eligible Member to provide oral or written comments.

The hearing will be held as follows:

**April 1, 2021**

10:00 a.m. Pacific Daylight Time (PDT)

California Department of Insurance

**VIRTUAL PARTICIPATION ONLY: VIA WEBEX AND TELEPHONE\***

**WebEx: [https://mb.webex.com/mb/onstage/g.php?MTID=ea4656f1495aaed386287c8abfa8649bc\\*\\*](https://mb.webex.com/mb/onstage/g.php?MTID=ea4656f1495aaed386287c8abfa8649bc**)**

**Toll-Free Telephone: 1(844)992-4726, Access code: 187 916 7726**

The hearing will continue on the date noted above until 5:00 p.m., or as soon as all those wishing to speak have done so, whichever is earlier.

**CONVERSION AND PURCHASE**

The Commissioner scheduled this public hearing pursuant to California Insurance Code ("CIC") §4097.06 to consider the Amended and Restated Plan of Conversion (the "Plan") adopted by the Board of Directors of NORCAL Mutual Insurance Company, a mutual insurance company domiciled in the State of California. After the conversion, the name of the company will be changed to NORCAL Insurance Company ("NIC").

The Plan provides for:

(1) the conversion of NORCAL Mutual, pursuant to CIC §4097 *et seq.*, from a mutual insurance company into an incorporated stock insurance company, and

(2) the sale and purchase of at least eighty percent (80%) of the newly-issued shares of common stock of NIC to PRA Professional Liability Group, Inc., a Delaware corporation ("PRA Professional"), a wholly-owned subsidiary of ProAssurance Corporation, a Delaware corporation ("ProAssurance" and together with PRA Professional, collectively, the "Sponsor") pursuant to an Agreement and Plan of Acquisition, by and between NORCAL Mutual and the Sponsor, dated February 20, 2020 (the "Acquisition").

NORCAL Mutual is providing the Plan to "Record Date Members" with this notice. Record Date Members are Members of NORCAL Mutual who owned policies on February 11, 2021. Please refer to the Amended and Restated Plan of Conversion



for the detailed definition of "Record Date Member." If you are not a Record Date Member, you may request electronic copies of the same information from the California Department of Insurance ("CDI").

## PURPOSE OF THE HEARING

Pursuant to CIC §4097.06(b), the Commissioner shall order a public hearing on the Plan after written notice of the hearing to the mutual company, its members, and the public. Members of the mutual company, their representatives, and the public shall have the right to appear at the public hearing, to provide oral comments, and to submit written comments to the Commissioner. You are not required to provide notice of your intention to provide oral comments at the hearing; however, those that provide notice will be scheduled before others. Following the public hearing, the Commissioner may require modifications to the Plan.

The Plan cannot be completed without the Commissioner's approval and without satisfaction of other requirements. Section 4097.06 requires the Commissioner to approve the Plan if the Commissioner finds that the Plan is fair, just and equitable to NORCAL Mutual and its members, does not violate the law, and after the conversion NIC will satisfy the requirements for the issuance of a license to write the line or lines of insurance for which NORCAL Mutual is presently licensed.

## ACCESS TO THE HEARING

This hearing will be open to the public. An RSVP is not required to attend the hearing and all attendees are invited to participate regardless of an RSVP. However, to aid the CDI in managing participation, we request that you RSVP, preferably by **March 26, 2021**, by providing your name(s), the name of the organization you represent, and your contact information, including the email address of each attendee to [NORCALDemutualization@insurance.ca.gov](mailto:NORCALDemutualization@insurance.ca.gov).

The virtual conference tools to be used for the public hearing are accessible to persons with mobility impairment. Persons with sight or hearing impairments are requested to notify [NORCALDemutualization@insurance.ca.gov](mailto:NORCALDemutualization@insurance.ca.gov) in order to make specific arrangements.

To attend the hearing you may either log-in through the WebEx link provided above at the time of the hearing or you may call the toll-free telephone number provided above. If you log-in through the WebEx link you will have the opportunity to see and hear the hearing and be seen (if the device you use is camera-enabled) and heard (if the device you use is audio-enabled). If you call in by telephone you will be able to hear the hearing and you will be able to ask questions and make comments by pressing \*3 to wait for the host to unmute your line.

All written comments or documents must be sent to CDI via email and received by CDI at the email address below, no later than 5:00 p.m. on **April 1, 2021**, in order to be considered part of the hearing record. All oral and written comments received at the hearing will be considered part of the hearing record.

Please direct any questions regarding this notice, opportunities to provide oral and written comments for the record, to: [NORCALDemutualization@insurance.ca.gov](mailto:NORCALDemutualization@insurance.ca.gov).

\* If the manner in which the hearing will be conducted changes, CDI will send a notice regarding the change(s) in advance of the hearing.

\*\* Alternatively, access the hearing at <https://mb.webex.com> (Event Number 1879167726, Password: 2zqJq8GfMR5).

DATED: February 25, 2021.

RICARDO LARA  
Insurance Commissioner

By   /S/    
Libio B. Latimer  
Attorney IV  
Corporate Affairs Bureau

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# NORCAL MUTUAL INSURANCE COMPANY

575 Market Street, Suite 1000

San Francisco, CA 94105

## NOTICE OF SPECIAL MEETING

### FOR APPROVAL OF THE AMENDED AND RESTATED PLAN OF CONVERSION

NOTICE IS HEREBY GIVEN THAT a special meeting (“**Special Meeting**”) of Record Date Members of NORCAL Mutual Insurance Company, a mutual insurance company domiciled in the State of California (“**NORCAL Mutual**,” after the conversion, being referred to as “**NIC**,” and both before and after the conversion, being referred to “**NORCAL**”) will be held on April 12, 2021 beginning at 10:00 a.m. Pacific Time, to vote on a proposed Amended and Restated Plan of Conversion of NORCAL dated February 10, 2021 (the “**Plan**”). The Plan provides for the conversion of NORCAL Mutual from a mutual insurance company into an incorporated stock insurance company (the “**Conversion**”). In connection with the Plan, Record Date Members will vote on (1) the proposed Amended and Restated Articles of Incorporation of NIC; (2) Amended and Restated Bylaws of NIC; and (3) a slate of director nominees proposed by PRA (“**Director Nominees**”), all of which will be effective upon completion of the Proposed Transaction. “**Record Date Members**” are Members of NORCAL Mutual who owned policies on February 11, 2021. Immediately after the Conversion and pursuant to an agreement with ProAssurance Corporation (“**ProAssurance**”) and PRA Professional Liability Group, Inc. (“**PRA Professional**” and collectively with ProAssurance, “**PRA**”), PRA will purchase for cash all of the shares of common stock to be issued to NORCAL Mutual’s Eligible Members from the NORCAL Mutual Eligible Members, pursuant to the Plan (the “**Acquisition**”). The Conversion and subsequent Acquisition collectively are referred to as the “**Proposed Transaction**.”

The full text of the Plan, a proxy for casting your vote on the Plan, the Amended and Restated Articles of Incorporation, the Amended and Restated Bylaws of NIC and Director Nominees accompanies this Notice. Your vote may be cast (1) by proxy online using the instructions on the enclosed proxy card, (2) by mailing the enclosed proxy card or (3) virtually at the meeting. If you need instructions regarding voting by proxy, please call us toll free at (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or 9:00 a.m. to 3:00 p.m. Saturday until April 30, 2021. Your proxy may be marked with a vote of either “FOR,” “AGAINST,” or “ABSTAIN” in regards to the approval of the Plan and each of the above-listed proposals. Selections not made will be counted as FOR the proposals.

The NORCAL Mutual Board of Directors (the “**Board**”) has unanimously approved the Plan and recommends that Record Date Members approve it. Following a public hearing, the Commissioner of the Department of Insurance of the State of California (the “**Commissioner**”) may require modifications to the Plan. If the Commissioner requires the Plan to be modified, the date of this special meeting of Record Date Members to vote may change to a later date or be cancelled. If the Commissioner requires modifications to the Plan, NORCAL Mutual would be

required to submit an amended Plan for approval by at least two-thirds (2/3) of the Board and the consent of ProAssurance. ProAssurance cannot unreasonably withhold, condition or delay consent.

Following the public hearing on the Plan, NORCAL Mutual will mail each Record Date Member a written communication indicating that the public hearing has been completed. The communication will disclose any changes to the Plan and/or the Proposed Transaction requested by the Commissioner and approved by the Board and ProAssurance (if applicable). The communication will be mailed to the Record Date Members as promptly as practicable following the public hearing, and will provide notice if the Special Meeting is to be delayed or cancelled. In the event the Special Meeting is delayed and/or the Commissioner requires modifications to the Plan, Record Date Members may revoke any previously submitted proxy at the Special Meeting or before the Special Meeting by mailing or submitting a new proxy online by the fifth (5<sup>th</sup>) day prior to the Special Meeting. A quorum (10% of the Record Date Members) needs to be present virtually or by proxy at the meeting, with at least two-thirds (2/3) of all Record Date Members actually present virtually or by proxy at the Special Meeting voting in the affirmative (either marked “FOR” or unmarked and therefore considered “FOR”) for the Plan to be adopted.

The NORCAL Mutual Board of Directors has also proposed the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws of NIC for approval by Record Date Members, each of which will be effective upon closing of the Proposed Transaction. The majority of all Record Date Members actually present virtually or by proxy at the Special Meeting must vote “FOR” the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws to be adopted. The NORCAL Mutual Board of Directors recommends the approval of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws.

The Governance Committee of the NORCAL Mutual Board of Directors nominated the Director Nominees for election, which election will be effective upon closing. The plurality of all Record Date Members actually present virtually or by proxy at the Special Meeting must vote “FOR” the Director Nominees to be elected. If a candidate is unable or unwilling to serve as a nominee for the office of director at the date of the meeting or any adjournment of the meeting, proxies that voted for that candidate will be voted for a substitute candidate designated by the Board. The Board has no reason to believe that any of the Director Nominees will be unable or unwilling to serve if elected as a director. The NORCAL Mutual Board of Directors recommends the approval of the director nominees.

**Cast your vote by completing the enclosed proxy or by using the instructions on the enclosed proxy card to submit your vote online. Votes may also be cast virtually at the meeting.**

**Mailed or online proxies must be received by 5:00 p.m. Pacific Time, on April 7, 2021.**

If you wish to attend the Special Meeting of Members, please register as soon as possible by visiting <https://www.norcal-group.com/specialmeeting>. Registered attendees will receive an

email invite from Zoom with the meeting link the week of February 26, 2021. Please add no-reply@zoom.us to your contacts to ensure delivery.

If your proxy has been lost or damaged, you may request a new one by calling toll free at (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or from 9:00 a.m. to 3:00 p.m. on Saturday until April 30, 2021.

**THIS NOTICE IS INTENDED FOR RECORD DATE MEMBERS ONLY.  
YOU ARE NOT ENTITLED TO VOTE UNLESS YOU ARE A RECORD DATE MEMBER.**

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## GLOSSARY OF KEY TERMS

The following are brief explanations of certain terms used in this Member Information Statement. For a complete definition of certain of these terms, please see the Plan and/or the Acquisition Agreement.

| <b>Term</b>   | <b>Definition</b>  |
|---|--|
| <b>Acquisition</b>                                    | The acquisition of at least eighty percent (80%) of the outstanding common stock of NIC by PRA pursuant to the Acquisition Agreement.  |
| <b>Acquisition Agreement</b>                          | The Agreement and Plan of Acquisition dated February 20, 2020 by and between NORCAL, PRA and PRA Professional Liability Group, Inc.  |
| <b>Acquisition Event</b>                              | NORCAL Mutual shall have authorized, recommended, approved, or entered into an agreement with any Person (other than any of the parties to the Acquisition Agreement) to effect an Acquisition Proposal.   |
| <b>Acquisition Proposal</b>                           | (i) Any proposal pursuant to which any Person or group of Persons, other than PRA or NORCAL Mutual, would acquire or participate in a merger, consolidation, or other business combination involving NORCAL Mutual, directly or indirectly; (ii) any proposal by which any Person or group of Persons, other than PRA or NORCAL Mutual, would acquire a substantial equity interest in NORCAL Mutual, including the right to vote ten percent (10%) or more of the capital stock (following a reorganization or conversion) of NORCAL Mutual entitled to vote thereon for the election of directors; (iii) any acquisition of ten percent (10%) or more of the assets of NORCAL Mutual, other than in the ordinary course of business; (iv) any acquisition in excess of ten percent (10%) of the outstanding capital stock (following a reorganization or conversion) of NORCAL Mutual, other than as contemplated by the Acquisition Agreement; (v) any acquisition of control (as defined under the insurance laws) of NORCAL Mutual; or (vi) any transaction similar to the foregoing. |
| <b>Allocable Equity</b>                               | Eligible Members' collective equity in NORCAL Mutual allocated and distributed to each Eligible Member.  |
| <b>Amended and Restated Articles of Incorporation</b> | The amended and restated articles of incorporation of NIC in the form attached as Annex C.   |
| <b>Amended and Restated Bylaws</b>                    | The amended and restated bylaws of NIC in the form attached as Annex D.  |
| <b>Authorized Conversion Shares</b>                   | 8,800,000 shares of Conversion Stock being all of the NIC common stock authorized to be issued in the Conversion.  |
| <b>Board</b>  | The Board of Directors of NORCAL Mutual.   |
| <b>Business Day</b>                                   | Any day other than a Saturday or Sunday or a day on which banks in the State of California are permitted or required by law to be closed.  |
| <b>Cash Subscriber</b>                                | Eligible Members who elect to receive a cash payment pursuant to the Plan.   |

| <b>Term</b>                      | <b>Definition</b>  |
|----------------------------------|--|
| <b>Certificate Subscriber</b>    | Eligible Members who elect to receive a Contribution Certificate pursuant to the Plan or who are deemed to have elected to receive Contribution Certificates pursuant to the Plan.   |
| <b>Closing</b>                   | The date of the closing of the Acquisition.  |
| <b>Code</b>                      | The Internal Revenue Code of 1986, as amended.   |
| <b>Commissioner</b>              | The Commissioner of the California Department of Insurance.  |
| <b>Contribution Certificate</b>  | Instrument issued to Eligible Members who elect or are deemed to have elected to receive a contribution certificate pursuant to the Plan.  |
| <b>Conversion</b>                | The conversion of NORCAL Mutual from a mutual insurance company into a stock insurance company pursuant to the Plan.   |
| <b>Conversion Cash Payment</b>   | Amount of cash equal to the total amount of cash distributable to the Cash Subscriber upon the effectiveness of the Conversion.  |
| <b>Conversion Consideration</b>  | (i) The Contribution Certificates issued to all Certificate Subscribers in accordance with the Plan; (ii) cash paid to all Cash Subscribers in accordance with the Plan; and (iii) uncertificated shares of Conversion Stock issued to all of the Stock Subscribers in accordance with the Plan.   |
| <b>Conversion Effective Time</b> | Effective time of the Plan.  |
| <b>Conversion Statute</b>        | Section 4097 <i>et seq.</i> of the California Insurance Code.  |
| <b>Conversion Stock</b>          | A single class of common stock of NIC, par value of an amount determined by dividing the actual number of NIC Shares issued in connection with the Conversion into \$2,600,000, issued to Eligible Members who elect to receive common stock of NIC pursuant to the Plan.  |
| <b>Department</b>                | The California Department of Insurance.  |
| <b>Director Nominees</b>         | Slate of five (5) director nominees, as requested by PRA, standing for election to the Board pursuant to the Plan.   |
| <b>Election Solicitation</b>     | Solicitation of the Certificate Subscribers to change their election from a Certificate Subscriber to, or to make an election to be, as the case may be, a Stock Subscriber and then sell, and/or, if applicable, a solicitation of the Stock Subscribers to sell, shares of Conversion Stock of such Stock Subscribers pursuant to the Stock Offer. |
| <b>Eligible Members</b>          | Each Member who is the Owner of an Eligible Policy.  |
| <b>Eligible Policy</b>           | Any Policy that is In Effect on February 18, 2020 and at the Conversion Effective Time or any Replacement Policy that is In Effect at the Conversion Effective Time.   |



| <b>Term</b>                   | <b>Definition</b>  |
|-------------------------------|--|
| <b>Eligible Premium</b>       | The sum of all of the premiums of all Eligible Policies owned by an Eligible Member as of February 18, 2020 (excluding all unearned premiums) and all earned premiums since January 1, 2002 under all of such Eligible Member's Policies, as reflected in the NORCAL Records. For purposes of determining the total Eligible Premium under each Eligible Member's Policies, (x) the earned premiums for all Policies for which such Eligible Member is a successor and/or which have been consolidated to a Policy issued to such Eligible Member shall be included, and (y) all premiums paid for an extended reporting period ("tail" coverage) endorsement with respect to a Policy that expired, was cancelled, was nonrenewed or was otherwise terminated prior to February 18, 2020 shall be excluded. |
| <b>Equity</b>                 | \$440,000,000, which is the amount determined to be the fair value of NORCAL Mutual under the Plan.  |
| <b>Exchange Agent</b>         | Computershare Trust Company, N.A., or such other bank, trust company or investor services company as mutually designated by PRA and NORCAL Mutual and as acceptable to the Commissioner to act as agent in connection with the Proposed Transaction for distributing cash amounts payable to Eligible Members and NORCAL pursuant to the Transaction Documents.  |
| <b>Exchange Fund</b>          | Amount of cash deposited with Exchange Agent equal to the total amount of the Fixed PRA Consideration together with the Conversion Cash Payment.   |
| <b>Extended Stock Offer</b>   | Extension of the Stock Offer through the end of the Solicitation Period.   |
| <b>Georgeson</b>              | Georgeson LLC  |
| <b>Governmental Authority</b> | Any United States federal, state or local or any supra-national or non-U.S. governmental, political subdivision, governmental, regulatory or administrative authority, instrumentality, agency, body or commission, self-regulatory organization or any court, tribunal, or judicial or arbitral body.   |
| <b>In Effect</b>              | A Policy shall be deemed to be "in effect" as of any date if, as shown in the NORCAL Records: (i) the Policy has been issued or coverage had been bound by NORCAL Mutual as of such date; and (ii) such Policy has not expired or been cancelled, non-renewed or otherwise terminated, provided, however, that a Policy that has expired or was cancelled, non-renewed or otherwise terminated shall be deemed to be In Effect after lapse for nonpayment of premiums until expiration of any applicable grace period (or similar period however designated in such Policy) or any extension of such grace period in connection with NORCAL Mutual's normal administrative procedures during which the Policy is in full force for its basic benefits.   |
| <b>Incurred Claims</b>        | The sum of all incurred claims of all Eligible Policies owned by an Eligible Member and all incurred claims since January 1, 2002 under all of such Eligible Member's Policies as of February 18, 2020, as reflected in the NORCAL Records. For purposes of determining the total incurred claims under each Eligible Member's Policies, the incurred claims for all Policies for which such Eligible Member is a successor and/or which have been consolidated to a Policy issued to such Eligible Member shall be included.  |

| <b>Term</b>                          | <b>Definition</b>  |
|--------------------------------------|--|
| <b>Incurred Profitability</b>        | With regard to each Eligible Member, an amount equal to the greater of (x) one minus thirty-two one hundredths (0.32) multiplied by such Eligible Member's Eligible Premium minus such Eligible Member's Incurred Claims and (y) zero (0).   |
| <b>Indemnified Parties</b>           | Each person who is now, or who has been at any time before Closing, an officer, director or employee of NORCAL Mutual or a NORCAL Subsidiary.  |
| <b>Insurance Regulators</b>          | All Governmental Authorities regulating the business of insurance under the insurance laws.  |
| <b>IRS</b>                           | Internal Revenue Service.  |
| <b>Member</b>                        | A person who, according to the NORCAL Records and pursuant to its current Amended and Restated Articles of Incorporation or Amended and Restated Bylaws in effect prior to the Conversion, is deemed to be a holder of a Membership Interest in NORCAL Mutual but shall not include persons named in a Policy as an additional insured or persons covered solely under an extended reporting period ("tail" coverage) endorsement.   |
| <b>Membership Interests</b>          | The interests of Members with respect to NORCAL Mutual arising under California law and the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws of NORCAL Mutual prior to the Conversion, including the right to vote and the right to participate in any distribution of surplus in the event that NORCAL Mutual is liquidated. "Membership Interests" do not include the rights expressly conferred upon Members by their Policies (other than the right to vote and rights related thereto). |
| <b>MPL</b>                           | Medical professional liability insurance.  |
| <b>NIC</b>                           | NORCAL Insurance Company   |
| <b>Non-Electing Stock Subscriber</b> | Stock Subscriber who did not elect to tender all of his, her or its shares of Conversion Stock to PRA Professional in the Stock Offer.   |
| <b>NORCAL</b>                        | NIC and NORCAL Mutual, collectively  |
| <b>NORCAL Mutual</b>                 | NORCAL Mutual Insurance Company.   |
| <b>NORCAL Records</b>                | The books, records and accounts of NORCAL.   |
| <b>NORCAL Subsidiaries</b>           | Each subsidiary of NORCAL.   |
| <b>Offer</b>                         | The Stock Offer together with the Extended Stock Offer.  |
| <b>Offer Expiration Time</b>         | The Stock Offer Initial Expiration Time, or such later date and time to which the Stock Offer Initial Expiration Time has been extended pursuant to the Acquisition Agreement (including in connection with an Election Solicitation).   |
| <b>Owner</b>                         | The owner of the Policy as of any date shall be determined on the basis of the NORCAL Records as of such date in accordance with the following provisions: (a)   |

| <b>Term</b>                       | <b>Definition</b>  |
|-----------------------------------|--|
|                                   | the Owner shall be the named insured and/or the holder of the Policy as shown on the NORCAL Records; (b) the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy; (c) in any situation not expressly covered by the foregoing provisions, the owner of the Policy, as reflected on the NORCAL Records, and as determined in good faith by NORCAL, shall conclusively be presumed to be the Owner of such Policy, and except for administrative errors, NORCAL shall not be required to examine or consider any other facts or circumstances; (d) in no event may there be more than one Owner of a Policy, although more than one Person may constitute a single Owner; and (e) any dispute as to the identity of the Owner of a Policy or the right to vote or receive compensation shall be resolved in accordance with the foregoing and Schedule I to the Plan and such other procedures as NORCAL may determine. |
| <b>Per Share Offer Price</b>      | The price that PRA has offered to pay for a share of Conversion Stock pursuant to the Offer.   |
| <b>Person</b>                     | An individual, partnership, firm, association, corporation, joint-stock company, limited liability company, trust, government or governmental agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.  |
| <b>Plan</b>                       | The Amended and Restated Plan of Conversion of NORCAL Mutual dated as of February 10, 2021 (including all its schedules and exhibits), as originally adopted and as may be from time to time amended, supplemented or modified as legally permitted under California law. The Plan is the legal document that governs the Conversion. A copy of the Plan is attached as Annex A.   |
| <b>Policy</b>                     | Any contract for insurance issued or for which coverage has been bound by NORCAL Mutual.   |
| <b>PRA</b>                        | ProAssurance and PRA Professional.   |
| <b>PRA Consideration</b>          | The aggregate purchase price for all Authorized Conversion Shares shall be (i) a fixed amount of \$450,000,000 assuming all Members are Stock Subscribers (“ <b>Fixed PRA Consideration</b> ”) and (ii) a contingent amount of up to \$150,000,000 assuming all Members are Stock Subscribers to be determined as provided in Section 3.2(b) of the Acquisition Agreement (“ <b>Contingent PRA Consideration</b> ”). The Per Share Offer Price of the PRA Consideration to be paid for each share of Conversion Stock shall be \$51.14 per share of Fixed PRA Consideration and up to \$17.04 per share of Contingent PRA Consideration.   |
| <b>PRA Professional</b>           | PRA Professional Liability Group, Inc., a Delaware corporation.  |
| <b>PRA Tender Offer Statement</b> | Document setting forth PRA’s Offer to purchase the Conversion Stock for the PRA Consideration pursuant to the terms of the Acquisition Agreement that accompanies this Member Information Statement and is subject to amendment by PRA at any time prior to the Offer Expiration Time in accordance with the terms of the Acquisition Agreement.   |
| <b>ProAssurance</b>               | ProAssurance Corporation, a Delaware corporation.  |

| <b>Term</b>                          | <b>Definition</b>  |
|--------------------------------------|--|
| <b>Proposed Transaction</b>          | The Conversion, the Acquisition and the transactions related thereto and contemplated thereby.   |
| <b>Purchase Effective Time</b>       | At the Closing and immediately after the Conversion Effective Time.  |
| <b>Purchased Stock</b>               | Shares of Conversion Stock issued to the Selling Stockholders set forth on the Selling Stockholder Distribution List.  |
| <b>Recommendation Event</b>          | (i) The Board shall indicate in writing to PRA that the Board is unwilling or unable (other than in connection with a failure to obtain all Requisite Regulatory Approvals or the issuance of an order, injunction or decree by Governmental Authority restraining or prohibiting the consummation of the Proposed Transaction) to adopt the Plan; (ii) the Board is unwilling or unable (other than in connection with a failure to obtain all Requisite Regulatory Approvals or the issuance of an order, injunction or decree by Governmental Authority restraining or prohibiting the consummation of the Proposed Transaction) to recommend to its Eligible Members that they approve and adopt the Plan; (iii) the Board is unwilling or unable (other than in connection with a failure to obtain all Requisite Regulatory Approvals or the issuance of an order, injunction or decree issued by Governmental Authority restraining or prohibiting the consummation of the Proposed Transaction) to recommend to the Eligible Members the Offer; or (iv) after recommending that its Eligible Members approve and adopt the Plan or recommending the Offer to the Eligible Members, the Board shall have withdrawn, modified or amended such recommendation in any respect materially adverse to PRA, without PRA's prior written consent.  |
| <b>Record Date Members</b>           | NORCAL Mutual Members with policies In Effect as of February 11, 2021.   |
| <b>Replacement Policy</b>            | Any successor policy to a Policy that is In Effect on the Adoption Date that is rewritten under a new Policy, resulting in uninterrupted, continuous coverage.   |
| <b>Requisite Regulatory Approval</b> | The following approvals of Governmental Authorities required to consummate the transactions contemplated by the Acquisition Agreement and the satisfaction of all statutory waiting periods: (i) Plan filings, where NORCAL Mutual will file the Plan with, and obtain the prior approval of, the Commissioner and NORCAL Mutual will file the Plan and the Amended and Restated Articles of Incorporation with the California Secretary of State pursuant to the provisions of Section 4097 <i>et seq.</i> of the California Insurance Code applicable to the conversion of a mutual insurance company to a stock insurance company, (ii) Form A filings, where PRA will file a Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer with, and obtain the prior approval of, the Department; the Missouri Department of Insurance, Financial Institutions and Professional Registration; the Florida Office of Insurance Regulation; and the Texas Department of Insurance, (iii) Form E filings, where PRA will file a Pre-Acquisition Notification statement with Insurance Regulators in applicable states as required pursuant to applicable Insurance Laws, and (iv) HSR Act filing, where NORCAL Mutual and PRA will file the Notification and Report Form with the Premerger Notification Office of the Federal Trade Commission and with the Antitrust Division of the Department of |

| <b>Term</b>                                  | <b>Definition</b>  |
|--|--|
|  | Justice pursuant to the Hart-Scott-Rodino Antitrust Improvements Act, as amended, and the rules and regulations thereunder (the “ <b>HSR Act</b> ”).   |
| <b>SEC</b>                                   | The Securities and Exchange Commission.  |
| <b>Selling Stockholders</b>                  | Stock Subscribers who validly tender, and do not validly withdraw, all of their shares of Conversion Stock to PRA Professional pursuant to the Stock Offer (including, for the avoidance of doubt, Certificate Subscribers and Stock Subscribers who change their election or make an election, as the case may be, during the Election Solicitation). |
| <b>Selling Stockholder Distribution List</b> | List which sets forth the name and address of each Selling Stockholder, the number of shares of Conversion Stock tendered to PRA Professional and the amount of the Fixed PRA Consideration payable to such Selling Stockholder.   |
| <b>Solicitation Period</b>                   | The 30-day period for the Extended Stock Offer commencing on the date the Exchange Agent delivers various distribution lists, as provided by the Acquisition Agreement, or such longer period as the parties may agree.  |
| <b>Special Meeting</b>                       | The special meeting on April 12, 2021 of the Record Date Members to vote for or against the Plan, the adoption of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws and the election of the Director Nominees.  |
| <b>Stock Offer</b>                           | PRA’s offer to purchase the outstanding shares of Conversion Stock from the Stock Subscribers in exchange for the PRA Consideration in accordance with the Acquisition Agreement.  |
| <b>Stock Offer Initial Expiration Time</b>   | 5:00 p.m. (Pacific Time) on the date that is sixty (60) days after the initial mailing of this Member Information Statement.   |
| <b>Stock Subscriber</b>                      | Eligible Member who elects to receive shares of Conversion Stock pursuant to the Plan.   |
| <b>Subscription Price</b>                    | The per share price of \$50.00 assigned to a share of Conversion Stock, which has been determined by dividing the number of Authorized Conversion Shares (8,800,000) into the Equity of NORCAL Mutual (\$440,000,000).   |
| <b>Transaction Documents</b>                 | The Plan, the Acquisition Agreement and the documents related thereto and contemplated thereby, including the Amended and Restated Articles of Incorporation attached as Annex C to the Plan and the Amended and Restated Bylaws attached as Annex D to the Plan.  |

## QUESTIONS AND ANSWERS ABOUT THE PROPOSED TRANSACTION AND THE VOTE

*Unless otherwise indicated, any references to “we” or “us” refer to NORCAL and any references to “you” refer to Eligible Members. This Member Information Statement has been sent to you because NORCAL Records indicate that you are a policyholder as of February 18, 2020 and/or you are a Record Date Member.*

### Questions and Answers About the Proposed Transaction

#### **Q1. What is the Proposed Transaction?**

A1. The Proposed Transaction is a conversion of NORCAL Mutual from a mutual insurance company to a stock insurance company pursuant to the Plan (the “**Conversion**”) and, immediately thereafter, the purchase and sale of at least 80% of the common stock of NIC by PRA from Stock Subscribers according to the Offer contemplated by the Acquisition Agreement (the “**Offer**”). We refer to the Proposed Conversion and the Offer collectively as the “**Proposed Transaction.**” While the Proposed Conversion and the acquisition contemplated by the Offer are separate events, they are presented to Members together because one will not occur without the other.

Eligible Members are Members with policies In Effect as of February 18, 2020 and as of the Conversion Effective Time (including Members holding any successor policy to a policy In Effect as of February 18, 2020 that is rewritten under a new policy, resulting in uninterrupted, continuous coverage through and including the Conversion Effective Time). Only Eligible Members are permitted to receive Conversion Consideration. The Conversion, the Acquisition and the Offer are each conditioned on the completion of the other transactions. If the Conversion is not approved, the Offer will not be completed. If the Offer cannot be completed, the Acquisition and Conversion cannot be completed either.

#### **Q2. What are Eligible Members entitled to receive in the Conversion?**

A2. The Eligible Members will surrender their Membership Interest in exchange for **ONE** of the following four forms of consideration:

- **Choice 1. RECEIVE AND SELL CONVERSION STOCK TO PRA (Recommended).** Exchange the value of your Allocable Equity for common stock of NIC (*i.e.*, the Conversion Stock) at the Subscription Price (\$50.00 per share). Receive Conversion Stock and immediately sell it to PRA Professional for cash consideration of \$51.14 per share of Fixed PRA Consideration and up to \$17.04 per share of Contingent PRA Consideration. NIC will transfer the Conversion Stock on your behalf, and you will receive the PRA Consideration (consisting of a combination of the Fixed PRA Consideration of cash equal to

\$51.14 per share and the Contingent PRA Consideration in an amount up to \$17.04 per share).

OR

- **Choice 2. RECEIVE AND HOLD CONVERSION STOCK.** Exchange the value of your Allocable Equity for Conversion Stock at the Subscription Price and become a stockholder of NIC. The shares of Conversion Stock will not be registered under the federal or state securities laws and will be subject to substantial restrictions on transfer. There is no public market for the Conversion Stock, and it is unlikely that a public market will develop. If you continue to hold shares of Conversion Stock, you will have to bear the economic risk of the investment for an indefinite period of time. However, PRA's intention is to acquire directly or indirectly 100% of the Conversion Stock by acquiring your shares through a recapitalization, reorganization or reverse stock split at a price comparable to Choice 1 (though the price may possibly be less), so your ownership of Conversion Stock may be temporary. Further information about PRA's intention to acquire 100% ownership may be found under the Q&As.

OR

- **Choice 3. RECEIVE A CONTRIBUTION CERTIFICATE.** Receive a Contribution Certificate Equal to 100% of your Allocable Equity Payable Within Ten Years Only Out of NIC's Excess Surplus. Your Contribution Certificate will bear interest at the rate established in California Insurance Code Section 10489.4 for minimum standard valuation of all life insurance policies of more than 20 years' duration issued in the year (the current rate would be 3.00% per annum). Your Contribution Certificate will be payable within 10 years but only with the prior written approval of the Commissioner and only if following such payment NIC will have a surplus in an amount exceeding the greater of (1) "Total Adjusted Capital" (as defined in Section 739(m) of the California Insurance Code) equal to 150% of its "Company Action Level RBC" (as defined in Section 739(j)(1) of the California Insurance Code) as reflected in NIC's most recent "RBC Report" (as defined in Section 739(l) of the Code) filed with the Commissioner or (2) the amount of surplus required by the laws of any jurisdiction in which NIC is licensed to do business to retain unimpaired its Certificate of Authority therein. The Contribution Certificate will not be registered under the federal or state securities laws and will be subject to substantial restrictions on transfer. There is no public market for the Contribution Certificates, and it is unlikely that a public market will develop. If you elect to receive the Contribution Certificate, you will have to bear the economic risk of the investment for an indefinite period of time. If, during any calendar year, NORCAL's direct written premium reported (booked) during the preceding 12 months falls below \$174 million which dollar amount shall be adjusted for inflation on each anniversary date of the Plan Effective Date during the term of the Contribution Certificate based on the Consumer Price Index for All Urban Customers (CPI-U), West Region (1982-84 = 100) as reported on NORCAL's annual or quarterly statements filed with the Commissioner

pursuant to Sections 900 and 931 of the California Insurance Code, PRA and PRA Professional shall jointly and severally guarantee the payment of the interest and/or the principal then due on the next interest payment date or maturity date of the Contribution Certificate if immediately following the payment of all accrued interest and/or principal then due on all Contribution Certificates would leave NIC with surplus of less than 150% of its “Company Action Level RBC” (as defined in Section 739(j) of the California Insurance Code) as reflected in NIC’s most recent RBC Report (as defined in Section 739(l) of the California Insurance Code).

OR

- **Choice 4. RECEIVE A CONVERSION CASH PAYMENT.** Receive a cash payment equal to 50% of your Allocable Equity. Members electing Choices 1 or 4 will receive a cash payment, but if you elect Choice 4 you will receive a cash payment that is more than 50% less than the cash payment available to you if you elect Choice 1.

Only Eligible Members electing to receive Conversion Stock will have the opportunity to sell their Conversion Stock to PRA Professional for **\$51.14** per share of Fixed PRA Consideration at the completion of the Proposed Transaction and up to **\$17.04** per share of Contingent PRA Consideration.

If an Eligible Member does not make an election about their form of Conversion Consideration by **April 27, 2021**, then they will automatically (pursuant to Section 4097.04 of the California Insurance Code) be deemed to elect to receive Choice 3.

In order to complete the Proposed Transaction:

- Eligible Members holding at least 80% of the outstanding Conversion Stock must validly tender for purchase their shares to PRA Professional according to the Offer in exchange for the PRA Consideration; and
- the aggregate amount of the Contribution Certificates to be issued may not exceed \$200 million.

**Q3. What is the total amount of PRA Consideration payable for the Conversion Stock?**

A3. The total purchase price for all Authorized Conversion Shares will be the sum of (1) a fixed amount of \$450,000,000 (the “**Fixed PRA Consideration**”) and (2) a contingent amount of up to \$150,000,000 (the “**Contingent PRA Consideration**”). The Fixed PRA Consideration and Contingent PRA Consideration assume that all Eligible Members are Stock Subscribers (*i.e.*, they do not elect to receive the Contribution Certificate or Conversion Cash Payment). The Fixed PRA Consideration and Contingent PRA Consideration will only be payable to Eligible Members who elect



Choice 1 (receive Conversion Stock in the Conversion and sell it to PRA Professional according to the Offer).

**Q4. What is the Conversion?**

A4. Conversion is the process by which a mutual insurance company converts from a company that is owned by its policyholders into a stock insurance company that is owned by its shareholders.

NORCAL Mutual, as a mutual insurance company, is currently owned and operated for the benefit of its Members. Members have Membership Interests in NORCAL Mutual, which include the right to vote on matters submitted to a vote of Members, the right to receive dividends and other surplus distributions, and the right to participate in meetings of Members.

As part of the Proposed Conversion, Eligible Members will be assigned a share of the Equity of NORCAL Mutual. This is known as Allocable Equity.

**Q5. How can Eligible Members receive the Fixed PRA Consideration and Contingent PRA Consideration?**

A5. The Fixed PRA Consideration and Contingent PRA Consideration will only be payable to Eligible Members who elect to receive Choice 1 (receive Conversion Stock in the Conversion and sell it to PRA Professional according to the Offer).

**Q6. What was the basis for determining Allocable Equity?**

A6. Consistent with Section 4097.04 of the California Insurance Code and the Plan, NORCAL Mutual has determined that the Eligible Members' collective equity in NORCAL Mutual totals \$440 million (the "**Equity**"). This is based on an August 25, 2020 revised and restated appraisal of the fair value of NORCAL Mutual performed by Boenning & Scattergood, Inc. (the "**Appraisal Firm**"). The Appraisal Firm was appointed by NORCAL Mutual with the approval of the Commissioner. A copy of the revised and restated appraisal report is attached as Annex M.

Pursuant to the Plan, Equity will be allocated and distributed to each Eligible Member based upon an allocation formula comprised of: (1) the length of each Eligible Member's policyholder relationship with NORCAL Mutual (the "**Tenure Percentage**"), (2) the earned premium associated with each Eligible Member's policyholder relationship with NORCAL Mutual (the "**Premium Percentage**"), and (3) the profitability associated with each Eligible Member's policyholder relationship with NORCAL Mutual (the "**Profitability Percentage**"). NORCAL Mutual has determined that an equally weighted allocation formula is fair, just and equitable for determining

the rights in surplus of each Eligible Member. The Commissioner must approve the allocation formula.

*Tenure Percentage* – One-third of the Equity will be allocated to Eligible Members based on their Tenure Percentage. The Tenure Percentage is determined by dividing the total number of days the Eligible Member has maintained insurance with NORCAL Mutual (from NORCAL Mutual’s date of inception to February 18, 2020) by the total number of days *all* Eligible Members have maintained insurance with NORCAL Mutual.

*Premium Percentage* – One-third of the Equity will be allocated to Eligible Members based on their Premium Percentage. The Premium Percentage is determined by dividing the Eligible Premium as of February 18, 2020 by the sum of all Eligible Premiums of all Eligible Members.

*Profitability Percentage* – One-third of the Equity will be allocated to Eligible Members based on their Profitability Percentage. The Profitability Percentage is determined by dividing the Incurred Profitability with respect to the Eligible Member by the sum of all Incurred Profitability of *all* Eligible Members.

**Q7. Are there any limits on the form of consideration selected by Eligible Members?**

A7. While there are no limitations on any individual Eligible Members on which form of Conversion Consideration they may elect to receive, Eligible Members that choose (or are deemed to choose) to receive the Contribution Certificate or the Conversion Cash Payment for their Allocable Equity as consideration for the extinguishment of their Membership Interest in NORCAL Mutual will not be entitled to participate in the purchase and sale transaction with PRA or receive the PRA Consideration. Only Eligible Members who elect Choice 1 will be able to participate in the purchase and sale transaction with PRA upon completion of the Conversion, Acquisition and Offer.

In addition, in order to complete the Proposed Transaction:

- Eligible Members holding at least 80% of the Conversion Stock issued in the Conversion must validly tender for purchase their shares to PRA Professional; and
- the total amount of Contribution Certificates to be issued cannot exceed \$200 million.

**Q8. Why is NORCAL Mutual entering into the Proposed Transaction?**

A8. The Proposed Transaction is the result of careful deliberation by the Board with regard to the best interests of NORCAL Mutual and its Members. The Board considered

possible acquisitions, divestitures and other business combinations that may have been available to NORCAL Mutual, a demutualization of NORCAL Mutual on a stand-alone basis and the viability of remaining independent, with or without acquiring other businesses. The Board regularly discussed and considered presentations from various financial advisors, third-party consultants and legal counsel evaluating the advantages and disadvantages of the various strategic alternatives. The Board also consistently monitored recent and ongoing developments in the MPL industry. Consequently, when considering NORCAL Mutual's long-term strategic opportunities and prospects, the Board was cognizant and took into consideration broader trends in the MPL industry, including the challenges facing the MPL industry over the last decade. Based on the above and the terms of the Proposed Transaction, the Board determined that the Proposed Transaction is in the best interest of NORCAL Mutual's policyholders. The Proposed Transaction allows Eligible Members to receive cash or other consideration for their Allocable Equity and to continue to buy insurance from an industry-leading specialty insurer. The Board unanimously approved the Plan and entering into the Acquisition Agreement with PRA and recommends that the Record Date Members approve the Plan. See "*The Proposed Transaction – Background of the Proposed Transaction Provided by NORCAL Mutual*" on page 28.

**Q9. What are the advantages of the Proposed Transaction to Members?**

- A9.
- In addition to providing Eligible Members with the opportunity to receive Conversion Consideration for their Membership Interests, the Board of NORCAL Mutual:
    - o believes the Proposed Transaction is in the best interest of policyholders;
    - o believes the Proposed Transaction will help enhance the competitiveness of NORCAL and will generate greater efficiencies and significant opportunities for improved financial performance;
    - o considered NORCAL Mutual's position as an independent company in the present competitive environment for medical liability insurers and believes that NORCAL Mutual's ability to pursue its strategic objectives will be enhanced by the Proposed Transaction;
    - o believes the Proposed Transaction and affiliation with PRA will create meaningful economies of scale and will provide NORCAL with greater resources to back its obligations to Members, support growth of NORCAL's business and product lines and take advantage of investment and acquisition opportunities;
    - o believes the Proposed Transaction will benefit both the short-term and long-term interests of NORCAL Mutual and its Members;

- o considered that PRA has a history of successfully integrating the mutual insurance and stock insurance companies it has acquired and investing substantial resources in such companies, resulting in the steady growth and expansion of such insurers over time; and
- o received the opinion of Piper Sandler & Co. as to the fairness from a financial point of view of the aggregate consideration to be received by the Eligible Members as a group in the Proposed Transaction.

**Q10. What are the disadvantages of the Proposed Transaction to Members?**

- A10. • The Proposed Transaction will:
- o terminate Members' rights to (a) vote, (b) participate in dividend and other surplus distributions of NORCAL Mutual, and (c) participate in meetings;
  - o result in NORCAL becoming a subsidiary of PRA, a publicly traded company, which has its own shareholder base to which it is accountable and whose interests may not coincide with those of the Members of NORCAL Mutual; and
  - o result in costs and expenses for advisers to NORCAL and the Commissioner that have been and will be incurred by NORCAL in connection with the Proposed Transaction.

**Q11. Will the Conversion change the Membership Interests of Members?**

- A11. Yes. Members of a mutual insurance company with Policies that are In Effect have certain rights and interests that give rise to the right to vote on various matters (including certain extraordinary transactions, such as a conversion, and the election of directors), the right to participate in any distribution of surplus of NORCAL Mutual, including dividends, and the right to participate in meetings of members. In a conversion, membership interests are extinguished. If the Proposed Conversion occurs, all Membership Interests in NORCAL Mutual will be extinguished.

**Q12. Who is eligible to receive Conversion Consideration?**

- A12. Each Eligible Member is entitled to receive Conversion Consideration. In general, persons who are named insureds of an Eligible Policy will be Eligible Members and will be eligible to receive the Conversion Consideration. Under the Conversion Statute, a Record Date Member who did not own a policy on February 18, 2020 is not an Eligible Member. In addition, Members who terminate coverage under a NORCAL Mutual policy *after* February 18, 2020 and *prior* to the Conversion Effective Date lose their right to participate in the Conversion as Eligible Members.

**Q13. Who is eligible to receive PRA Consideration?**

- A13. Each Eligible Member who elects to receive the Conversion Stock in the Conversion and who elects to sell the Conversion Stock according to the terms of the Offer will be eligible to receive their pro rata portion of the PRA Consideration.  
*The NORCAL Mutual Board **recommends** that each Eligible Member elect **Choice 1**, to receive Conversion Stock in the Conversion and to sell the Conversion Stock to PRA Professional according to the Offer.*

**Q14. When will the Conversion and PRA Consideration be distributed?**

- A14. The Exchange Agent is required to distribute the Conversion and PRA Consideration no more than 10 Business Days after the Closing.

**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. 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
- (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.

**Q16. How much of the PRA Consideration will be allocated to each Eligible Member?**

A16. Eligible Members will be entitled to receive the Per Share Offer Price for each share of Conversion Stock issued to them in the Conversion and sold to PRA Professional pursuant to the Offer. The Per Share Offer Price shall be determined by dividing the total number of Authorized Conversion Shares into the maximum amount of each of the

Fixed PRA Consideration and the Contingent PRA Consideration. The Per Share Offer Price for the Fixed PRA Consideration has been determined by dividing the number of Authorized Conversion Shares (8,800,000 shares) into the maximum amount of the Fixed PRA Consideration (\$450,000,000) with the result that an Eligible Member who elects to sell Conversion Stock will be entitled to receive at the Closing \$51.14 for each share.

The Per Share Offer Price for the Contingent PRA Consideration will be similarly determined. If on December 31, 2023 PRA's estimate of NORCAL's losses as of December 31, 2020 is in excess of the independent actuaries' estimate of NORCAL's ultimate net losses as of that date (the "**Difference**"), then the Contingent PRA Consideration will be an amount equal to the Difference with the following adjustments (if any): (i) the Difference cannot be more than \$150,000,000, and (ii) the Difference will be reduced by the Excess Amount and by the sum of expenses incurred by NORCAL Mutual's appointed committee in connection with the calculation of the amount of the Contingent PRA Consideration. To determine the amount of the Contingent PRA Consideration to be paid for a share of Conversion Stock purchased by PRA, the amount of the total Contingent PRA Consideration after all adjustments will be divided by the number of Authorized Conversion Shares (8,800,000 shares). The maximum amount of Contingent PRA Consideration will not exceed \$17.04 per share.

**Q17. Can an Eligible Member sell, assign or transfer their right to receive the Contingent PRA Consideration?**

A17. No. Payment of the Contingent PRA Consideration will not be transferable except to (i) the personal representative or heirs of a deceased individual or (ii) the successor to the business of a corporation or other business entity. Documentation of a transfer exception must be provided to and accepted by the Exchange Agent.

**Q18. What if an Eligible Member disagrees with the amount of the Allocable Equity as estimated by NORCAL Mutual?**

A18. If an Eligible Member believes that NORCAL Mutual has incorrectly calculated its Allocable Equity, they may dispute the allocation estimate.

**Q19. What is the time frame for disputing the NORCAL Mutual estimate of the Allocable Equity?**

A19. An Eligible Member has 45 days from the date of the mailing of the Information Statement, proxy and other explanatory information that the Commissioner approves or requires to initiate a dispute.

**Q20. How does an Eligible Member object to NORCAL Mutual's estimate of the Allocable Equity?**

- A20. An Eligible Member must send NORCAL Mutual an email (preferred) to [clo@norcal-group.com](mailto:clo@norcal-group.com) or a letter to: 1700 Bent Creek Boulevard, Mechanicsburg, PA 17050, Attn: Chief Legal Officer (return receipt requested). The message must state the amount the Eligible Member believes is correct, and provide any documentation that the Eligible Member has to support its calculation. Eligible Members will not have the right to dispute allocations in accordance with these procedures unless they do so within 45 days from the date of the mailing of the Information Statement, proxy and such other explanatory information that the Commissioner approves or requires. However, an Eligible Member's legal rights and other claims against NORCAL under California law regarding the determination of Allocable Equity will not be prejudiced.

The Chief Financial Officer of NORCAL Mutual will review the objection and NORCAL Mutual will inform the Eligible Member in writing of the determination.

If the Eligible Member (or its designee) still disagrees with NORCAL Mutual's calculation, it may appeal that determination to an impartial ombudsman by sending a request to NORCAL Mutual, who will forward the appeal to the ombudsman. The ombudsman will review both the Eligible Member's (or its designee's) calculation and that of NORCAL Mutual and issue a decision within five (5) business days of receipt thereof, or within such reasonable time as determined by the ombudsman. The ombudsman's decision will be communicated in writing to the Eligible Member (or its designee) and to NORCAL Mutual. The ombudsman's decision shall be final unless reversed by the Commissioner upon request for review by the Eligible Member or NORCAL Mutual. The impartial ombudsman will be appointed by NORCAL Mutual, subject to approval by the Commissioner.

**Q21. Are there any conditions to the distribution of PRA Consideration?**

- A21. Yes. The obligation of PRA, through PRA Professional, to accept for payment and purchase the shares of Conversion Stock validly tendered and not validly withdrawn pursuant to the Offer is conditioned on:
- completion of the Conversion according to the Plan and Section 4097 *et seq.* of the California Insurance Code;
  - the approval of PRA's acquisition of control of NIC by the Insurance Regulators in California, Missouri, Florida and Texas;
  - the holders of at least 80% of the outstanding shares of Conversion Stock validly tendering to PRA pursuant to the Offer and not validly withdrawing their shares;
  - the sum of the face amount of the Contribution Certificates issued to Eligible Members not exceeding \$200 million; and



- the satisfaction or waiver of the other conditions precedent provided in the Acquisition Agreement.

**Q22. How will the Offer be made to Eligible Members?**

A22. Simultaneously with the mailing of this Member Information Statement, PRA will offer to purchase the shares of Conversion Stock to be issued to Stock Subscribers in the Conversion in exchange for the PRA Consideration (the “**Stock Offer**”). The Stock Offer will expire at 5:00 p.m. (Pacific Time) 60 days after the initial mailing of this Member Information Statement (or a later date and time to which the expiration time has been extended pursuant to the Acquisition Agreement, the “**Stock Offer Initial Expiration Time**”). The PRA Tender Offer Statement accompanies this Member Information Statement and includes a description of the terms of the Offer.

Following the Stock Offer Initial Expiration Time, if either (1) the holders of less than eighty percent (80%) of the outstanding shares of Conversion Stock have validly tendered and not validly withdrawn such shares or (2) the sum of the face amount of the Contribution Certificates issued to Eligible Members *exceeds* \$200 million, then PRA will commence a solicitation of Eligible Members for an additional period of not less than 30 days to satisfy the conditions of the Stock Offer (the “**Election Solicitation**”). During the Election Solicitation, PRA will (i) solicit Certificate Subscribers (including those who have not made an election to receive Conversion Consideration) to change their election or make an election to become Stock Subscribers and to sell their Conversion Stock to PRA Professional pursuant to the Offer and (ii) solicit the Stock Subscribers who have not elected to sell their Conversion Stock to PRA Professional to make an election to sell their Conversion Stock to PRA Professional pursuant to the Offer. The Election Solicitation shall be conducted through the end of the Solicitation Period (the “**Extended Stock Offer**” and together with the Stock Offer, collectively, the “**Offer**”).

If the Stock Offer Initial Expiration Time is extended, the Offer will expire on the extended date and time (the Stock Offer Initial Expiration Time, or the later date and time to which it has been extended, the “**Offer Expiration Time**”). The Offer Expiration Time will be communicated to Eligible Members in an amendment to the PRA Tender Offer Statement.

If the conditions to the completion of the Offer are satisfied, PRA will and will cause PRA Professional to accept for payment all shares of Conversion Stock validly tendered and not validly withdrawn according to the Offer and promptly pay for those shares tendered based on the terms of the Acquisition Agreement.

**Q23. Is the receipt of Conversion Consideration and/or PRA Consideration taxable?**

A23. The tax treatment of Conversion Consideration varies depending on the Conversion Consideration and/or PRA Consideration Eligible Members elect to receive. The following is not tax advice. Eligible Members should consult a tax adviser to determine how the Conversion Consideration and/or PRA Consideration will affect them in their particular circumstances.

- **Conversion Stock:** The receipt of Conversion Stock by a Stock Subscriber should not be a taxable transaction for U.S. federal income tax purposes. However, the receipt of the PRA Consideration by a Stock Subscriber who tenders their shares of Conversion Stock to PRA Professional pursuant to the Offer will be a taxable transaction for U.S. federal income tax purposes. See “*U.S. Federal Income Tax Considerations*” on page 77.
- **Contribution Certificate:** The receipt of a Contribution Certificate in accordance with the Plan is a taxable transaction for U.S. federal income tax purposes. See “*U.S. Federal Income Tax Considerations*” on page 77.
- **Conversion Cash Payment:** The receipt of the Conversion Cash Payment in accordance with the Plan is a taxable transaction for U.S. federal income tax purposes. See “*U.S. Federal Income Tax Considerations*” on page 77.

**Q24. Will the Proposed Transaction adversely affect the coverages under a Policy that is In Effect?**

A24. No. If you have a Policy that is In Effect, completion of the Proposed Transaction will not increase premiums or reduce the coverage under your Policy.

**Q25. Once NORCAL Mutual converts to a stock insurer, how are the interests of its shareholders different from the interests of its Members?**

A25. Shareholders generally are interested in financial performance as it relates to the value of their shares or shareholder dividends, while policyholders primarily are interested in financial performance as it relates to premium rates and the ability of their insurance company to pay claims.

**Q26. Who are ProAssurance Corporation and PRA Professional Liability Group, Inc.?**

A26. ProAssurance Corporation is a publicly traded (NYSE: PRA) insurance holding company with extensive expertise in healthcare professional liability, products liability for medical technology and life sciences, legal professional liability, and workers’ compensation insurance. Information regarding PRA, including copies of its SEC reports, can be found on the internet at <https://www.proassurance.com/>. The information contained at the ProAssurance website is not incorporated by reference in this Member

Information Statement, and you should not consider it a part of this Member Information Statement.

PRA Professional Liability Group, Inc. is a wholly owned subsidiary of ProAssurance that serves as a holding company for ProAssurance's insurance subsidiaries that provide professional liability insurance.

**Q27. What are the conditions that need to be satisfied in order for the Proposed Conversion to occur?**

A27. The Proposed Conversion cannot be completed unless the following conditions are satisfied:

- the Commissioner approves the Plan (including if he requires any modifications to the Plan, and NORCAL Mutual modifies the Plan accordingly) and the acquisition of control of NORCAL by PRA;
- at least 10% of the Record Date Members vote on the Plan virtually or by proxy at the Special Meeting in order to constitute a quorum and for the vote to be effective;
- at least two-thirds of all Record Date Members actually present virtually or by proxy at the Special Meeting vote to approve the Plan;
- the majority of all Record Date Members actually present virtually or by proxy at the Special Meeting vote to approve the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws; and
- all of the other conditions to the closing of the Acquisition Agreement are satisfied or waived in accordance with their terms.

**Q28. When do you expect the Proposed Transaction to be completed?**

A28. The Proposed Transaction will be completed when the conditions to the Acquisition described under "*Principal Terms of the Acquisition Agreement – Conditions to Closing*" on page 58 are satisfied or waived. It is anticipated that the Proposed Transaction will be completed in the second or third quarter of 2021. However, there can be no assurance that the Proposed Transaction will be completed.

**Q29. What happens if the Commissioner requires modifications to the Plan after the public hearing?**

A29. If the Commissioner requires modifications to the Plan, NORCAL Mutual would be required to submit an amended Plan for approval of at least two-thirds of the Board and the consent of ProAssurance (consent cannot be unreasonably withheld, conditioned or

delayed). Pursuant to Section 4097 *et seq.* of the California Insurance Code, if the amended Plan meets the Commissioner's objections and complies with the standards for approval, the Commissioner will approve the amended Plan.

Following the public hearing on the Plan (See Question 44), NORCAL Mutual will mail to each Record Date Member a written communication to advise that the public hearing on the Plan and Proposed Transaction has been completed. The communication will disclose any changes to the Plan and/or the Proposed Transaction requested by the Commissioner and approved by the Board and ProAssurance (if applicable). The communication will be mailed to the Record Date Members as promptly as practicable following the public hearing, and will provide notice if the Special Meeting is to be delayed. The communication will also indicate:

- Record Date Members have the opportunity to change their vote on the Plan by submitting a new proxy by the fifth (5<sup>th</sup>) day prior to the Special Meeting or by voting virtually at the Special Meeting (See Question 37); and
- Eligible Members may change their election to receive Conversion Consideration by submitting to the Exchange Agent a new Consideration Election Form prior to the Offer Expiration Time (See Question 40).

NORCAL Mutual will provide instructions and forms with the communication so Record Date Members may change their vote and Eligible Members may change their Conversion Consideration election.

**Q30. What happens if the Proposed Transaction is not completed?**

A30. If, for any reason, the Proposed Transaction is not completed, NORCAL Mutual will not convert to a stock insurance company and Eligible Members will not receive any Conversion Consideration and/or any payment of PRA Consideration. Instead, NORCAL Mutual will remain an independent mutual insurance company. In addition, NORCAL Mutual could be required to pay PRA a termination fee of \$15,000,000 if an Acquisition Event or Recommendation Event (as defined in the Glossary of Key Terms above) occurs or the Eligible Members of NORCAL Mutual fail to hold the Special Meeting to approve the Plan within 120 days. See "*Principal Terms of the Acquisition Agreement – Termination Fee*" on page 61.

**Q31. Will the officers, directors and employees of NORCAL Mutual receive any compensation in connection with the Proposed Transaction?**

A31. No. The officers, directors and employees of NORCAL Mutual will not receive any fee or other consideration in connection with the Proposed Transaction. However, certain officers of NORCAL Mutual will be eligible to receive retention and/or severance compensation. See "*Interests of Certain Persons in the Proposed Transaction – Change in Control Agreements*" on page 80. In addition, Scott Syphax and Fabiola Cobarrubias

will be nominated by PRA for election as directors of PRA following the Closing. If Scott Syphax or Fabiola Cobarrubias does not satisfy the criteria for service on the board of directors of PRA as determined by the ProAssurance Nominating/Corporate Governance Committee, NORCAL Mutual may nominate alternative individuals.

### ***Voting on the Plan***

#### **Q32. What is the Plan?**

A32. The Plan is the document that details the terms of the Conversion of NORCAL Mutual. It identifies who is an Eligible Member and a Record Date Member, and it establishes the Equity of NORCAL Mutual and the Allocable Equity for the Eligible Members, and the Conversion Consideration to be paid for the Allocable Equity. The Plan also includes the proposed Amended and Restated Articles of Incorporation and proposed Amended and Restated Bylaws, which will become effective upon completion of the Proposed Transaction.

#### **Q33. Has the Board approved the Plan?**

A33. Yes, the Board, after careful deliberation, unanimously approved the plan of conversion on February 18, 2020 and the Plan (as amended and restated) on February 10, 2021.

#### **Q34. Who can vote on the Plan?**

A34. If you were a Member on February 11, 2021, you are a Record Date Member and are entitled to vote on the Plan. Record Date Members will be allowed to vote online, by proxy or virtually at the Special Meeting.

#### **Q35. How many votes are needed to approve the Plan?**

A35. In order for the Plan to become effective, the California Insurance Code requires that it be approved by at least two-thirds of all Record Date Members actually present virtually or by proxy at the Special Meeting. See “*Eligibility to Vote*” on page 42.

#### **Q36. What are Record Date Members voting on?**

A36. Record Date Members are voting on (1) the Plan, (2) the proposed Amended and Restated Articles of Incorporation, (3) the proposed Amended and Restated Bylaws, and (4) the Director Nominees.

#### **Q37. What should Record Date Members do now?**

A37. Record Date Members should vote virtually at the Special Meeting, online using the instructions on the enclosed proxy card or by completing and returning the enclosed

proxy card in the accompanying prepaid reply envelope prior to 5:00 p.m. Pacific Time, on April 7, 2021.

The Board recommends that you vote **FOR** approval of the Plan, Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws and the election of Director Nominees.

**Q38. Can a Record Date Member revoke a proxy?**

A38. Yes. An Eligible Member can revoke a proxy at the Special Meeting or before the Special Meeting by mailing or submitting a new proxy online by the fifth (5<sup>th</sup>) day prior to the Special Meeting.

**Q39. How will Members make their Election to receive Conversion Consideration?**

A39. Eligible Members can make their election online using the instructions on the accompanying Consideration Election Form or by completing and returning the Consideration Election Form to the Exchange Agent using the enclosed envelope.

Only Eligible Members will be eligible to receive Conversion Consideration. Record Date Members who did not own a Policy In Effect on February 18, 2020 are not Eligible Members and are not entitled to receive Conversion Consideration.

**Q40. Can an Eligible Member Revoke or Change an Election?**

A40. Yes. An Eligible Member can change their election any time prior to the Offer Expiration Time by (1) submitting an executed Consideration Election Form indicating their wish to withdraw their previously submitted election; (2) submitting a new, properly executed Consideration Election Form; or (3) providing different instructions on their online election.

To obtain a new Consideration Election Form, contact Georgeson at (888) 206-5970.

**Q41. What do I do if I have questions about the Proposed Transaction or voting process?**

A41. If you have any questions regarding the Proposed Transaction or the voting process, or if you need additional copies of this Member Information Statement or the enclosed proxy or voting instructions, please contact Georgeson at (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or Saturday from 9:00 a.m. to 3:00 p.m. until April 30, 2021.

### ***Risks and Uncertainties Associated with the Proposed Transaction***

#### **Q42. Are there any risks with respect to the Proposed Transaction?**

A42. There are risks with respect to the Proposed Transaction. The risks are discussed in “*Certain Risks and Considerations Relating to the Proposed Transaction*” on page 72. The Board considered the benefits of the Proposed Transaction as well as the risks and unanimously approved the Plan and the Proposed Transaction.

### ***The Regulatory Approval Process, Including the Public Hearing***

#### **Q43. What regulatory approvals are required in connection with the Proposed Transaction?**

A43. The Plan, certain aspects of the Acquisition, and PRA’s acquisition of control of NORCAL require the approval of the Commissioner. Further, certain aspects of the Proposed Transaction require the approval or non-disapproval of the Commissioner; the Missouri Department of Insurance, Financial Institutions and Professional Registration; the Florida Office of Insurance Regulation; and the Texas Department of Insurance. PRA will also file a Pre-Acquisition Notification Statement (Form E) with Insurance Regulators in applicable states as required pursuant to applicable law.

#### **Q44. What is the public hearing?**

A44. The Commissioner is required by law to hold a public hearing on the Plan. You may attend this hearing and you may make an oral statement. The public hearing will be made available virtually by the Department of Insurance of the State of California, at <https://mb.webex.cm/mb/nstage/g.php?MTID=ea4656f1495aead386287c8abfa8649bc>, beginning at 10:00 a.m. Pacific Time, on April 1, 2021.

See the “*Notice of Public Hearing*” contained in this Member Information Statement to learn more about the public hearing and how you can participate if you wish to do so. NORCAL Mutual will also publish the notice of hearing at <https://www.norcal-group.com/pr>. Information will also be available on the Department’s website at <https://www.insurance.ca.gov>.

#### **Q45. What are the standards that the Commissioner needs to find to approve the Plan?**

A45. Pursuant to Section 4097 *et seq.* of the California Insurance Code, the Commissioner needs to find that:

- the Plan is fair, just, and equitable to NORCAL Mutual and its Members;
- the Plan does not violate the law; and

- the converted insurer will, after the Conversion, satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed.

**Q46. What are the standards that the Commissioner needs to find to approve the Acquisition?**

A46. The California Insurance Code provides the Commissioner with the authority to review and decide whether to approve the Acquisition. Pursuant to Section 1215.2 of the California Insurance Code, the Commissioner may disapprove the Acquisition if:

- following the Acquisition, NORCAL could not satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;
- the Acquisition would substantially lessen competition in insurance in the State of California or create a monopoly in California;
- the financial condition of PRA might jeopardize the financial stability of NORCAL, or prejudice the interests of its Members;
- the plans of PRA for NORCAL's future operation are not fair and reasonable to Members; or
- the competence, experience and integrity of those persons who would control NORCAL indicate that it would not be in the interest of Members or the public to permit them to do so.



## SUMMARY FINANCIAL INFORMATION

A copy of the summary financial information for the years ended December 31, 2018 and 2019 and the quarters ended March 31, 2019 and 2020, June 30, 2019 and 2020, and September 30, 2019 and 2020 is attached as Annex K hereto. The summary financial information has been derived from the financial statements of NORCAL Mutual prepared in conformity with statutory accounting principles prescribed or permitted by the Insurance Regulators consistently applied. See “*Available Information*” on page 84 and “*Incorporation of Certain Documents by Reference*” on page 85.

## THE PROPOSED TRANSACTION

### **Background of the Proposed Transaction Provided by NORCAL Mutual**

#### ***NORCAL Mutual Background and Recent Developments***

NORCAL Mutual provides medical professional liability insurance (“MPL”) to physicians, healthcare extenders, medical groups, hospitals, community clinics and allied healthcare facilities throughout the United States. NORCAL Mutual’s third-quarter 2019 results included \$30 million of adverse loss reserve development. Consequently, in December 2019, A.M. Best placed under review with negative implications NORCAL Mutual’s Financial Strength Rating of A (Excellent) pending a review of full-year 2019 results, including the associated reserve analysis, as well as a number of management’s operational and strategic initiatives.

NORCAL Mutual’s fourth-quarter 2019 results included an additional \$118 million of adverse loss reserves development, resulting in a full-year net loss of \$211 million, a combined ratio of 176%, and a year-end 2019 surplus of \$576 million, which was a decline of \$171 million, or 23%, as compared to year-end 2018. The reserve charges predominantly impacted accident years 2016 through 2018, and reflected significantly higher claim settlement trends. This also caused an increase in the 2019 accident-year loss ratio. In February, A.M. Best downgraded NORCAL Mutual’s Financial Strength Rating to A- (Excellent) from A (Excellent). Concurrently, A.M. Best maintained the under review status on the rating and revised the implications to developing from negative. The current rating reflects NORCAL Mutual’s balance sheet strength, which A.M. Best categorizes as very strong, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management. The under review status takes into consideration the potential for additional reserve charges as well as the recently announced acquisition of NORCAL Mutual by PRA. The developing implications reflect the potential for NORCAL Mutual’s ratings to be lowered in the event the Proposed Transaction is not consummated and/or further reserve development is reported. There is also the potential for NORCAL Mutual’s ratings to be stabilized or enhanced if the Proposed Transaction is consummated.

#### ***PRA Background***

ProAssurance is an insurance holding company whose insurance subsidiaries offer specialty property and casualty insurance with extensive expertise in healthcare professional liability, products liability for medical technology and life sciences, legal professional liability, and workers’ compensation insurance. ProAssurance was formed in 2001 as the successor to Medical Assurance, Inc. ProAssurance’s common stock trades on the New York Stock Exchange under the symbol “PRA.”

ProAssurance reports the results of the operations of its medical professional liability insurance business in its Specialty Property and Casualty Segment. As disclosed in its Annual Report on Form 10-K for the year ended December 31, 2019, the Specialty P&C Segment reported a loss in 2019 principally due to the underwriting results of a large national healthcare account

which has experienced losses far exceeding prior loss assumptions. In addition, the healthcare professional liability loss environment is trending toward increasing severity, which has resulted in an increase in ProAssurance's current accident year loss ratio. ProAssurance is committed to a rate structure that will allow it to fulfill its obligations to policyholders while generating a competitive long-term return for its shareholders. ProAssurance believes that disciplined underwriting and appropriate pricing, together with a strong balance sheet, will enable it to successfully emerge from the current loss environment in the medical professional liability business.

More detailed information regarding ProAssurance and its subsidiaries is included in its SEC reports, and the above discussion is qualified by reference to the financial information included in such reports. ProAssurance files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document PRA files at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain additional information about the public reference room by calling the SEC at 1-800-SEC-0330. In addition the SEC maintains a site on the internet (<https://www.sec.gov/>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including PRA. PRA also publishes its public SEC filings as soon as reasonably practicable after the report is electronically filed with, or furnished to, the SEC. These SEC filings can be found on the PRA website (<https://www.proassurance.com>). The information contained at the PRA website is not incorporated by reference in this Information Statement, and you should not consider it a part of this Information Statement.

### ***MPL Industry Background and Recent Developments***

The MPL insurance market offers insurance and risk management solutions to healthcare providers and related institutions. Over the last decade, the MPL market has faced numerous market pressures as the healthcare market has experienced consolidation, with physicians joining hospitals and/or larger group practices. Larger healthcare entities have risk transfer, captive management, customer service and risk management needs that differ from traditional solo or small physician groups. Larger entities are also more likely to combine risks such as workers' compensation and professional liability when purchasing insurance and are also more likely to manage all or a part of their risk through alternative risk solution mechanisms. Further, healthcare services are increasingly provided by professionals other than physicians and outside of a traditional hospital or clinic setting. As a result, there has been a decline in the number of healthcare providers purchasing individual or group policies in the standard market. In addition, some MPL insurers are competing primarily on price more so than in the past. Such factors impact the ability of MPL insurers to write new business and retain existing business, which has led to a significant decline in MPL industry premiums over the past decade, rising underwriting loss ratios and decreasing reserve conservatism.

### ***Background of the NORCAL Mutual and PRA Transaction***

The Board and NORCAL Mutual's senior management periodically and regularly evaluate NORCAL Mutual's long-term strategic opportunities and prospects to protect and enhance value

for all constituencies of NORCAL Mutual, including its policyholders, employees, agents and the communities in which NORCAL Mutual and its respective subsidiaries and affiliates operate. These reviews have occasionally included consideration of possible acquisitions, divestitures and other business combinations that may be available to NORCAL Mutual, a demutualization of NORCAL Mutual on a stand-alone basis and the viability of remaining independent, with or without acquiring other businesses. At the Board's meetings, the Board has regularly discussed and considered presentations from various financial advisors, third-party consultants and legal counsel in which the advantages and disadvantages of various strategic alternatives were outlined. In addition to these periodic and regular reviews of NORCAL Mutual's long-term strategic opportunities and prospects, the Board regularly monitored recent and ongoing developments in the MPL industry. Consequently, when considering NORCAL Mutual's long-term strategic opportunities and prospects, the Board was cognizant and took into consideration broader trends in the MPL industry, including the challenges facing the MPL industry over the last decade.

At the March 2, 2018 meeting of the Board, senior management and the Board, as part of the Board's ongoing and ordinary course strategic reviews and in light of the MPL environment developments, discussed a number of factors impacting NORCAL Mutual and its business, including the highly competitive environment in which NORCAL Mutual operates and the associated pricing pressures, the consolidation of NORCAL Mutual's insureds into larger entities and the resulting impact on NORCAL Mutual, consolidation among MPL providers, uncertainties inherent in the estimates of NORCAL Mutual losses and loss adjustment expense reserves, senior management succession, the ability to retain and recruit senior management, the ability to successfully grow through acquisitions and the inherent risks of acquisitions and entering into new markets. The Board also discussed strategic alternatives, which included the possibility of a sale transaction, a merger of mutual insurance companies, an affiliation with another insurance company, and remaining independent. As part of its consideration of NORCAL Mutual's strategic alternatives, including a possible sale transaction, the Board preliminarily approved engaging Waller Helms Advisors ("**WHA**") as financial advisor in order to explore a potential transaction.

At a meeting of the Board held on June 1, 2018, WHA made a presentation to the Board on current market conditions and potential transaction opportunities, and the Board reviewed a recent A.M. Best market segment report. The Board continued its discussion of strategic alternatives, which included remaining independent. The Board then formally approved the engagement of WHA as its financial advisor in order to evaluate NORCAL Mutual's strategic alternatives, including a possible sale transaction. At this meeting, the Board described numerous factors to be considered in the evaluation of any buyer or partnership proposal. These factors included:

- An organization with a strong, demonstrable focus on physician/policyholder best interests;
- Maximum financial valuation on behalf of policyholder-owners;
- A demonstrable commitment to serving healthcare well into the future;
- A commitment to taking the best parts of both companies to create an organization that neither could have developed alone;

- Financial strength and stability;
- Long-term strategy and viability;
- Geographic footprint;
- Product diversity;
- Ease of integration (effect and impact on operations, management, employees);
- Regulatory process and timing;
- Risk appetite;
- Underwriting, rate/pricing and claims handling philosophy;
- Commitment to innovation; and
- Potential transaction structure.

During this meeting, the Board, with the assistance of WHA and in light of the factors above, identified four possible strategic partners, PRA, Party A, Party B and Party C and instructed WHA to contact each. Shortly thereafter, WHA contacted PRA, Party A, Party B and Party C.

On June 2, 2018 in discussions between the Board Chair and senior management, senior management was informed of the Board's expectations for the prioritization of the following values in the context of a potential transaction: commitment on the part of the potential buyer to physicians, deal valuation, and continuity of the NORCAL Mutual "service touch" and customer experience.

At a June 13, 2018 meeting of the Board, the Board Chair reported to the Board on the June 2, 2018 discussions with senior management. The Board discussed the possible benefits of a sale transaction and the alternatives to a sale transaction, including the benefits of such alternatives in light of the changing market environment. The Board considered other factors relevant to the decision to pursue a possible transaction, including resource allocation, transaction cost and effect on member surplus, and the need for further discussion around what criteria would be used to determine that a transaction would be preferred over remaining independent.

At a meeting of the Board held on June 15, 2018, senior management presented a timeline with respect to a potential strategic review process and a possible transaction. Senior management also presented its perspective regarding market condition changes and the intent to improve policyholder-owner value. The Board confirmed they were not recommending a sale of NORCAL Mutual at the time and that the processes and analysis being conducted were exploratory in nature.

At a meeting of the Board held on June 25, 2018, the Board continued discussions regarding a possible sale transaction and alternatives to a sale transaction. At this meeting, the Board elected to hire the law firm of Morgan, Lewis & Bockius, LLP to advise the Board on various matters related to the consideration of a possible sale transaction. The Board also directed WHA to schedule management meetings with each of the four potential strategic partners.

Discussions and management meetings with each of PRA, Party A, Party B and Party C were held in July and August 2018. During these meetings, PRA, Party A, Party B and Party C were informed that the Board had not yet determined to pursue a transaction and that the meetings

were exploratory in nature. These meetings included the Board Chair, one other member of the Board, the CEO and the senior management team of NORCAL Mutual.

In August 2018, the Board determined that it needed additional detailed, independent, third-party analysis regarding both the trends in the MPL market and their likely effect on NORCAL Mutual. It retained a third-party private consultancy to professional liability insurance companies to obtain his view of the healthcare environment, the MPL industry, and the likely future direction of both. The Board also retained an insurance brokerage and consulting firm to provide additional independent perspective on the current and future state of the MPL industry, healthcare delivery, MPL merger and acquisition activity, a financial review of NORCAL Mutual and NORCAL Mutual's prospects as an independent carrier.

In early September 2018, WHA distributed process letters to PRA, Party A, Party B and Party C outlining items to include in an indication of interest, including valuation and form of consideration, transaction structure, strategic intent, timing, conditions, and required approvals. The Board continued to remain open to all strategic opportunities, including remaining independent.

At the September 7, 2018 and September 8, 2018 meetings of the Board, a presentation was made by the MPL advisor to the Board, which described a steady and significant 10-year decline in industry premiums and a likely consolidation of the MPL insurance industry. The advisor, senior management, and the Board further discussed trends in the healthcare and MPL industries and policyholder-owner value considerations such as physician-focus, monetary compensation, financial stability of any potential strategic partner and focus on customer service, which would be important to any proposed transaction.

At the September 8, 2018 Board meeting, following the MPL advisor's presentation, WHA presented its report to the Board regarding the management meetings held with PRA, Party A, Party B and Party C in July and August 2018. WHA outlined options for next steps for the Board to consider with respect to PRA, Party A, Party B and Party C. After discussion with WHA and the MPL advisor regarding transaction process strategy and a recommendation from WHA to reduce the potential strategic partners from four to three, the Board approved the elimination of Party A from further consideration based in part on Party A's recent operating results, its corporate structure, and its experience integrating acquisitions.

On November 8, 2018 and November 9, 2018, initial indications of interests were submitted by each of PRA, Party B and Party C. PRA's initial indication of interest provided an enterprise value of \$900 million to \$1.1 billion with consideration to be paid in the form of cash and stock. Party B's initial indication of interest provided an enterprise value of \$770 million with all cash consideration, and Party C's initial indication of interest provided an enterprise value of \$535 million with \$335 million in cash to be paid at closing and the remainder spread out in the form of policyholder credits over several years. Each remained subject to diligence, including, among other things, confirmation of NORCAL Mutual's reserves. WHA analyzed the bids and prepared a comparison of the relative terms for the Board, including numerous factors beyond the type and amount of consideration offered by the bidders, such as each party's strategic intent with

respect to the policyholders, management and employees, commitment to healthcare, experience in demutualizations, due diligence, timing and other requirements and ease of integration. WHA also utilized four industry standard valuation methodologies to provide a comparative valuation analysis.

At a meeting of the Board held on November 19, 2018, the third-party insurance brokerage and consulting firm retained in August 2018 presented their findings, including a review of the MPL industry (which included the decline in premium volume, the deterioration of underwriting results, the decline in the insurable exposure base, and the significant uptick in the size of jury verdicts), MPL merger and acquisition activity (a discussion that included robust M&A activity that was expected to accelerate as smaller participants succumbed to expense, profitability and lack of scale challenges), actuarial trends, and potential strategic alternatives for NORCAL Mutual (which included a sponsored demutualization, a merger of mutual insurance companies, an affiliation with another insurance company, and remaining independent), including the risks and benefits of each alternative. The Board engaged in a lengthy discussion regarding the terms of a potential sales transaction versus remaining independent and various other strategic alternatives in light of the state of the MPL market.

During meetings of the Board held on November 30, 2018 and December 1, 2018, WHA presented the indications of interests submitted by PRA, Party B and Party C to the Board and the analysis described above that WHA prepared with respect to those indications of interest. WHA also provided a summary of the diligence, including actuarial diligence, completed by the potential bidders and the potential bidders' view of NORCAL Mutual based on their diligence review. The Board discussed factors that suggested undertaking a sale of NORCAL Mutual would be in the best interest of the policyholders, including, but not limited to, a changing medical provider and customer environment, the increased scale that is needed to provide for policyholder needs, the need for financial strength and stability to weather cyclical changes in the MPL marketplace, improved financial and business strength and diversity that could be achieved by increased product diversity, the changing models of distribution and a concern that the current competitive strengths of NORCAL Mutual could be eroded due to market changes. WHA discussed potential next steps with the Board. Based on the indications of interest and the discussions, the Board felt that the bid by Party C offered inferior value to policyholders when compared to the bids of PRA and Party B because Party C's bid contemplated the possibility of a two-step conversion that ultimately could not be guaranteed, and the economic value of the transaction could not be completely quantified. The Board also felt that Party C lacked experience in the MPL market and a clear commitment to healthcare and physicians. The Board determined that based on the indications of interest, focusing on PRA and Party B provided the best strategy to maximize value from each potential bidder. The Board requested that WHA instruct PRA and Party B to further refine their respective offers and provide additional and more detailed information to the Board regarding a potential transaction and their respective companies.

Subsequent to the November 30, 2018 and December 1, 2018 Board meetings, WHA and senior management engaged in numerous further discussions and negotiations with PRA and Party B to further improve their respective bids.

On December 21, 2018, WHA presented revised indications of interest from PRA and Party B to the Board. PRA tightened the range of its valuation of NORCAL Mutual to \$1 billion to \$1.1 billion and Party B confirmed that they had no upward movement in their valuation and would need significant additional information in order to confirm that its valuation should not be decreased. WHA also informed the Board that Party B would not accept any conditions to regulatory approval as a condition to closing a transaction. After lengthy discussion and advice from WHA, the Board instructed senior management and WHA to continue the diligence process and discussions with PRA and not to share additional diligence information with Party B, though not to discontinue contact with Party B. The Board voted to discontinue all conversations with Party C, as its bid was not in the best interest of NORCAL Mutual's policyholders for several reasons, including the amount of transaction consideration and that the transaction was to take place in two steps. The Board also instructed senior management to continue to evaluate and provide the Board with updates on the benefits and risks of remaining independent as the Board continued to review all of its strategic alternatives. In addition to taking into account the terms of the offers from each of PRA and Party B, the Board determined that a transaction with PRA would allow NORCAL Mutual to better serve policyholders, be more competitive, better position NORCAL to further its strategic objectives, and provide NORCAL with greater resources to support its obligations to current and future members, as well as create meaningful economies of scale. The Board also considered PRA's history of successfully integrating mutual and stock insurance companies it had acquired and investing substantial resources in those acquired companies. Based on the indications of interest and the discussions with each of the bidders, the Board instructed WHA and senior management to continue discussions with PRA. The Board agreed to provide PRA with an additional forty-five (45) days to perform further diligence. Subsequently, WHA had discussions with PRA regarding the possible terms of a sponsored demutualization transaction immediately followed by a cash tender offer in which PRA would ultimately acquire NORCAL Mutual.

At the January 14, 2019 Board meeting, the CEO presented updated information regarding the due diligence process, timing, and discussions with PRA.

During January and February 2019, PRA continued its diligence review, including meetings with senior management and WHA, and continued negotiations over the terms of a proposed transaction. Updates were provided to the Board by senior management and WHA regarding the diligence process, timing and discussions with PRA during this time.

Beginning in January 2019, NORCAL Mutual and PRA and their respective financial advisors began discussions on the negative implications to PRA's proposed purchase price as the result of (i) revised management financial projections reflecting lower projected profitability of NORCAL Mutual, (ii) NORCAL Mutual's third-party actuary's appraisal reflecting materially higher estimates of ultimate loss and loss adjustment expense and required additional reserves and (iii) higher loss and loss adjustment expense ratio assumptions for NORCAL Mutual for 2019 and 2020 based on PRA's review of current pricing and future pricing and loss trends.



At a meeting of the Board held on March 1, 2019, WHA presented its status report regarding meetings between NORCAL Mutual, WHA, PRA, and its advisors. WHA discussed the revised valuation being prepared by PRA and the extension of the deadline to provide its valuation to the Board on March 22, 2019. In addition, WHA responded to questions from the Board and communicated that S&P had downgraded its issuer credit rating of PRA from BBB+ to BBB in February 2019 due to questions about PRA's capacity to maintain its historical capital confidence levels; however, WHA described the ratings of other carriers and explained that the rating dealt with credit issuance and not the ability to pay claims. As such, the Board remained confident in PRA's financial strength. The Board and senior management further discussed the potential transaction and how it would result in improved access to products and services for NORCAL Mutual policyholders following completion of the transaction.

On March 22, 2019, PRA delivered a revised offer contemplating a purchase price of \$850 million, of which \$825 million would be paid in cash and \$25 million would be in the form of policyholder credits. WHA presented the revised offer to the Board on March 30, 2019, and WHA responded to questions about PRA's adjusted offer and valuation.

At the March 30, 2019 Board meeting, senior management for PRA presented their proposal to the Board and responded to questions regarding anticipated benefits to NORCAL Mutual policyholders, PRA's proposed valuation, recent material events affecting PRA and PRA's integration plans.

Pursuant to discussions with the Board, on March 31, 2019, WHA, on behalf of the Board, delivered a counterproposal to PRA outlining a transaction valuing NORCAL Mutual at \$870 million, of which at least \$850 million would be paid in cash with the additional \$20 million being paid in the form of PRA common stock, policyholder credits or cash. On April 5, 2019, PRA delivered a revised offer to NORCAL Mutual contemplating a purchase price of \$850 million, of which \$675 million would be paid in cash and \$175 million would be in the form of PRA common stock. The Board discussed the revised PRA offer with WHA during a meeting on April 6, 2019. At the request of the Board, WHA provided PRA with a counterproposal outlining a transaction valuing NORCAL Mutual at \$870 million with the additional \$20 million in consideration being in the form of policyholder credits applied toward future renewals and requesting a band or "collar" around the stock price used to value the PRA common stock in the transaction.

PRA subsequently agreed to the counterproposal and delivered a revised offer on April 18, 2019 contemplating a transaction valuing NORCAL Mutual at \$870 million with the transaction consideration being comprised of cash in the amount of \$675 million, PRA common stock in the amount of \$175 million and policyholder credits in the amount of \$20 million. The revised offer also contemplated a collar structure to limit NORCAL Mutual's downside risk in the event of a price decline in PRA's common stock. The revised offer was presented by WHA to the Board at the meeting held on May 29, 2019. At that meeting, WHA discussed with the Board the status of the negotiations with PRA, the proposals and counterproposals exchanged between the parties, the terms of PRA's latest offer, and further background on PRA and its acquisition history.

During meetings of the Board held on May 29, 2019 and May 31, 2019, the Board discussed at length a variety of matters related to the potential transaction, including data-driven impacts to the MPL insurance industry, how NORCAL Mutual's current and future policyholders would be affected by a transaction, the terms of the revised offer from PRA, including the type and amount of consideration to be provided, and whether and how to approach PRA with respect to further revising its bid. The Board discussed remaining independent. The Board also considered how PRA's business was geographically complementary to NORCAL Mutual and the efficiencies to be gained through a combination of NORCAL Mutual and PRA. It considered the metrics for considering the value of a potential transaction with PRA. At the conclusion of the meetings, the Board instructed WHA and senior management to continue negotiations with PRA to, among other things, decrease the percentage of equity and increase the amount of cash offered.

At the June 28, 2019 Board meeting, WHA presented an update on PRA's diligence review and negotiations with PRA.

On July 15, 2019, PRA submitted a revised offer contemplating a transaction valuing NORCAL Mutual at \$875 million with the transaction consideration being comprised of cash in an amount of \$675 million, PRA common stock in the amount of \$180 million and policyholder credits in the amount of \$20 million that would be structured in a more beneficial way to policyholders. The Board met on July 17, 2019 and July 23, 2019 to discuss the offer. The Board discussed, among other factors, the increased economics of PRA's offer, the beneficial changes to the way in which the policyholder credits would be available, PRA's decision to offer additional equity, PRA's acceptance of the Board's noneconomic requires and the financial strength and diversity of a combined NORCAL Mutual and PRA. Following these discussions, the Board approved proceeding with the preparation and negotiation of all documents necessary to effect a transaction with PRA and approved engaging regulators at the appropriate time and with the advice of counsel. The Board also required management to continue to confer with the Board throughout negotiations and to seek Board approval before the execution and delivery of definitive agreements.

During August and September 2019, PRA continued its diligence review of NORCAL Mutual and provided the initial draft of the Acquisition Agreement on August 20, 2019. The parties subsequently engaged in negotiations on the terms of the Acquisition Agreement during August and September.

At a meeting of the Board held on September 6, 2019, WHA and senior management provided an update on the status of the deal process and a prospective transaction timeline.

On September 29, 2019, the Board reviewed key findings from an actuarial analysis prepared by NORCAL Mutual's outside actuary in the ordinary course of business (*i.e.*, independent from the transaction process), which indicated that NORCAL Mutual's carried reserves required strengthening by as much as \$110 million. In the weeks that followed, NORCAL Mutual, PRA, and NORCAL Mutual's actuary engaged in discussions regarding the actuarial analysis, first on a call on October 14, 2019 and then at a meeting on October 16, 2019, where the parties discussed NORCAL Mutual's planned course of corrective action and NORCAL Mutual's

latest financial projections. PRA provided a revised indication of interest on October 24, 2019 that included a reduced purchase price of \$450 million in cash at closing with additional “earnout” payments of up to \$150 million in cash payable if NORCAL Mutual’s reserve estimates developed favorably compared to the NORCAL Mutual reserve estimates underlying PRA’s value determination.

At an October 25, 2019 meeting of the Board, WHA reported on discussions with PRA over the prior week, and the terms of the revised indication of interest. WHA and senior management responded to questions from the Board regarding the revised terms and, after extensive deliberation, instructed WHA to re-engage with Party B.

During a meeting held on November 6, 2019, WHA provided the Board an update regarding discussions with Party B. On November 26, 2019, Party B submitted an indication of interest contemplating a transaction consisting of a cash payment at closing and a potential earnout, in each case less than PRA’s proposal. At a meeting held on November 27, 2019, the Board discussed the revised valuation materials and the ongoing actuarial review. WHA presented its report on the valuation materials and provided an update on the conversations with PRA and Party B. During the December 1, 2019 Board meeting, WHA led a discussion focused on the terms of Party B’s indication of interest. The Board discussed the relative merits and drawbacks of the offers received from PRA and Party B. At a meeting held on December 6, 2019, WHA provided a detailed comparison of the two offers, including financial elements, process elements (including relative closing certainty), and other differences. Party B’s bid still required unconditional regulatory approval despite WHA’s statements, at the Board’s instruction, to Party B about the Board’s discomfort with that requirement. The Board discussed both offers and decided to proceed with the October 24, 2019 offer provided by PRA subject to additional conditions related to closing certainty and board representation for NORCAL Mutual, which were agreed to by PRA. In making its decision to proceed with PRA’s offer, the Board considered a number of factors, including the following: PRA’s commitment to the MPL market and healthcare providers, NORCAL Mutual’s actuarial analysis and the need to strengthen NORCAL Mutual’s carried reserves by as much as \$110 million and the impact of that on deal price, the state of the MPL industry, the challenges of remaining independent, deal price, closing certainty, post-closing value proposition in the market, ability post-closing to withstand market downturns, ability to invest in technology (e.g., data analytics, AI), service level to policyholders following completion of the transaction, any potential cultural differences between NORCAL Mutual and PRA, and the likely impact on NORCAL Mutual’s employees in connection with the transaction.

Subsequent to December 6, 2019, NORCAL Mutual and PRA and their respective advisors began drafting and negotiating the Acquisition Agreement and the Plan. The parties negotiated the definitive terms of the Acquisition Agreement and the Plan during December 2019 and January and February 2020. On February 13, 2020, NORCAL Mutual, PRA and their respective legal advisors met with the General Counsel and staff of the California Department of Insurance to discuss the rationale for the Proposed Transaction as well as certain material terms of the Acquisition Agreement and the Plan.

At a meeting of the Board held on February 18, 2020, the Board unanimously approved the proposed transaction, including the terms of the Acquisition Agreement and the plan of conversion. The Board also unanimously voted to recommend that the Eligible Members elect to receive Conversion Stock and to sell their Conversion Stock to PRA Professional pursuant to the Offer. On February 20, 2020, NORCAL Mutual and PRA entered into the Acquisition Agreement and publicly announced the proposed transaction. On March 31, 2020, NORCAL Mutual filed an application with the Commissioner to request permission to convert NORCAL Mutual from a mutual insurance company to a stock insurance company, as part of which NORCAL Mutual provided the Commissioner with the Acquisition Agreement and the Plan. The Board unanimously approved the Plan (as amended and restated) on February 10, 2021.

### **Reasons for the Proposed Transaction and Considerations of the Board of Directors; Recommendation of the Board of Directors**

The Board considered a number of factors in reaching its decision to approve the Transaction Documents, including a presentation given by Piper Sandler & Co. to the Board regarding certain of the advantages and disadvantages to Members described in A9 and A10, respectively, of the “*Questions and Answers About the Proposed Transaction and the Vote*” section of this Member Information Statement on page 8. ***The Board recommends that Record Date Members vote FOR approval of the Plan, Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws and the election of Director Nominees.***

## **THE APPROVAL OF AMENDED AND RESTATED ARTICLES OF INCORPORATION AND AMENDED AND RESTATED BYLAWS**

### **General**

This information is furnished to Record Date Members in connection with the approval of the Plan.

### **Proposal**

Pursuant to the terms of the Plan, the current Amended and Restated Articles of Incorporation and Amended and Restated Bylaws will be amended as set forth on Annex C and Annex D upon the consummation of the Proposed Transaction. For clarity, in the event the Proposed Transaction is not consummated, the existing Amended and Restated Articles of Incorporation and Amended and Restated Bylaws will remain in place. Approval of the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws is a condition to consummation of the Proposed Transaction. The Board recommends that the Record Date Members approve the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws of NIC, which will be effective upon consummation of the Proposed Transaction.

## THE ELECTION OF DIRECTORS

### General

This information is furnished to Record Date Members in connection with the approval of the Plan.

### Proposal

Pursuant to the terms of the Plan, the existing Board has nominated the five (5) individuals listed below (the “**Proposed Directors**”) for election as directors, which election will be effective upon the consummation of the Proposed Transaction. For clarity, in the event the Proposed Transaction is not consummated, the existing members of the Board will remain in place. In the event any of the nominees should become unable to serve as a director, an eventuality which management has no reason to believe will occur, ballots may be voted for another nominee.

Nominees standing for election include:

- Michael L. Boguski
- Robert D. Francis
- Dana S. Hendricks
- Jeffrey P. Lisenby
- Edward L. Rand, Jr.

#### ***Michael L. Boguski***

Mr. Boguski is the President of PRA’s Specialty Property & Casualty insurance segment. He previously served as President of PRA’s workers’ compensation insurance subsidiary (Eastern Alliance) since PRA acquired that business in 2014. Prior to PRA’s acquisition of Eastern Alliance, Mr. Boguski served as President and Chief Executive Officer of Eastern Alliance since 2011 and had been with the Eastern organization since its inception in 1997. Mr. Boguski has 34 years of insurance industry experience.

#### ***Robert D. Francis***

Mr. Francis is PRA’s Executive Vice President for Healthcare Underwriting and Operations. He previously served as Chief Operating Officer for The Doctors Company in Napa, California, from 2003 to 2018. Before that, he served nearly 20 years in various executive positions at PRA.

***Dana S. Hendricks***

Ms. Hendricks has served as PRA's Chief Financial Officer since 2018. She previously served as Senior Vice President of Business Operations for PICA, PRA's podiatric liability insurance subsidiary. Prior to that time, she served PICA as Vice President of Finance and Corporate Controller. Prior to joining PICA in 2001, Ms. Hendricks held various finance and data analysis positions with American General Life & Accident Insurance Company. Ms. Hendricks is a Certified Public Accountant.

***Jeffrey P. Lisenby***

Mr. Lisenby is Executive Vice President, General Counsel & Corporate Secretary for PRA. He previously served as Senior Vice President. Prior to joining PRA in 2001, Mr. Lisenby practiced law privately in Birmingham, Alabama. Mr. Lisenby is a member of the Alabama State Bar and the United States Supreme Court Bar and is a Chartered Property Casualty Underwriter (CPCU). He has 25 years of legal experience, 19 of which are specific to the insurance industry.

***Edward L. Rand, Jr.***

Mr. Rand was appointed as Chief Executive Officer of PRA in 2019 and has served as PRA's President since 2018. Mr. Rand previously served as Chief Operating Officer, Chief Financial Officer, Executive Vice President and Senior Vice President since joining PRA in 2004. Prior to joining PRA, Mr. Rand was Chief Accounting Officer and Head of Corporate Finance for PartnerRe Ltd. Prior to that time, Mr. Rand served as the Chief Financial Officer of Atlantic American Corporation.

***The Board recommends that Record Date Members vote FOR approval of the Plan, Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws and the election of Director Nominees.***

## ELIGIBILITY TO VOTE

### General

In general, policyholders of a mutual insurance company with policies that are in effect have Membership Interests that give rise to the right to vote on various matters, including the election of directors and certain extraordinary transactions, such as conversions. The rules described below explain who is entitled to vote on the Plan and receive consideration pursuant to the Proposed Transaction.

Membership Interests are derived from the ownership of a Policy. In order for you to be entitled to vote on the Plan, you must have been a Member as of February 11, 2021.

### Voting

In accordance with NORCAL Mutual's bylaws in effect as of the adoption date, the Record Date Members shall be entitled to cast votes on proposals to (i) adopt and approve the Plan and the other transactions contemplated by the Plan, (ii) adopt and approve the Amended and Restated Articles of Incorporation, (iii) adopt and approve the Amended and Restated Bylaws and (iv) approve and appoint the Director Nominees. To become effective, the Plan needs to be approved by at least two-thirds (2/3) of all Record Date Members actually present virtually or by proxy at the Special Meeting, the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws need to be approved by the majority of all Record Date Members actually present virtually or by proxy at the Special Meeting and the Director Nominees need to be approved by the plurality of all Record Date Members actually present virtually or by proxy at the Special Meeting.

In accordance with NORCAL Mutual's bylaws and Section 4097.07 of the California Insurance Code, at least ten percent (10%) of the Record Date Members must be present (virtually or by proxy) to constitute a quorum at the Special Meeting. Absent a quorum, any vote by the Record Date Members shall be ineffective.

The Plan by its terms, including the Amended and Restated Articles of Incorporation, Amended and Restated Bylaws and appointment of the Director Nominees, if adopted, will only be effective upon the closing of the Proposed Transaction. If the Commissioner does not approve the Plan or requires modifications to the Plan following the public hearing, the date of the Special Meeting may change to a later date or be cancelled.

**Record Date Members should use the PROXY enclosed in this package. Record Date Members can vote virtually or by proxy.**

Record Date Members' proxies should be returned by using the internet in accordance with the instructions on the enclosed proxy card or by mail to Georgeson at Proxy Tabulator, PO Box 808000, Louisville, KY 40233-9890 by 5:00 p.m. Pacific Time, on April 7, 2021. A postage prepaid envelope is enclosed for your use. Record Date Members may also deliver their proxies to



us at any time prior to the Special Meeting. If you need instructions regarding voting by proxy, please call us toll free at (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or from 9:00 a.m. to 3:00 p.m. on Saturday until April 30, 2021. Record Date Members who want to cast their vote virtually may do so at the Special Meeting.

Your proxy is to be marked with a vote of either “FOR” approval of the Plan, the Amended and Restated Articles of Incorporation, the Amended and Restated Bylaws and the election of Director Nominees or “AGAINST” approval of the Plan, the Amended and Restated Articles of Incorporation, the Amended and Restated Bylaws and the election of Director Nominees. You also may “ABSTAIN” from voting on the approval of the Plan, the Amended and Restated Articles of Incorporation, the Amended and Restated Bylaws and the election of Director Nominees. An abstention will be counted as a vote present virtually or represented by proxy at the Special Meeting and entitled to vote on the proposals and will have the same effect as a vote “AGAINST” these proposals. An unmarked proxy will be deemed as a vote FOR the proposals.

**The Board unanimously voted to adopt the Plan and found the Plan to be in the best interest of Members. *The Board recommends that Record Date Members vote FOR approval of the Plan, Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws and the election of Director Nominees.***

## PRINCIPAL TERMS OF THE PLAN

*The following is a summary of certain material terms of the Plan and is qualified in its entirety by reference to the complete text of the Plan, which is available upon request from NORCAL Mutual. See “Available Information” on page 84.*

### **Approval of the Plan**

The Board adopted the plan of conversion on February 18, 2020. In accordance with the Acquisition Agreement, the Plan was submitted to the Commissioner for approval. Also in accordance with the Acquisition Agreement, NORCAL Mutual prepared and submitted this Member Information Statement to the Commissioner, and the Record Date Members are being asked to approve the Plan. The Board adopted the Plan (as amended and restated) on February 10, 2021.

### **Eligible Members**

The Plan provides that each person who is an Owner of an Eligible Policy is an Eligible Member entitled to the Conversion Consideration. Under the Plan, the Owner of a Policy is the named insured of such Policy as shown on the books and records of NORCAL Mutual and provides that any determinations made by NORCAL Mutual shall be conclusive as between NORCAL Mutual and any Owner of a Policy or any other person with an interest in a Policy.

### **Appraised Equity and Allocation**

For purposes of the Plan, NORCAL Mutual has determined that the Appraised Equity is \$440 million. NORCAL Mutual determined the Appraised Equity based on a revised and restated appraisal, dated August 25, 2020, by the Appraisal Firm of the fair value of NORCAL Mutual. Pursuant to the Plan, the Equity shall be allocated and distributed to each Eligible Member based upon an allocation formula that is comprised of the following factors: the length of each Eligible Member’s policyholder relationship with NORCAL Mutual (*i.e.*, the Tenure Percentage), the earned premium associated with each Eligible Member’s policyholder relationship with NORCAL Mutual (*i.e.*, the Premium Percentage), and the profitability associated with each Eligible Member’s policyholder relationship with NORCAL Mutual (*i.e.*, the Profitability Percentage). NORCAL Mutual has determined that an equally weighted allocation formula is fair, just and equitable for determining the rights in surplus of each Eligible Member. The allocation formula is subject to the consent of the Commissioner.

One-third of the Equity will be allocated to Eligible Members based on their Tenure Percentage, which is determined by dividing the total number of days that the Eligible Member has maintained insurance with NORCAL Mutual since NORCAL Mutual’s date of inception prior to February 18, 2020 by the total number of days that all Eligible Members have maintained insurance with NORCAL Mutual commencing with NORCAL Mutual’s date of inception and terminating on February 18, 2020.

One-third of the Equity will be allocated to Eligible Members based on their Premium Percentage, which is determined by dividing the Eligible Premium as of February 18, 2020 by the sum of all Eligible Premiums of all Eligible Members.

One-third of the Equity will be allocated to Eligible Members based on their Profitability Percentage, which is determined by dividing the Incurred Profitability with respect to such Eligible Member by the sum of all Incurred Profitability of all Eligible Members.

The allocation formula is calculated as the sum of a fraction for which the numerator is one and the denominator is three multiplied by the Tenure Percentage, plus the sum of a fraction for which the numerator is one and the denominator is three multiplied by the Premium Percentage, plus a fraction for which the numerator is one and the denominator is three multiplied by the Profitability Percentage.

The Plan provides that NORCAL Mutual shall use its utmost good faith in determining the allocations of each Eligible Member. The materials accompanying this Member Information Statement shall include the estimated Allocable Equity of each Eligible Member. Disputes as to the determination by NORCAL Mutual may be resolved in accordance with the procedures set forth in the Plan.

### **Conversion Consideration**

In connection with the Proposed Conversion, Eligible Members may elect **ONE** of the four forms of consideration with respect to their Allocable Equity, as reflected in the four choices below:

- **Choice 1. RECEIVE AND SELL CONVERSION STOCK TO PRA (Recommended).** Exchange the value of your Allocable Equity for common stock of NIC (*i.e.*, the Conversion Stock) at the Subscription Price (\$50.00 per share). Receive Conversion Stock and immediately sell it to PRA Professional for cash consideration of \$51.14 per share of Fixed PRA Consideration and up to \$17.04 per share of Contingent PRA Consideration. NIC will transfer the Conversion Stock on your behalf and you will receive the PRA Consideration (consisting of a combination of the Fixed PRA Consideration of cash equal to \$51.14 per share and the Contingent PRA Consideration in an amount up to \$17.04 per share).

OR

- **Choice 2. RECEIVE AND HOLD CONVERSION STOCK.** Exchange the value of your Allocable Equity for Conversion Stock at the Subscription Price and become a stockholder of NIC. The shares of Conversion Stock will not be registered under the federal or state securities laws and will be subject to substantial restrictions on transfer. There is no public market for the Conversion Stock and it is unlikely that a public market will develop. If you continue to hold shares of Conversion Stock, you will have to bear the economic risk of the investment for an indefinite period of time. However, PRA's intention is to acquire

directly or indirectly 100% of the Conversion Stock by acquiring your shares through a recapitalization, reorganization or reverse stock split at a price comparable to Choice 1 (though the price possibly may be less), so your ownership of Conversion Stock may be temporary. Further information about PRA's intention to acquire 100% ownership may be found under the Q&As.

OR

- **Choice 3. RECEIVE A CONTRIBUTION CERTIFICATE.** Receive a Contribution Certificate Equal to 100% of your Allocable Equity Payable Within Ten Years Only Out of NIC's Excess Surplus. Your Contribution Certificate will bear interest at the rate established in California Insurance Code Section 10489.4 for minimum standard valuation of all life insurance policies of more than 20 years' duration issued in the year (the current rate would be 3.00% per annum). Your Contribution Certificate will be payable within 10 years but only with the prior written approval of the Commissioner and only if following such payment NIC will have a surplus in an amount exceeding the greater of (1) "Total Adjusted Capital" (as defined in Section 739(m) of the California Insurance Code) equal to 150% of its "Company Action Level RBC" (as defined in Section 739(j)(1) of the California Insurance Code) as reflected in NIC's most recent "RBC Report" (as defined in Section 739(l) of the Code) filed with the Commissioner or (2) the amount of surplus required by the laws of any jurisdiction in which NIC is licensed to do business to retain unimpaired its Certificate of Authority therein. The Contribution Certificate will not be registered under the federal or state securities laws and will be subject to substantial restrictions on transfer. There is no public market for the Contribution Certificates and it is unlikely that a public market will develop. If you elect to receive the Contribution Certificate, you will have to bear the economic risk of the investment for an indefinite period of time.

OR

- **Choice 4. RECEIVE A CONVERSION CASH PAYMENT.** Receive a cash payment equal to 50% of your Allocable Equity. Members electing Choices 1 or 4 will receive a cash payment, but if you elect Choice 4 you will receive a cash payment that is more than 50% less than the cash payment available to you if you elect Choice 1.

If you do not make your election by 5:00 p.m. Pacific Time on April 27, 2021, you will automatically (pursuant to Section 4097.04 of the California Insurance Code) be deemed to elect to receive Choice 3.

**Only Eligible Members electing to receive Conversion Stock will have the opportunity to sell such Conversion Stock to PRA Professional for \$51.14 per share of Fixed PRA Consideration at the consummation of the Proposed Transaction and up to \$17.04 per share of Contingent PRA Consideration.**

The Exchange Agent will provide Eligible Members with a Consideration Election Form or other form of documentation setting forth the choices such Eligible Member has with respect to the Conversion. Eligible Members will have until the Stock Offer Initial Expiration Time to designate their election on the Consideration Election Form. The expiration time for the Eligible Members to elect Conversion Consideration may be extended to a later date and time pursuant to the Acquisition Agreement. As required by Section 4097.04(c) of the California Insurance Code, any Eligible Member not making an affirmative election respecting such Eligible Member's desired form of Conversion Consideration prior to the expiration time shall be deemed to have elected to receive a Contribution Certificate.

### **Conditions to Consummation of the Conversion**

The closing of the Conversion is contingent on the approval of the Commissioner and the Record Date Members. In addition, the closing of the Conversion is contingent on the closing of the Acquisition. In the event the Offer and the other transactions contemplated by the Acquisition Agreement are not consummated, then the Conversion shall not be consummated and NORCAL Mutual will remain organized as a mutual insurance company.

Additionally, in order to consummate the Proposed Transaction:

- the Eligible Members holding at least eighty percent (80%) of the outstanding Conversion Stock must validly tender for purchase their shares to PRA Professional pursuant to the Offer in exchange for the PRA Consideration; and
- the aggregate amount of the Contribution Certificates to be issued must not exceed \$200 million.

### **Election Solicitation**

Following the Stock Offer Initial Expiration Time, if either (1) the holders of less than eighty percent (80%) of the outstanding shares of Conversion Stock have validly tendered and not validly withdrawn such shares or (2) the sum of the face amount of the Contribution Certificates issued to Eligible Members exceeds \$200 million, then PRA shall commence (a) a solicitation of the Certificate Subscribers to change their election from a Certificate Subscriber to, or to make an election to be, as the case may be, a Stock Subscriber and then sell, and/or, if applicable, (b) a solicitation of the Stock Subscribers who had elected to purchase NIC Shares to hold for their own account to sell shares of the Conversion Stock of such Stock Subscribers pursuant to the Offer (the "**Election Solicitation**"), in which case the Offer shall be extended through the end of the Solicitation Period.

In the event the Stock Offer Initial Expiration Time has been extended pursuant to the Acquisition Agreement, including an extension through the end of the Solicitation Period, the Offer shall expire at such time and on such date to which the Offer has been so extended (the Stock Offer Initial Expiration Time, or such later date and time to which the Stock Offer Initial Expiration Time has been extended pursuant to the Acquisition Agreement, is referred to as the "**Offer**

**Expiration Time**”). The Offer Expiration Time shall be communicated to Eligible Members in an amendment to the PRA Tender Offer Statement.

### **Closing of the Conversion**

Upon the consummation of the Conversion, the voting rights of the Members of NORCAL Mutual provided under or as a result of their policies or the charter or bylaws of NIC, the right to share in the surplus of NORCAL Mutual (including dividends) and the right to attend annual meetings of members shall all terminate. The payment of the Conversion Consideration shall be undertaken in accordance with the terms of the Acquisition Agreement.

## PRINCIPAL TERMS OF THE ACQUISITION AGREEMENT

*The following is a summary of certain material terms of the Acquisition Agreement and is qualified in its entirety by reference to the complete text of the Acquisition Agreement, which is available upon request from NORCAL Mutual. See “Available Information” on page 84.*

### Approval of the Plan and the Acquisition Agreement

The Board unanimously approved the Acquisition Agreement on February 18, 2020. In accordance with the Acquisition Agreement, the Acquisition Agreement was submitted by PRA to the Commissioner on April 24, 2020 for approval.

### Acquisition; Closing

Unless the Acquisition Agreement is terminated (see “*Principal Terms of the Acquisition Agreement – Termination*” on page 59), subject to the satisfaction or waiver of the conditions set forth in the Acquisition Agreement, the closing of the Acquisition will take place five (5) Business Days after all such conditions are satisfied or waived, or on such other date as shall be agreed in writing by the parties.

Pursuant to the Transaction Documents, PRA and NORCAL Mutual have designated the Exchange Agent for purposes of effecting the distribution and payment of the Conversion Consideration to the Eligible Members and the PRA Consideration allocable to the Selling Stockholders. At the Closing, PRA shall cause PRA Professional to purchase, and the Selling Stockholders shall sell, the shares of Conversion Stock issued to the Selling Stockholders set forth on the Selling Stockholder Distribution List in accordance with the terms of the Offer.

If the conditions to the consummation of the Offer are satisfied, PRA shall accept for payment, and shall cause PRA Professional to accept for payment, promptly after the Offer Expiration Time, all shares of Conversion Stock validly tendered and not validly withdrawn pursuant to the Offer, and the Exchange Agent shall promptly pay for such shares tendered from the Fixed PRA Consideration delivered by PRA.

### Consideration

The aggregate purchase price for all Authorized Conversion Shares shall be the sum of (1) a fixed amount of \$450,000,000 (the “**Fixed PRA Consideration**”) and (2) a contingent amount of up to \$150,000,000 (the “**Contingent PRA Consideration**”). The Fixed PRA Consideration and Contingent PRA Consideration assume that all Eligible Members are Stock Subscribers (*i.e.*, they do not elect to receive the Contribution Certificate or Conversion Cash Payment). For the avoidance of doubt, the Fixed PRA Consideration and Contingent PRA Consideration shall be payable only to Eligible Members who elect to receive Conversion Stock in the Conversion and who tender their shares of Conversion Stock to PRA Professional pursuant to the Offer. The amount of PRA Consideration to be paid by PRA for a share of Conversion Stock shall be determined by dividing the number of Authorized Conversion Shares into the maximum amount

of the PRA Consideration, with the result that the holder of a share of the Conversion Stock who sells his, her or its stock to PRA Professional pursuant to the Offer will receive from PRA Professional cash in the amount of \$51.14 per share at the consummation of the Proposed Transaction and up to \$17.04 per share of contingent cash consideration.

### **Contingent PRA Consideration**

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. The aggregate amount of Contingent PRA Consideration will be an amount equal to the product to be determined by multiplying (X) the after-tax percentage (as described below) and (Y) the amount by which PRA's estimate of NORCAL's ultimate losses as of December 31, 2020 (as described below) exceeds the estimate of ultimate losses as of said date as determined by an independent actuarial consultant at December 31, 2023. If the amount determined in clause (Y) is zero or a negative number, then the Contingent PRA Consideration will be zero and in no event will the total amount of the Contingent PRA Consideration exceed \$150,000,000. In the event the sum of the face amount of the Contribution Certificates to be issued to Eligible Members in the Conversion, the cash to be paid to Eligible Members in the Conversion and the value of the shares to be issued to Eligible Members in the Conversion (valued at the Per Share Offer Price for Fixed PRA Consideration) exceeds \$450,000,000 (the "**Excess Amount**"), PRA shall only pay Contingent PRA Consideration in excess of the Excess Amount and the total possible Contingent PRA Consideration of \$150,000,000 shall be reduced dollar-for-dollar by an amount equal to the Excess Amount.

The after-tax percentage shall be determined by subtracting from one hundred percent (100%) the maximum federal income tax marginal rate for corporations for the taxable year ending December 31, 2023, *provided* that, to the extent any reserves of NORCAL or any of its subsidiaries are released in any of the taxable years ending December 31, 2020, December 31, 2021 or December 31, 2022, the after-tax percentage shall be adjusted to reflect (on a proportional basis) the maximum federal income tax for corporations for the taxable year(s) in which such reserves are released.

PRA's 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 ended on or before December 31, 2018), plus (2) an amount equal to one hundred and two percent (102%) of the consolidated net earned premium of NORCAL and its subsidiaries for the year ended December 31, 2019 (representing PRA's estimated loss ratio for NORCAL and its subsidiaries for the accident year ended December 31, 2019), plus (3) an amount equal to ninety-eight percent (98%) of the consolidated net earned premium of NORCAL and its subsidiaries for the year ended December 31, 2020 (representing PRA's estimated loss ratio for NORCAL and its subsidiaries for the accident year ended December 31, 2020), provided that for purposes of this calculation the net



earned premium amounts referenced in clauses (2) and (3) above shall exclude the effect of any adjustment related to NORCAL's reserve for death, disability or retirement.

The estimate of ultimate losses as determined by an independent actuarial consultant as of December 31, 2023 shall be such actuarial consultant's determination of the ultimate consolidated losses and loss adjustment expenses of NORCAL and its subsidiaries as of December 31, 2020 net of reinsurance for accident years ended on or before December 31, 2020. The estimate of ultimate losses shall be completed on or before June 30, 2024.

A committee of three persons shall be appointed by NORCAL Mutual prior to Closing to review the actuarial report of the independent actuarial consultant. If either PRA or such committee disputes such actuarial report and PRA and such committee are unable to resolve such disputes, then the parties will select a second independent actuarial consultant and resolve such dispute in accordance with the terms of the Acquisition Agreement. The expenses of the committee, including the expenses incurred in connection with any dispute, shall reduce the Contingent PRA Consideration (if any) or, if the Contingent PRA Consideration is less than such expenses, be paid by PRA.

### **Conversion and Exchange Procedures**

In conjunction with this Member Information Statement, the Exchange Agent is providing Eligible Members with a Consideration Election Form with respect to the Conversion Consideration. Each Eligible Member will use the Consideration Election Form to make their election as to the Conversion Consideration to be received in the Proposed Transaction. The Consideration Election Form will set forth the amount of the Allocable Equity of each Eligible Member and the opportunity to elect to receive one of the following forms of Conversion Consideration for his, her or its Allocable Equity:

- Receive Conversion Stock (with immediate sale to PRA Professional), in which Eligible Members elect to apply the value of their Allocable Equity in exchange for Conversion Stock at the Subscription Price and immediately sell the Conversion Stock to PRA Professional (though the price possibly may be less) for the PRA Consideration pursuant to the Offer as set forth in the PRA Tender Offer Statement; or
- Receive Conversion Stock (to retain for each Eligible Member's own account), in which Eligible Members elect to apply the value of their Allocable Equity in exchange for Conversion Stock at the Subscription Price without sale to PRA; or
- Receive a Contribution Certificate, in which Eligible Members elect to apply the value of their Allocable Equity in exchange for a Contribution Certificate; or
- Receive the Conversion Cash Payment, in which Eligible Members elect to apply the value of their Allocable Equity in exchange for the Conversion Cash Payment in an amount equal to 50% of the Allocable Equity.

The Exchange Agent will furnish an IRS Form W-9 for Eligible Members to complete and return prior to delivery of the Conversion Consideration. Upon delivery of a Consideration Election Form by a Selling Stockholder tendering his, her or its Conversion Stock in accordance with the instructions provided by the Exchange Agent, such Selling Stockholder shall be entitled to receive in exchange for such Stock Subscriber's Conversion Stock the Fixed PRA Consideration and the Contingent PRA Consideration, if any.

If PRA Professional commences the Election Solicitation and/or the Extended Stock Offer, the Exchange Agent shall send to each Non-Electing Stock Subscriber an election form setting forth the number of shares of NIC common stock to be issued to such Non-Electing Stock Subscriber, the amount of Fixed PRA Consideration payable to such Non-Electing Stock Subscriber and the right to receive Contingent PRA Consideration, if any, if such Non-Electing Stock Subscriber changes his, her or its election to receive Conversion Stock and tender all of his, her or its shares of Conversion Stock. And if PRA Professional initiates the Election Solicitation, the Exchange Agent shall send to each Certificate Subscriber an election form setting forth the amount of Fixed PRA Consideration payable to such Certificate Subscriber and the right to receive Contingent PRA Consideration, if any, if such Certificate Subscriber changes his, her or its election to receive Conversion Stock and tenders all of his, her or its Conversion Stock.

Upon delivery of a Consideration Election Form by a Non-Electing Stock Subscriber or a Certificate Subscriber who has subsequently elected to be a Stock Subscriber tendering his, her or its Conversion Stock in accordance with the instructions provided by the Exchange Agent, such Non-Electing Stock Subscriber or Certificate Subscriber who has subsequently elected to be a Stock Subscriber in connection with the Election Solicitation and to tender all of his, her or its shares of Conversion Stock, as applicable, shall be entitled to receive, in exchange for such Non-Electing Stock Subscriber's or Certificate Subscriber's Conversion Stock, the Fixed PRA Consideration and the Contingent PRA Consideration, if any.

If the conditions to the consummation of the Offer are satisfied, PRA shall accept for payment, and shall cause PRA Professional to accept for payment, promptly after the Offer Expiration Time, all shares of Conversion Stock validly tendered and not validly withdrawn pursuant to the Offer and promptly pay for such shares tendered pursuant to the terms of the Acquisition Agreement. PRA Professional shall prior to Closing deliver to the Exchange Agent cash in the amount of the Fixed PRA Consideration to be paid for the shares of Conversion Stock accepted for payment, and NORCAL shall deliver to the Exchange Agent the Contribution Certificates to be issued to the Certificate Subscribers and cash in the amount of the Conversion Cash Payment to be paid to the Cash Subscribers. As promptly as practicable after the Closing, the Exchange Agent shall distribute from the Exchange Fund: (i) to each Certificate Subscriber, the Contribution Certificate required to be delivered to such Certificate Subscriber in connection with the Conversion; (ii) to each Cash Subscriber, a check for funds in the amount required to be paid to such Cash Subscriber in connection with the Conversion; (iii) to each Non-Electing Stock Subscriber, a book entry registration representing the number of uncertificated shares of Conversion Stock issued to each Non-Electing Stock Subscriber in connection with the Conversion; (iv) to each Stock Subscriber who is a Selling Stockholder, a check for funds in an

amount equal to the Fixed PRA Consideration payable to such Selling Stockholder in exchange for the sale of such Selling Stockholder's Conversion Stock, as set forth on the Selling Stockholder Distribution List.

The Contingent PRA Consideration shall be paid to the Selling Stockholders 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 after deducting payment of applicable expenses. PRA shall deposit with the Exchange Agent cash in an amount equal to the Contingent PRA Consideration. The Exchange Agent will pay any costs incurred by NORCAL Mutual's appointed 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 the Contingent PRA Consideration from PRA, the Exchange Agent shall distribute payments of the Contingent PRA Consideration to each of the Selling Stockholders in accordance with the list provided by PRA.

### **Conversion Stock Not Sold in the Offer**

If the conditions to the Conversion are satisfied, PRA Professional will own at least 80% of the equity and voting stock of NIC. PRA Professional will have the right to elect all of the directors on NIC's board of directors and will therefore have control of the management of NIC. Eligible Members who elect to receive Conversion Stock and who do not sell their shares of Conversion Stock to PRA Professional pursuant to the Offer will continue to own equity in NIC in the form of shares of Conversion Stock issued to them in the Conversion. **The shares of Conversion Stock will not be registered under the federal and state securities laws and will be subject to substantial restrictions on transfer. Further, there is no public market for the Conversion Stock and it is unlikely that a public market will develop. Accordingly, Eligible Members who continue to hold shares of Conversion Stock will have to bear the risk of an investment in the Conversion Stock for an indefinite period of time.**

PRA has advised NORCAL Mutual that it desires to purchase all of the outstanding stock of NIC. If less than 100% of the shares of Conversion Stock are purchased by PRA Professional pursuant to the Offer, the Acquisition Agreement provides that PRA may develop a plan for the recapitalization or reorganization of NIC after the Conversion that will result in the acquisition of shares of Conversion Stock held by persons other than PRA Professional at a price on terms comparable to the terms of the Offer.

### **Representations and Warranties**

NORCAL Mutual made customary representations and warranties in the Acquisition Agreement on behalf of itself and its subsidiaries that are subject, in some cases, to certain qualifications (including qualifications as to knowledge, materiality, time and dollar amount) and are further modified and limited by a disclosure schedule provided by NORCAL Mutual to PRA at the time the Acquisition Agreement was executed. These representations and warranties relate to corporate, financial and operational matters and include, among other things:

- the corporate organization, good standing and similar corporate matters of NORCAL Mutual, including its qualification to do business under applicable laws and authority to enter into the Acquisition Agreement;
- certain financial statements of NORCAL Mutual and its subsidiaries;
- the absence of certain changes to NORCAL Mutual and its subsidiaries since September 30, 2019;
- threatened or pending litigation against NORCAL Mutual or its subsidiaries;
- compliance with applicable law and regulatory matters and possession of necessary licenses;
- the assets of NORCAL Mutual and its subsidiaries;
- the computation of NORCAL Mutual’s insurance reserves;
- reinsurance agreements; and
- the due authorization of the Acquisition Agreement and the transactions contemplated therein.

PRA also made customary representations in the Acquisition Agreement that also are subject to certain qualifications and a disclosure schedule provided by PRA to NORCAL Mutual. These representations and warranties relate to, among other things, certain corporate matters and the ability to pay the PRA Consideration on the Closing.

Several of the representations, warranties and covenants contained in the Acquisition Agreement relating to NORCAL Mutual and its subsidiaries and PRA refer to the concept of a “Material Adverse Effect.” For purposes of the Acquisition Agreement, a “*Material Adverse Effect*” with respect to either NORCAL Mutual and its subsidiaries or PRA, as applicable, generally means a material adverse effect on the business, results of operations, assets, liabilities, or financial or other conditions of such party and its subsidiaries, taken as a whole, or on the ability of NORCAL Mutual or PRA, as applicable, to perform its obligations under the Acquisition Agreement or to consummate the transactions contemplated thereby.

### **NORCAL Mutual Interim Operating Covenants**

NORCAL Mutual is subject to certain affirmative covenants in the Acquisition Agreement relating to the conduct of its business prior to the completion of the Proposed Transaction. NORCAL Mutual has agreed that it and its subsidiaries will, among other things:

- conduct their business in the ordinary course consistent with past practice (except as otherwise contemplated or permitted by the Acquisition Agreement);

- use commercially reasonable efforts to preserve their business organizations intact and maintain their existing relations and retain the services of its key employees and agents; and
- take no action which would adversely affect or delay the ability of any party to the Acquisition Agreement to obtain any required regulatory approval for the transactions contemplated by the Acquisition Agreement.

NORCAL Mutual has also agreed to certain negative covenants in the Acquisition Agreement relating to the conduct of its business prior to the completion of the Proposed Transaction. NORCAL Mutual has agreed that it and its subsidiaries will not, among other things:

- incur any indebtedness for borrowed money;
- redeem any surplus note;
- grant any stock options or other rights regarding Conversion Stock to be authorized under the Plan;
- make any distribution regarding insurance policies written by NORCAL Mutual or any NORCAL Subsidiary other than dividends previously declared;
- dispose of any of its material properties or material assets to any Person other than a NORCAL Subsidiary, or cancel any material indebtedness of any such Person or any material claims held by any such Person;
- make any material non-portfolio investment in any Person other than a NORCAL Subsidiary except pursuant to contracts or agreements in force at the date of the Acquisition Agreement;
- increase the compensation of the employees of NORCAL Mutual and the NORCAL Subsidiaries outside of the ordinary course of business consistent with past practice;
- pay any pension or retirement allowance not required by any existing agreement to any of its employees or become a party to any agreement for the benefit of any employee or accelerate the vesting of any stock options other than pension funding in the normal course or as required by applicable law;
- settle any claim, action or proceeding involving money damages, except in the ordinary course of business consistent with past practice;
- amend its organizational documents, except as provided for in the Plan and the Acquisition Agreement;
- restructure or materially change its investment securities portfolio through purchases, sales or otherwise other than in accordance with its current investment guidelines;

- offer or sell insurance or reinsurance of any type in any jurisdiction other than such lines of insurance and reinsurance that it offers and sells on the date of the Acquisition Agreement and other than in those jurisdictions where it offers and sells such lines of insurance and reinsurance on the date of the Acquisition Agreement;
- take any action that may reasonably be expected to result in any of the conditions precedent as set forth in the Acquisition Agreement not being satisfied; or
- take any action that is likely to adversely affect its ability to perform its covenants and agreements under the Acquisition Agreement.

## **Regulatory Matters**

Each of PRA and NORCAL Mutual are required to make all filings and notifications with all Governmental Authorities that are necessary for the consummation of the Proposed Transaction. Further, each of PRA and NORCAL Mutual are required to take all actions as may be requested by any such Governmental Authorities to obtain any required authorizations, consents, clearances, orders or approvals, but in no event will PRA be required to agree to (i) (A) the divestiture of any business, line of business, or entity of PRA or NORCAL Mutual in each case except for such actions related to *de minimis* assets (with such assets measured on a scale relative to PRA and its subsidiaries, taken as a whole) or (B) the imposition after the Closing of any restrictions to compete in any jurisdiction on PRA or NORCAL Mutual or any of its subsidiaries, in each case, which has or would reasonably be expected to have a Material Adverse Effect on PRA and its subsidiaries (including NIC and its subsidiaries after the Closing), taken as a whole, or (ii) any requirement imposed by a Governmental Authority that would reasonably be expected to have a (A) Material Adverse Effect on NORCAL, (B) material adverse effect on the aggregate financial benefits reasonably expected to be realized by PRA in connection with the transactions contemplated by the Acquisition Agreement, or (C) Material Adverse Effect on PRA and its subsidiaries (including NIC and its subsidiaries after the Closing), taken as a whole. Neither PRA nor NORCAL Mutual shall take any actions that they should be reasonably aware would have the effect of delaying, impairing or impeding the receipt of any required clearances or approvals.

## **Restrictions Relating to Other Transactions**

The Acquisition Agreement provides that NORCAL Mutual shall not authorize or knowingly permit any of its representatives, directly or indirectly, to initiate, entertain, solicit, encourage, engage in, or participate in, negotiations with any party other than the other party to the Acquisition Agreement or any of its affiliates concerning any Acquisition Proposal. Acquisition Proposals include (i) any proposal pursuant to which any party or groups of parties, other than PRA or NORCAL Mutual, would acquire or participate in a merger, consolidation, or other business combination involving NORCAL Mutual, directly or indirectly; (ii) any proposal by which any party or group of parties, other than PRA or NORCAL Mutual, would acquire a substantial equity interest in NORCAL Mutual, including the right to vote ten percent (10%) or more of the capital stock (following a reorganization or conversion) of NORCAL Mutual entitled to vote for the election of directors; (iii) any acquisition of ten percent (10%) or more of the assets

of NORCAL Mutual, other than in the ordinary course of business; (iv) any acquisition in excess of ten percent (10%) of the outstanding capital stock (following a reorganization or conversion) of NORCAL Mutual, other than as contemplated by the Acquisition Agreement; (v) any acquisition of control of NORCAL Mutual; or (vi) any transaction similar to the foregoing.

The Acquisition Agreement does not prohibit the Board from either furnishing information to, or entering into discussions or negotiations with, any party regarding any Acquisition Proposal, or approving and recommending to the Eligible Members of NORCAL Mutual an Acquisition Proposal from any party, if the Board determines in good faith that such action is appropriate in furtherance of the best interests of the Members and in order for the Board to comply with its fiduciary obligation. In connection with any such actions, NORCAL Mutual is required to comply with certain covenants in the Acquisition Agreement, including disclosing to PRA that it is furnishing information to, or entering into discussions or negotiations with, such party which disclosure shall describe the terms thereof (but need not identify the party making the offer).

### **Indemnification of NORCAL's Directors and Officers**

PRA shall, and shall cause NIC and each NORCAL Subsidiary to, indemnify, defend and hold harmless each person who is now, or who has been at any time before the date of the Acquisition Agreement or who becomes before the Purchase Effective Time, an officer, director or employee of NORCAL Mutual or a NORCAL Subsidiary (the "**Indemnified Parties**") against all claims in which an Indemnified Party is, or is threatened to be made, a party or witness in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of NORCAL Mutual or a NORCAL Subsidiary if such claim pertains to any matter of fact arising, existing or occurring at or before the Purchase Effective Time, regardless of whether such claim is asserted or claimed before, or after, the Purchase Effective Time, to the fullest extent NORCAL is permitted under applicable law and consistent with NORCAL Mutual's or any NORCAL Subsidiary's organizational documents as in effect as of the date of the Acquisition Agreement.

NORCAL Mutual shall use its commercially reasonable efforts, immediately prior to the Closing, to purchase a directors' and officers' liability insurance policy covering current and former officers and directors of NORCAL Mutual and the NORCAL Subsidiaries on terms and conditions, including limits, at least as favorable as their respective directors' and officers' liability insurance policy in effect on the date of the Acquisition Agreement, such policy or policies to become effective at the Purchase Effective Time and remain in effect for a period of six (6) years after the Purchase Effective Time or the period of the applicable statute of limitation, if longer. If NORCAL Mutual is unable to obtain such a policy prior to Closing, PRA shall use its best efforts to cause the individuals serving as officers and directors of NORCAL Mutual and the NORCAL Subsidiaries, prior to the Purchase Effective Time, to be covered for a period of six (6) years from the Purchase Effective Time (or the period of the applicable statute of limitations, if longer) by the directors' and officers' liability insurance policy maintained by PRA with respect to acts or omissions occurring on or prior to the Purchase Effective Time which were committed by such officers and directors in their capacity as such, provided, however, that in no event shall the annual

premium for any such insurance be more than 300% of the current annual amount expended by NORCAL Mutual or the NORCAL Subsidiary (the “**Insurance Premium Amount**”) and provided further that if PRA is unable to maintain or obtain such insurance, PRA shall use its best efforts to obtain as much comparable insurance as available for the Insurance Premium Amount.

## **Conditions to Closing**

### ***Mutual Closing Conditions***

The obligations of each of the parties to consummate the transactions contemplated by the Plan and the Acquisition Agreement shall be subject to the satisfaction of the following conditions:

- The Plan, including the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, shall have been approved and adopted by the requisite vote of the Board and by the requisite affirmative vote of the Record Date Members of NORCAL Mutual;
- all Requisite Regulatory Approvals shall have been obtained and shall remain in full force and effect, and all statutory waiting periods in respect thereof shall have expired or been terminated;
- no order, injunction or decree issued by any Governmental Authority of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Plan or any of the transactions contemplated by the Acquisition Agreement shall be in effect, and no statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Authority which prohibits, materially restricts or makes illegal consummation of the Plan, including the transactions contemplated by the Acquisition Agreement; and
- NORCAL Mutual has been converted from a mutual insurance company to a stock insurance company in accordance with the laws of the State of California and the shares of Conversion Stock issued in connection therewith shall be duly authorized and validly issued.

### ***Conditions to Obligations of PRA***

The obligations of PRA to consummate the transactions contemplated by the Plan and the Acquisition Agreement shall be subject to the satisfaction of the following conditions:

- NORCAL Mutual shall have performed in all material respects all material obligations required to be performed by it under the Acquisition Agreement at or prior to the Purchase Effective Time;
- the representations and warranties of NORCAL Mutual contained in the Acquisition Agreement relating to corporate organization, subsidiaries, capitalization, authority and



brokers' fees shall be true and correct on and as of the Purchase Effective Time and all other representations and warranties of NORCAL Mutual contained in the Acquisition Agreement shall be true and correct on and as of the Purchase Effective Time (disregarding any qualification as to "materiality" or Material Adverse Effect) except where the failure of any such other representations and warranties to be true and correct would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on NORCAL;

- NORCAL Mutual shall not have suffered a Material Adverse Effect and there shall have been no occurrence, circumstance or combination thereof which, as of the Purchase Effective Time, is reasonably likely to result in a Material Adverse Effect on NORCAL;
- the Eligible Members holding at least eighty percent (80%) of the outstanding Conversion Stock must validly tender for purchase their shares to PRA Professional pursuant to the Offer in exchange for the PRA Consideration, *and* the aggregate amount of the Contribution Certificates to be issued must not exceed \$200 million; and
- NORCAL Mutual shall have deposited the items required to be deposited by it with the Exchange Agent for the benefit of the Members as required by the Acquisition Agreement.

### ***Conditions to Obligations of NORCAL***

The obligation of NORCAL Mutual to consummate the transactions contemplated by the Plan and the Acquisition Agreement is also subject to the satisfaction or waiver by NORCAL Mutual of the following conditions:

- PRA shall have performed in all material respects all material obligations required to be performed by it under the Acquisition Agreement at or prior to the Purchase Effective Time;
- PRA shall have deposited (or caused PRA Professional to deposit) the items required to be deposited by it with the Exchange Agent for the benefit of the Members and Selling Stockholders, as applicable, as required by the Acquisition Agreement; and
- the representations and warranties of PRA contained in the Acquisition Agreement shall be true and correct on and as of the Purchase Effective Time (disregarding any qualification as to "materiality" or Material Adverse Effect) except where the failure of any such representations and warranties to be true and correct would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on PRA or its subsidiaries.

### **Termination**

The Acquisition Agreement may be terminated at any time prior to the Purchase Effective Time:

- by mutual consent of PRA and NORCAL Mutual, if the board of directors of PRA and NORCAL Mutual so determine to terminate the Acquisition Agreement by an affirmative vote of a majority of the members of such party's entire board of directors;
- by either PRA or NORCAL Mutual, if (i) any Governmental Authority which must grant a Requisite Regulatory Approval has denied approval of the Plan, and such denial has become final and nonappealable or any Governmental Authority of competent jurisdiction shall have issued a final nonappealable order permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by the Acquisition Agreement, and (ii) the board of directors of PRA or the Board, as the case may be, decides to terminate the Acquisition Agreement by an affirmative vote of a majority of the directors of PRA or a majority of the members of the Board, as the case may be;
- by either PRA or NORCAL Mutual, if (i) there shall have been a breach of any of the representations and warranties set forth in the Acquisition Agreement on the part of the other party, which breach is not cured within forty-five (45) days following written notice to the party committing such breach or which breach, by its nature or timing, cannot be cured prior to the two-year anniversary of the date of the Acquisition Agreement, and such material breach or breaches of the representations and warranties, individually or in the aggregate, have resulted in a Material Adverse Effect on such party and its subsidiaries taken as a whole and (ii) the non-breaching party decides to terminate the Acquisition Agreement by an affirmative vote of a majority of the members of its entire board of directors;
- by PRA, if (i) the Board shall indicate in writing to PRA that the Board is unwilling or unable to adopt the Plan; (ii) the Board is unwilling or unable to recommend to its Eligible Members that they approve and adopt the Plan; (iii) the Board is unwilling or unable to recommend to the Eligible Members the Offer; or (iv) after recommending that its Eligible Members approve and adopt the Plan or recommending the Offer to the Eligible Members, the Board shall have withdrawn, modified or amended such recommendation in any respect materially adverse to PRA, without PRA's prior written consent;
- by PRA, upon written notice to NORCAL Mutual, if an Acquisition Event has occurred;
- by either PRA or NORCAL Mutual, if (i) a meeting of the Record Date Members has been duly held for purposes of voting on the Plan and the transactions contemplated by the Acquisition Agreement, and (ii) approval of the Record Date Members required for the consummation of the Plan has not been obtained by reason of the failure to obtain

the required vote at such duly held meeting of Record Date Members or at any adjournment or postponement thereof;

- by PRA, if holders of less than eighty percent (80%) of the outstanding shares of Conversion Stock validly tender such shares or if the aggregate value of Contribution Certificates to be paid as consideration in the Conversion exceeds \$200,000,000;
- by PRA if on the Purchase Effective Time the updated disclosure schedules delivered by NORCAL Mutual prior to the Closing discloses any Material Adverse Effect on NORCAL Mutual or any change from such disclosure schedules has, or is reasonably likely to have, a Material Adverse Effect on NORCAL;
- by written notice from NORCAL Mutual to PRA, or from PRA to NORCAL Mutual, if the Purchase Effective Time does not occur on or before the two-year anniversary of the date of the Acquisition Agreement for any reason other than breach of the Acquisition Agreement by the party giving such notice; or
- by NORCAL Mutual, upon the occurrence of an Acquisition Event or Recommendation Event.

### **Termination Fee**

In the event an Acquisition Event or Recommendation Event (as defined in the Glossary of Key Terms above) occurs or the Eligible Members of NORCAL Mutual fail to hold the Special Meeting to approve the Plan within one hundred twenty (120) days after the Commissioner approves the Conversion, then NORCAL Mutual would be obligated to pay PRA a termination fee equal to \$15,000,000.

## REPORTS OF FINANCIAL ADVISERS

### Opinion of Piper Sandler & Co.

By letter dated January 6, 2020, NORCAL Mutual retained Piper Sandler & Co. (“**Piper Sandler**”) to prepare and render an opinion to the Board in connection with a proposed business combination with ProAssurance and PRA Professional. Piper Sandler is a nationally recognized investment banking firm and in the ordinary course of its investment banking business, Piper Sandler is regularly engaged in the valuation of insurance companies and their securities in connection with mergers and acquisitions and other corporate transactions.

At the February 18, 2020 meeting at which the Board considered and unanimously approved the Acquisition Agreement, Piper Sandler delivered to the Board its oral opinion, which was subsequently confirmed in writing, to the effect that, as of such date, the aggregate consideration to be received by Eligible Members, as a group, pursuant to the Acquisition Agreement was fair from a financial point of view to such Eligible Members, as a group.

**The full text of Piper Sandler’s opinion is attached hereto as Annex L. The opinion outlines the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Piper Sandler in rendering its opinion. The description of the opinion set forth below is qualified in its entirety by reference to the opinion. Eligible Members and Record Date Members are urged to read the entire opinion carefully in connection with their consideration of the Offer and the Conversion.**

Piper Sandler’s opinion speaks only as of the date thereof. The opinion is directed to the Board and is directed only as to the fairness of the aggregate consideration to the Eligible Members, as a group, from a financial point of view. It does not address the underlying business decision of NORCAL Mutual to engage in the Offer, Conversion or any other transaction and is not a recommendation to any Eligible Member or Record Date Member as to how such Eligible Member or Record Date Member should vote at the Special Meeting with respect to the Offer, Conversion or any other matter.

In connection with rendering its opinion, Piper Sandler reviewed and considered, among other things:

- a draft of the Acquisition Agreement, dated February 18, 2020;
- a draft of the Plan, dated February 18, 2020;
- certain publicly available historical financial statements and other information of NORCAL Mutual;
- certain publicly available historical financial statements and other information of ProAssurance;

- certain internal financial estimates of NORCAL Mutual for the year ending December 31, 2019 as well as certain internal financial projections of NORCAL Mutual for the years ended December 31, 2020 through December 31, 2024, as provided by the senior management of NORCAL Mutual;
- a comparison of certain financial and market information for certain property and casualty insurance companies for which information was publicly available;
- to the extent publicly available, the financial terms of certain recent business combinations involving medical professional liability insurance companies as well as property and casualty and multiline insurance companies;
- the pro forma financial impact of the Offer on ProAssurance's capitalization based on certain assumptions relating to transaction expenses and the sources of funding for the aggregate consideration, based on guidance provided by ProAssurance management;
- the current market environment generally and the property and casualty insurance environment in particular; and
- such other information, financial studies, analyses and investigations and financial, economic and market criteria as Piper Sandler considered relevant.

Piper Sandler also discussed with certain members of senior management of NORCAL Mutual the business, financial condition, results of operations and prospects of NORCAL Mutual.

In performing its review, Piper Sandler relied upon the accuracy and completeness of all of the financial and other information that was available to it from public sources, that was provided to Piper Sandler by NORCAL Mutual, ProAssurance or their respective representatives or that was otherwise reviewed by Piper Sandler, and Piper Sandler assumed such accuracy and completeness for purposes of rendering its opinion. Piper Sandler further relied on the assurances of management of NORCAL Mutual and ProAssurance that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. Piper Sandler was not asked to and did not undertake an independent verification of any of such information, and Piper Sandler did not assume any responsibility or liability for the accuracy or completeness thereof. Piper Sandler did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of NORCAL Mutual or ProAssurance, or the collectability of any such assets, nor was Piper Sandler furnished with any such evaluations or appraisals. Piper Sandler is not an expert in the evaluation of reserves for property and casualty insurance losses and loss adjustment expenses, and Piper Sandler did not make an independent evaluation of the adequacy of the reserves of NORCAL Mutual or ProAssurance. In that regard, Piper Sandler made no analysis of, and expressed no opinion as to, the adequacy of the loss and loss adjustment expense reserves of NORCAL Mutual or ProAssurance.

In preparing its analyses, Piper Sandler used certain internal financial estimates of NORCAL Mutual for the year ending December 31, 2019 as well as certain internal financial projections of NORCAL Mutual for the years ended December 31, 2020 through December 31, 2024, as provided by NORCAL Mutual's senior management. Piper Sandler also received and used in its pro forma analyses certain assumptions relating to transaction expenses and the sources of funding for the aggregate consideration, based on guidance provided by ProAssurance management. With respect to the foregoing information, the respective senior managements of NORCAL Mutual and ProAssurance confirmed to Piper Sandler that such information reflected the best currently available projections, estimates and judgments of those respective senior managements as to the future financial performance of NORCAL Mutual and ProAssurance, respectively, and Piper Sandler assumed that the financial results reflected in such information would be achieved. Piper Sandler expressed no opinion as to such financial projections, estimates or judgments, or the assumptions on which they were based. Piper Sandler also assumed that there had been no material change in NORCAL Mutual's or ProAssurance's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to Piper Sandler. Piper Sandler assumed in all respects material to its analysis that NORCAL Mutual and ProAssurance would remain going concerns for all periods relevant to its analyses.

Piper Sandler also assumed, with NORCAL Mutual's consent and to the extent material to Piper Sandler's analyses, (i) each of the parties to the Acquisition Agreement would comply in all material respects with all material terms and conditions of the Acquisition Agreement and all related agreements required to effect the Offer, that all of the representations and warranties contained in such agreements were true and correct in all material respects, that each of the parties to such agreements would perform in all material respects all of the covenants and other obligations required to be performed by such parties under the agreements, and that the conditions precedent in such agreements were not and would not be waived, (ii) in the course of obtaining the necessary regulatory or third-party approvals, consents and releases with respect to the Offer and the Conversion, no delay, limitation, restriction or condition would be imposed that would have an adverse effect that would be material to Piper Sandler's analysis of NORCAL Mutual, ProAssurance, the Offer or any related transactions, including, without limitation, the Conversion, and (iii) the Offer, the Conversion and any related transactions would be consummated in accordance with the terms of the Acquisition Agreement and the Plan without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements. Piper Sandler expressed no opinion as to any legal, accounting or tax matters relating to the Offer, the Conversion or any other transactions contemplated by the Acquisition Agreement.

Piper Sandler's opinion was necessarily based on financial, regulatory, economic, market and other conditions as in effect on, and the information made available to Piper Sandler as of, the date of its opinion. Events occurring after the date of Piper Sandler's opinion could materially affect its opinion. Piper Sandler did not undertake to update, revise, reaffirm or withdraw its opinion or otherwise comment upon events occurring after the date thereof.

In rendering its opinion, Piper Sandler performed a variety of financial analyses. The summary below is not a complete description of all the analyses underlying Piper Sandler's opinion or the presentation made by Piper Sandler to NORCAL Mutual's Board of Directors, but is a summary of the material analyses performed and presented by Piper Sandler. The summary includes information presented in tabular format. In order to fully understand the financial analyses, these tables must be read together with the accompanying text. The tables alone do not constitute a complete description of the financial analyses. The preparation of a fairness opinion is a complex process involving subjective judgments as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. The process, therefore, is not necessarily susceptible to a partial analysis or summary description. Piper Sandler believes that its analyses must be considered as a whole and that selecting portions of the factors and analyses to be considered without considering all factors and analyses, or attempting to ascribe relative weights to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no company included in Piper Sandler's comparative analyses described below is identical to NORCAL Mutual or ProAssurance and no transaction is identical to the Offer. Accordingly, an analysis of comparable companies or transactions involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading values or transaction values, as the case may be, of NORCAL Mutual and ProAssurance and the companies to which they were compared. In arriving at its opinion, Piper Sandler did not attribute any particular weight to any analysis or factor that it considered. Rather, Piper Sandler made qualitative judgments as to the significance and relevance of each analysis and factor. Piper Sandler did not form an opinion as to whether any individual analysis or factor (positive or negative) considered in isolation supported or failed to support its opinion; rather, Piper Sandler made its determination as to the fairness of the aggregate consideration to Eligible Members, as a group, on the basis of its experience and professional judgment after considering the results of all its analyses taken as a whole.

In performing its analyses, Piper Sandler also made numerous assumptions with respect to industry performance, business and economic conditions and various other matters, many of which cannot be predicted and are beyond the control of NORCAL Mutual, ProAssurance and Piper Sandler. The analyses performed by Piper Sandler are not necessarily indicative of actual values or future results, both of which may be significantly more or less favorable than suggested by such analyses. Piper Sandler prepared its analyses solely for purposes of rendering its opinion and provided such analyses to NORCAL Mutual's Board of Directors at its February 18, 2020 meeting. Estimates on the values of companies do not purport to be appraisals or necessarily reflect the prices at which companies or their securities may actually be sold. Such estimates are inherently subject to uncertainty and actual values may be materially different. The analyses of Piper Sandler and its opinion were among a number of factors taken into consideration by NORCAL Mutual's Board of Directors in making its determination to approve the Acquisition Agreement and the analyses described below should not be viewed as determinative of the decision of NORCAL Mutual's Board of Directors with respect to the fairness of the aggregate consideration.

**Piper Sandler’s opinion is directed to the Board in connection with the Board’s consideration of the Offer and does not constitute a recommendation to any Record Date Member of NORCAL Mutual as to how such Record Date Member should vote at any meeting of policyholders called to consider and vote upon the Offer.** Piper Sandler’s opinion is directed only as to the fairness from a financial point of view of the aggregate consideration to be received by Eligible Members, as a group, and does not address the underlying business decision of NORCAL Mutual to engage in the Offer or the Conversion, the relative merits of the Offer or the Conversion as compared to any other alternative business strategies that might exist for NORCAL Mutual or the effect of any other transaction in which NORCAL Mutual might engage.

***Summary of Proposed Consideration and Implied Transaction Multiples***

Piper Sandler reviewed the financial terms of the proposed Offer. As set forth in the Acquisition Agreement, the aggregate purchase price for all authorized conversion shares in the Offer shall be the sum of (i) a fixed amount of \$450,000,000 assuming all of the Eligible Members are stock subscribers (which is referred to in this section as the “**Fixed Consideration**”), and (ii) a contingent amount of up to \$150,000,000 to be determined by multiplying (X) the After-Tax Percentage, and (Y) the amount by which the PRA Ultimate Loss Estimate exceeds the Actuary’s Ultimate Loss Estimate (as such terms are defined in the Acquisition Agreement, and such consideration referred to in this section as the “**Contingent Consideration**”). At NORCAL Mutual’s direction and with NORCAL Mutual’s consent, Piper Sandler assumed for purposes of its analyses and in rendering its opinion that the amount of the Contingent Consideration was zero. Based on the foregoing, Piper Sandler calculated the following implied transaction multiples:

|   |                     | <b>Favorable / (Adverse) Reserve Development</b> |         |         |         |         |
|---|---------------------|--|---------|---------|---------|---------|
|   |                     | (\$62.6)   | \$0.0   | \$50.0  | \$100.0 | \$127.3 |
| Net Transaction Value – Nominal   |                     | \$450.0  | \$499.4 | \$538.9 | \$578.4 | \$600.0 |
| Net Transaction Value – Discounted                                      |                     | \$450.0  | \$482.4 | \$508.3 | \$534.2 | \$548.3 |
|   |                     |  |         |         |         |         |
| <b>Net Transaction Value as a Multiple of:</b>                          | <b>NORCAL Basis</b> | <b>Transaction Multiples (Discounted Basis)</b>  |         |         |         |         |
| 2019 Direct Premiums Written  | \$370.8             | 1.21x  | 1.30x   | 1.37x   | 1.44x   | 1.48x   |
| 2019 Statutory Net Income   | \$(211.3)           | NM   | NM      | NM      | NM      | NM      |
| Statutory Capital & Surplus (12/31/19)                                  | \$575.5             | 0.78x  | 0.84x   | 0.88x   | 0.93x   | 0.95x   |
| Adjusted Tangible Statutory Capital & Surplus (12/31/19) <sup>(1)</sup> | \$544.7             | 0.83x  | 0.89x   | 0.93x   | 0.98x   | 1.01x   |
| Statutory Capital & Surplus (12/31/20) <sup>(2)</sup>                   | \$553.5             | 0.81x  | 0.87x   | 0.92x   | 0.97x   | 0.99x   |



|   |         |       |       |       |       |       |
|---|---------|-------|-------|-------|-------|-------|
| Adjusted Tangible Statutory Capital & Surplus (12/31/20) <sup>(3)</sup> | \$522.7 | 0.86x | 0.92x | 0.97x | 1.02x | 1.05x |
|---|---------|-------|-------|-------|-------|-------|

- (1) Adjusted Tangible Statutory Capital & Surplus (12/31/19) is equal to capital and surplus as of 12/31/19 less \$30.8 million of goodwill related to NORCAL Mutual's PPM acquisition.
- (2) Statutory Capital & Surplus (12/31/20) is based on NORCAL Mutual's projected capital and surplus as of 12/31/20.
- (3) Adjusted Tangible Statutory Capital & Surplus (12/31/20) is equal to NORCAL Mutual's projected capital and surplus as of 12/31/20, less \$30.8 million of goodwill related to NORCAL Mutual's PPM acquisition.

### ***Comparable Company Analysis***

Piper Sandler used publicly available information to compare selected financial and market trading data for medical professional liability insurance companies and commercial property and casualty insurance companies whose securities were publicly traded and whose market capitalizations were less than \$2.0 billion (the "**Peer Group**"). The Peer Group consisted of the following companies, or holding companies thereof:

- ProAssurance;
- Employers Holdings, Inc.;
- AMERISAFE, Inc.;
- James River Group Holdings, Ltd.;
- United Fire Group, Inc.;
- Third Point Reinsurance Ltd.;
- Sirius International Insurance Group, Ltd.;
- Global Indemnity Limited;
- Watford Holdings, Ltd.;
- Greenlight Capital Re, Ltd.; and
- Hallmark Financial Services, Inc.

The table below sets forth the mean, median, high and low data for the Peer Group as of or for the twelve-month period ended September 30, 2019 with market data as of February 14, 2020:

|               | Stock Price as a Multiple of: |          |       |       |       |          |
|---------------|-------------------------------|----------|-------|-------|-------|----------|
|               |                               | Tangible | LTM   | 2020E | 2020E | Dividend |
|               | BVPS                          | BVPS     | EPS   | EPS   | ROAE  | Yield    |
| <b>High</b>   | 2.88x                         | 2.88x    | 50.1x | 22.8x | 13.2% | 3.8%     |
| <b>Median</b> | 1.06x                         | 1.20x    | 14.4x | 19.0x | 7.9%  | 1.4%     |
| <b>Mean</b>   | 1.12x                         | 1.26x    | 24.2x | 17.9x | 6.5%  | 1.5%     |
| <b>Low</b>    | 0.52x                         | 0.53x    | 9.6x  | 10.8x | 0.4%  | 0.0%     |

### *Analysis of Precedent Transactions*

Piper Sandler reviewed two groups of recent merger and acquisition transactions involving companies in the insurance industry. The first group included transactions announced from January 1, 2012 through February 1, 2020 involving medical professional liability companies where terms were publicly disclosed with transaction values over \$15 million (the “**Medical Professional Liability Group**”). For purposes of Piper Sandler’s analysis, the Medical Professional Liability Group also included NORCAL Mutual’s acquisition of the Florida Doctors Holding Co. due to Florida Doctors’ business mix, and ProAssurance’s acquisition of Medmarc Insurance Group due to Medmarc’s focus on long-tail medical product liability insurance for medical technology and life sciences companies. The Medical Professional Liability Group was composed of the following transactions:

| <b>Announcement Date</b> | <b>Acquirer</b>                      | <b>Target</b>                     |
|--------------------------|--------------------------------------|-----------------------------------|
| 11/27/2018               | Doctors Co.                          | Hospitals Ins. Co. / FOJP Service |
| 11/4/2016                | NORCAL Mutual Insurance Co.          | PPM Services Inc.                 |
| 7/18/2016                | Berkshire Hathaway Inc.              | Medical Liability Mutual Ins. Co. |
| 11/4/2015                | NORCAL Mutual Insurance Co.          | Florida Doctors Holding Co.       |
| 5/12/2014                | Medical Professional Mutual Ins. Co. | Preferred Professional Ins. Co.   |
| 10/28/2013               | Medical Professional Mutual Ins. Co. | OHA Holdings Inc.                 |
| 2/4/13                   | MMIC Group Inc.                      | Utah Medical Insurance Assoc.     |
| 6/27/2012                | ProAssurance                         | Medmarc Insurance Group           |
| 6/27/2012                | ProAssurance                         | Independent Nevada Doctors Ins.   |

Using the latest publicly available information prior to the announcement of the relevant transaction, Piper Sandler reviewed the following transaction metrics: (i) transaction value to the last twelve months of statutory net income, (ii) transaction value to statutory capital & surplus, and (iii) transaction value to statutory tangible capital & surplus. Piper Sandler compared the indicated transaction metrics for the Offer to the high, mean, median and low multiples for the Medical Professional Liability Group:

|   |        | Transaction Value as a Multiple of               |                                   |   |   |
|---|--------|--|-----------------------------------|---|---|
|   |        | LTM<br>Statutory<br>Net<br>Income <sup>(1)</sup> | Statutory<br>Capital &<br>Surplus | Statutory<br>Tangible<br>Capital &<br>Surplus | Statutory<br>Return on<br>Capital &<br>Surplus <sup>(2)</sup> |
|   |        |  |                                   |   |   |
| Medical<br>Professional<br>Liability<br>Group | High   | 39.2x  | 2.48x                             | 3.76x   | 19.6%   |
|   | Mean   | 16.8x  | 1.45x                             | 1.59x   | 8.7%  |
|   | Median | 12.9x  | 1.35x                             | 1.35x   | 7.7%  |
|   | Low    | 6.0x   | 0.96x                             | 0.96x   | (2.0)%  |
|   |        |  |                                   |   |   |
| ProAssurance                                  | NORCAL | NM   | 0.78x                             | 0.83x   | (36.7)%   |

- (1) Statutory net income for the last twelve months (“LTM”) immediately preceding the acquisition announcement date.
- (2) Return on capital & surplus calculated as the most recently available twelve months of statutory net income divided by the most recent statutory capital and surplus amount as of the announcement date, as reported by S&P Global Market Intelligence.

The second group of transactions which Piper Sandler reviewed included transactions announced from January 1, 2000 through February 2, 2020 with transaction values between \$50 million and \$1 billion, involving U.S. and Bermuda property and casualty insurance companies and multiline insurance targets with (i) negative statutory net income for the twelve months prior to acquisition announcement; (ii) a ratio of statutory net income to transaction value of -10% or worse; and (iii) one-year or two-year adverse reserve development in excess of 5% of carried reserves, as of the prior fiscal year-end (the “**Distressed Precedent Transactions Group**”). For purposes of Piper Sandler’s analysis, the Distressed Precedent Transactions Group also included Enstar Group Ltd.’s acquisition of Companion P&C Insurance Co., Enstar Group Ltd.’s acquisition of SeaBright Holdings Inc. and Old Republic International’s acquisition of PMA Capital Corp. due to significant adverse reserve development for Companion and SeaBright and a reserve-based regulatory investigation for PMA Capital, which events occurred within twelve months of the relevant transaction announcement dates. The Distressed Precedent Transactions Group was composed of the following transactions:

| Announcement<br>Date | Acquirer                      | Target                         |
|----------------------|-------------------------------|--------------------------------|
| 2/19/2019            | Auto-Owners Insurance Co.     | California Capital Ins. Co.    |
| 8/26/2014            | Enstar Group Ltd.             | Companion P&C Insurance Co.    |
| 3/25/2014            | Catalina Holdings (Bermuda)   | SPARTA Insurance Holdings Inc. |
| 1/6/2014             | ACP Re Holdings LLC           | Tower Group International Ltd. |
| 1/22/2013            | Amtrust Financial Services    | Sequoia Insurance Co.          |
| 8/27/2012            | Enstar Group Ltd.             | SeaBright Holdings Ins. Co.    |
| 12/22/10             | Enstar Group Ltd.             | Clarendon National Ins. Co.    |
| 7/1/2010             | First Mercury Financial Corp. | Valiant Insurance Group Inc.   |

|           |                                 |                                |
|-----------|---------------------------------|--------------------------------|
| 6/17/2010 | Fairfax Financial Holdings Ltd. | General Fidelity Insurance Co. |
| 6/10/2010 | Old Republic International      | PMA Capital Corp.              |

Using the latest publicly available information prior to the announcement of the relevant transaction, Piper Sandler reviewed the following transaction metrics: (i) transaction value to statutory capital & surplus, (ii) transaction value to statutory tangible capital & surplus, and (iii) the target companies' return on average statutory capital & surplus, as of the most recently available twelve months of statutory net income divided by the most recent capital and surplus amount as of the announcement date and computed the high, mean, median and low multiples for these transactions. Piper Sandler compared the indicated transaction metrics for the Offer to the high, mean, median and low multiples for the Distressed Precedent Transactions Group:

|   |        | Transaction Value as a Multiple of |                                      |  |
|---|--------|------------------------------------|--------------------------------------|--|
|   |        | Statutory Capital & Surplus        | Statutory Tangible Capital & Surplus | Statutory Return on Capital & Surplus <sup>(1)</sup> |
| Distressed Precedent Transactions Group | High   | 1.13x                              | 1.13x                                | 10.3%  |
|   | Mean   | 0.88x                              | 0.89x                                | (36.7)%  |
|   | Median | 0.82x                              | 0.84x                                | (20.3)%  |
|   | Low    | 0.54x                              | 0.54x                                | (230.6)%   |
| ProAssurance                            | NORCAL | 0.78x                              | 0.83x                                | (36.7)%  |

- (1) Return on statutory capital & surplus calculated as the most recently available twelve months of statutory net income divided by the most recent statutory capital and surplus amount as of the announcement date, as reported by S&P Global Market Intelligence.

### *Net Present Value Analysis*

Piper Sandler performed an analysis that estimated the net present value of NIC's common stock assuming the demutualization has occurred and that NORCAL Mutual performed in accordance with internal financial estimates for NORCAL Mutual for the year ending December 31, 2019 as well as certain internal financial projections for NORCAL Mutual for the years ending December 31, 2020 through December 31, 2024, as provided by the senior management of NORCAL Mutual. To approximate the terminal value of a share of NIC's common stock at December 31, 2024, Piper Sandler applied discount rates of 9% to 13%, terminal values calculated using multiple ranges of 0.90x-1.30x capital & surplus at December 31, 2024 and 14.0x-18.0x estimated net income for 2024 and assumed results were discounted back to February 29, 2020. This analysis resulted in a range of implied present values of NIC's common stock of \$303.8 million to \$583.3 million.

### **Based on Book Value: Net Present Value for the Period Ending December 31, 2024**

|  |  |              |              |              |              |              |
|--|--|--------------|--------------|--------------|--------------|--------------|
|  |  | <b>0.90x</b> | <b>1.00x</b> | <b>1.10x</b> | <b>1.20x</b> | <b>1.30x</b> |
|--|--|--------------|--------------|--------------|--------------|--------------|

|                 |              |         |         |         |         |         |
|-----------------|--------------|---------|---------|---------|---------|---------|
|                 | <b>9.0%</b>  | \$403.8 | \$448.7 | \$493.5 | \$538.4 | \$583.3 |
|                 | <b>10.0%</b> | \$386.4 | \$429.3 | \$472.2 | \$515.1 | \$558.1 |
| <b>Discount</b> | <b>11.0%</b> | \$369.8 | \$410.9 | \$452.0 | \$493.1 | \$534.2 |
| <b>Rate</b>     | <b>12.0%</b> | \$354.1 | \$393.5 | \$432.8 | \$472.2 | \$511.5 |
|                 | <b>13.0%</b> | \$339.2 | \$376.9 | \$414.6 | \$452.3 | \$490.0 |

**Based on P/E: Net Present Value for the Period Ending December 31, 2024**

|                 |              |              |              |              |              |              |
|-----------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                 |              | <b>14.0x</b> | <b>15.0x</b> | <b>16.0x</b> | <b>17.0x</b> | <b>18.0x</b> |
|                 | <b>9.0%</b>  | \$361.6      | \$387.4      | \$413.2      | \$439.0      | \$464.9      |
|                 | <b>10.0%</b> | \$345.9      | \$370.7      | \$395.4      | \$420.1      | \$444.8      |
| <b>Discount</b> | <b>11.0%</b> | \$331.1      | \$354.8      | \$378.4      | \$402.1      | \$425.7      |
| <b>Rate</b>     | <b>12.0%</b> | \$317.1      | \$339.7      | \$362.4      | \$385.0      | \$407.7      |
|                 | <b>13.0%</b> | \$303.8      | \$325.5      | \$347.1      | \$368.8      | \$390.5      |

Piper Sandler noted that the net present value analysis is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, and the results thereof are not necessarily indicative of actual values or future results.

***Piper Sandler's Relationship***

Piper Sandler received a \$1.0 million fee from NORCAL Mutual upon rendering its opinion. NORCAL Mutual has also agreed to indemnify Piper Sandler against certain claims and liabilities arising out of Piper Sandler's engagement and to reimburse Piper Sandler for certain of its out-of-pocket expenses incurred in connection with Piper Sandler's engagement. Piper Sandler did not provide any other investment banking services to NORCAL Mutual in the two years preceding the date of its opinion. Piper Sandler did not provide any investment banking services to ProAssurance in the two years preceding the date of its opinion. In the ordinary course of Piper Sandler's business as a broker-dealer, Piper Sandler may purchase securities from and sell securities to NORCAL Mutual, ProAssurance and their respective affiliates. Piper Sandler may also actively trade the equity and debt securities of NORCAL Mutual, ProAssurance and their respective affiliates for Piper Sandler's account and for the accounts of Piper Sandler's customers.

**Revised and Restated Appraisal Report of Boenning & Scattergood, Inc.**

Pursuant to Section 4097 *et seq.* of the California Insurance Code, NORCAL Mutual engaged Boenning & Scattergood, Inc. with the approval of the Commissioner to develop and issue an independent appraisal of the fair value of NORCAL Mutual and a review of the methodology utilized by NORCAL Mutual in determining the rights in surplus of each Eligible Member in NORCAL Mutual. For informational purposes, the full text of the revised and restated appraisal report, which sets forth assumptions made, matters considered and qualifications and limitations on review, is attached as Annex M hereto.

## **CERTAIN RISKS AND CONSIDERATIONS RELATING TO THE PROPOSED TRANSACTION**

*The Proposed Transaction involves some potential risks. You should consider carefully, in addition to the other information contained in the Member Information Statement (in particular, in “Important Information” and A38), the following factors before voting on the Proposed Transaction.*

***As a consequence of the Proposed Transaction, Members of NORCAL Mutual will lose their Membership Interests and control over NORCAL will be exercised exclusively by PRA.***

A mutual insurance company is generally operated for the benefit of its policyholders, who are the members. The Proposed Transaction will result in one shareholder, PRA, gaining control of NORCAL. Shareholder interests in a converted NORCAL might differ from the interests of Members. In particular, a shareholder generally is primarily interested in financial performance as it relates to the value of its shares or shareholder dividends, while a Member is primarily interested in financial performance as it relates to premium rates and the ability of its insurance company to pay benefits. Although this potential conflict exists, the Board believes shareholders and indirectly Members of NORCAL Mutual could both benefit from business opportunities that the Proposed Transaction could make possible. Please note that the Proposed Transaction will not increase your premiums or contributions due under your Policy, and it will not diminish the coverage of your Policy.

***NORCAL Mutual’s management and Board of Directors may have interests in pursuing the Conversion that are in addition to the Members’ interests.***

NORCAL Mutual’s Board of Directors and members of its management have interests in the Conversion that are in addition to the interests of Members. These interests include the obligation of NORCAL to honor indemnification obligations that NORCAL may have to present and former directors and officers and the obligation of PRA to maintain directors’ and officers’ liability insurance with respect to those persons for a period of six (6) years following the Conversion. In addition, certain executives have change in control agreements that provide them with severance payments upon a qualifying termination of employment that occurs in connection with a change in control. See “*Interests of Certain Persons in the Proposed Transaction – Change in Control Agreements*” on page 80. Further, certain employees have retention bonus agreements, which provide that in the event the individual remains an employee in good standing throughout the process (regardless of whether the Conversion occurs) the individual will earn a bonus. See “*Interests of Certain Persons in the Proposed Transaction – Retention Agreements*” on page 81. In addition, Scott Syphax and Fabiola Cobarrubias, current members of the Board, will be nominated by PRA for election as directors of PRA following the Closing, subject to the review and approval of the Nominating/Corporate Governance Committee of the ProAssurance board of directors. Should Scott Syphax or Fabiola Cobarrubias not satisfy the criteria for service on the board of directors of PRA as determined in the reasonable judgment of the ProAssurance Nominating/Corporate Governance Committee, then NORCAL may nominate alternative individuals who satisfy such criteria.

***NORCAL could face adverse reactions to the Proposed Transaction.***

NORCAL Mutual cannot assure that Members might not respond negatively to the Proposed Transaction by canceling or declining to renew policies.

***A converted NORCAL would remain subject to changes in state and/or federal law.***

Changes in law and regulations, or changes in interpretations thereof, could reduce NORCAL's profitability. Furthermore, such changes could have an adverse impact on the insurance business generally. No assurance can be given that any future legislative or regulatory developments would benefit, or would not harm, a converted NORCAL. The same risks exist for NORCAL Mutual if it does not convert.

***The reserves of a converted NORCAL for future policy benefits and claims could prove to be inadequate, thus requiring NORCAL to increase liabilities.***

The earnings of a converted NORCAL would depend substantially upon the extent to which its actual future claims experience is consistent with the assumptions used in setting prices by NORCAL or, as applicable, the Commissioner for NORCAL's products, and in establishing liabilities for future benefits under those products. The liability that NORCAL Mutual has established for future policy benefits is based on assumptions concerning a number of factors, including the rate of return on its assets, expected claims and expenses. However, due to the nature of the underlying risks and the uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, NORCAL Mutual cannot determine precisely the amounts which it will ultimately pay to settle these liabilities. In addition, changes in law may result in increased claims, both as to the claim amount and the number of claims. As a result, NORCAL may experience volatility in the level of its reserves from period to period. To the extent that actual claims experience is less favorable than the underlying assumptions, NORCAL could be required to increase its reserve for liabilities, thereby reducing its surplus. As a mutual company, NORCAL Mutual has less flexibility to raise capital to provide increases in its surplus relative to insurance holding company and stock insurance company structures, which increases this risk for NORCAL Mutual if it does not convert relative to stock insurance companies or insurance companies that are part of insurance holding companies.

***The investment portfolio of a converted NORCAL would continue to be subject to several risks which could diminish the value of invested assets and affect sales, profitability, and the investment returns credited to its customers.***

The value of NORCAL's investment portfolio, and the income generated thereby, will remain vulnerable to dislocations and declines in the financial and securities markets. Continued volatility of the financial markets and the recent extended period of low interest rates could impact NORCAL's investment portfolio. If interest rates rise, the market value of NORCAL's portfolio of fixed income securities would very likely decrease, which could have a negative impact on NORCAL if NORCAL needed to sell securities. Adverse developments with respect to NORCAL's investments, including but not limited to, an increase in defaults on NORCAL's fixed

maturity securities portfolio would reduce NORCAL's profitability. No assurances can be given regarding the future performance of the financial and securities markets generally or of NORCAL's investment portfolio. As a mutual company, NORCAL Mutual has less flexibility to raise capital to provide increases in its surplus relative to insurance holding company and stock insurance company structures, which increases this risk for NORCAL Mutual if it does not convert relative to stock insurance companies or insurance companies that are part of insurance holding companies.

***Litigation and regulatory investigations may adversely affect NORCAL.***

The Board believes NORCAL faces risks of litigation and regulatory investigations and actions in connection with NORCAL's activities as an insurer, employer, investor and taxpayer, as well as in connection with the Proposed Transaction. These types of lawsuits and regulatory actions may be difficult to assess or quantify and may seek recovery of very large and/or indeterminate amounts, including punitive or other special damages. The existence and magnitude of these risks may remain unknown for substantial periods of time. A substantial legal liability or a significant regulatory action against us could have a material adverse effect on NORCAL. Except with respect to risks of litigation related to the Proposed Transaction, the same risks exist for NORCAL Mutual if it does not convert.

***Shareholders and Members may have competing interests.***

A mutual insurance company is generally operated for the benefit of its policyholders. After the consummation of the Proposed Transaction, NORCAL will be controlled by PRA and will no longer be controlled by its Members. PRA is a public company owned by its shareholders. One of PRA's objectives as a public company is enhancing value for its shareholders. Interests of Members and interests of shareholders may not coincide after the Proposed Transaction. In particular, shareholders of public companies are primarily interested in financial performance as it relates to share price or shareholder dividends, while policyholders are primarily interested in financial performance as it relates to the ability of their insurance company to pay claims and policy dividends and as it affects the cost of insurance. The Board believes that both Members of NORCAL and shareholders of PRA will benefit from business opportunities that the Proposed Transaction will make possible because of, among other things, increased access to the financial markets, enhanced financial flexibility and the resources of PRA. The Board believes that NORCAL and PRA will be able to effectively address the competing interests of its shareholders and policyholders.

***Failure to complete the Proposed Transaction could negatively impact the consideration Members receive in a future conversion.***

If the Proposed Transaction is not consummated and the Board determines to seek another acquisition, affiliation or sponsored conversion, there can be no assurance that NORCAL Mutual will be able to find an equivalent strategic acquirer or an acquirer willing to pay an equivalent or more attractive price than that which would be paid in the Proposed Transaction. Additionally, in the event an Acquisition Event or Recommendation Event (as defined in the Glossary of Key



Terms above) occurs or the Eligible Members of NORCAL Mutual fail to hold the Special Meeting to approve the Plan within one hundred twenty (120) days after the Commissioner approves the Conversion, then NORCAL Mutual would be obligated to pay PRA a termination fee equal to \$15,000,000.

***There are expenses incurred in connection with the Proposed Transaction.***

In connection with the Proposed Transaction, NORCAL Mutual has incurred and expects to incur costs and expenses. The costs and expenses consist of the aggregate cost to NORCAL Mutual of engaging separate financial and legal advisers to advise NORCAL Mutual in the demutualization process and other administrative costs. In addition, the Commissioner may engage its own financial and legal advisers in connection with its review of the Proposed Transaction. Pursuant to California Insurance Code and the Acquisition Agreement, NORCAL Mutual is responsible for paying the fees and expenses of the Department and the Department's advisers in connection with such review.

***There may be no active market for the Conversion Stock, and there may be no distributions in respect of the Conversion Stock.***

It is not anticipated that an active market will develop in the Conversion Stock. The Conversion Stock is capital stock of NIC and may be sold to PRA Professional pursuant to the Offer in exchange for the PRA Consideration. In the event that an Eligible Member elects to receive the Conversion Stock but not sell the Conversion Stock to PRA Professional, then such Eligible Member will hold a security that is not registered with the SEC or on any exchange nor otherwise registered so as to permit a public offering under the securities laws of any jurisdiction. As a result, the Conversion Stock will be subject to substantial restrictions on transfer under federal and state securities laws. Eligible Members who do not sell the Conversion Stock to PRA Professional must bear the economic risk of an investment in the Conversion Stock for an indefinite period of time, as there is no public market for the Conversion Stock and it is not anticipated that any such market will develop. Therefore, the Conversion Stock should be considered an illiquid investment.

In addition, NIC will be majority owned by a single entity (PRA Professional). Subject to applicable laws governing dividends and distributions by insurance companies to their equityholders, PRA Professional and its appointees on the Board have the ultimate authority on when and if to make distributions with respect to the Conversion Stock and may elect not to make any distributions with respect to such Conversion Stock.

***There may be no secondary market for the Contribution Certificate, and the repayment of interest or principal is uncertain.***

The Contribution Certificate is a debt instrument that shall bear interest at the rate provided in the form of Contribution Certificate payable annually on each anniversary date of the Plan Effective Date, the principal amount of which shall be repayable within ten (10) years following the Plan Effective Date, but only with the written consent of the Commissioner and only if

following such payment NIC will have a surplus in an amount exceeding the greater of (1) “Total Adjusted Capital” (as defined in Section 739(m) of the California Insurance Code) equal to 150% of its “Company Action Level RBC” (as defined in Section 739(j)(1) of the California Insurance Code) as reflected in NIC’s most recent “RBC Report” (as defined in Section 739(l) of the California Insurance Code) filed with the Department or (ii) the amount of surplus required by the laws of any jurisdiction in which NIC is licensed to do business to retain an unimpaired Certificate of Authority therein.

It is not anticipated that an active market will develop in the Contribution Certificates. In the event that an Eligible Member elects to receive a Contribute Certificate, then such Eligible Member will hold a security that is not registered with the SEC or on any exchange nor otherwise registered so as to permit a public offering under the securities laws of any jurisdiction. As a result, the Contribution Certificates will be subject to substantial restrictions on transfer under federal and state securities laws. Eligible Members who elect to receive the Contribution Certificates must bear the economic risk of an investment in the Contribution Certificates for an indefinite period of time, as there is no public market for the Contribution Certificates and it is not anticipated that any such market will develop. Therefore, the Contribution Certificates should be considered an illiquid investment.

## U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material U.S. federal income tax consequences of the Conversion and other transactions described in the Transaction Documents to Eligible Members who are U.S. Members (as defined below) and who hold their Membership Interests as capital assets within the meaning of Section 1221 of the Code. This summary is for general information only. It is not intended to be a complete discussion of all tax consequences that may be relevant to a particular Eligible Member. This summary does not address federal estate, gift, or alternative minimum tax consequences, or any state, local, or non-U.S. tax consequences of the Proposed Transaction or any other transaction. This summary is not tax advice. Eligible Members should consult a tax adviser to determine how the Conversion and other transactions described in the Transaction Documents will affect them in their particular circumstances, including how the application of federal estate, gift, or alternative minimum tax, and any state, local, and non-U.S. tax consequences of the transactions may affect them.

For purposes of this summary, the term “**U.S. Member**” means an Eligible Member who is, for U.S. federal income tax purposes:

- (i) an individual who is a citizen or resident of the United States; or
- (ii) a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia.

This summary is based on the provisions of the Code, U.S. Treasury regulations promulgated thereunder, judicial authorities, and administrative rulings, all of which are subject to change, possibly with retroactive effect. No ruling has been sought from the IRS with respect to any U.S. federal income tax consequences described below, and there can be no assurance that the IRS or a court will not take a contrary position. This summary does not apply to Eligible Members who may be subject to special treatment under U.S. federal income tax law (including, without limitation, insurance companies, retirement plans, certain former citizens or residents of the United States, partnerships or other pass-through entities, trusts, and tax-exempt organizations). This summary does not address the U.S. tax consequences of any Eligible Member who is not a U.S. Member, such as a non-resident alien individual, foreign corporation, foreign partnership, or foreign estate or trust. This summary assumes that a U.S. Member’s tax basis in their Membership Interest is zero. See “*Tax Basis in Membership Interests*” below for additional information.

### **Eligible Members Receiving Conversion Stock**

The receipt of Conversion Stock by a U.S. Member that is a Stock Subscriber should not be a taxable transaction for U.S. federal income tax purposes. Such U.S. Member’s adjusted tax basis in such Conversion Stock should be zero, and the U.S. Member’s holding period for such Conversion Stock should include the U.S. Member’s holding period for the extinguished Membership Interest. This period includes the period during which a U.S. Member held their Membership Interest prior to the Conversion.

A U.S. Member that sells or otherwise disposes of such Conversion Stock (including in exchange for the PRA Consideration pursuant to the Offer) should generally be taxed on the full amount of the proceeds of that sale or other disposition. The proceeds should generally be taxed as capital gain, which will be long-term capital gain if the U.S. Member's holding period in its extinguished Membership Interest exceeds one year. Long-term capital gains of non-corporate U.S. Members are eligible for reduced rates of taxation. Short-term capital gains are subject to U.S. federal income tax at the same rates as ordinary income. Each U.S. Member should consult with such U.S. Member's tax adviser as to the proper treatment of the gain based on such U.S. Member's particular situation.

A U.S. Member that tenders their shares of Conversion Stock to PRA Professional pursuant to the Offer may report gain under the installment sale rules. Under those rules, the U.S. Member should recognize capital gain in the year of receipt of a payment (which is not treated as interest) of the Fixed PRA Consideration and Contingent PRA Consideration equal to the amount of such payment. Additional annual interest charges might also be imposed on the portion of a U.S. Member's tax liability that is deferred by the installment method.

A U.S. Member that tenders their shares of Conversion Stock to PRA Professional pursuant to the Offer may affirmatively elect to not use the installment sale rules. In such event, or if the holder of such Conversion Stock is not otherwise permitted to utilize the installment sale rules, the U.S. Member should generally recognize capital gain or loss in the taxable year of the Acquisition in an amount equal to the amount realized (including the value of the right to receive the Contingent PRA Consideration) in the disposition. In that event, the U.S. Member will recognize gain or loss in a subsequent taxable year to the extent the amount the U.S. Member actually receives with respect to the Contingent PRA Consideration (and not treated as interest) differs from the amount used to determine the amount of gain recognized by the U.S. Member in the taxable year in which the Acquisition occurs.

Each U.S. Member should consult with such U.S. Member's tax adviser as to the proper treatment of the receipt and disposition of Conversion Stock, including the application of the installment sale rules and the potential for having to pay interest to the IRS on any gain deferred under the installment sale rules. Each U.S. Member should also consult with its tax adviser regarding the advisability of electing out of the installment sale rules and the tax consequences if such election is made or if the installment sale rules do not apply.

### **Eligible Members Receiving Contribution Certificates or Cash**

The receipt of a Contribution Certificate or cash in the Conversion should be taxable for U.S. federal income tax purposes. In general, a U.S. Member should recognize capital gain in an amount equal to the issue price of the Contribution Certificate (subject to the installment sale rules discussed above) or cash. This capital gain will be long-term capital gain if the U.S. Member's holding period in its extinguished Membership Interest exceeds one year. This period includes the period during which a U.S. Member held their Membership Interest prior to the Conversion. Long-term capital gains of non-corporate U.S. Members are eligible for reduced rates of taxation. Short-term capital gains are subject to U.S. federal income tax at the same rates as ordinary income. Each

U.S. Member should consult with such U.S. Member's tax adviser as to the proper treatment of such gain based on such U.S. Member's particular situation.

### **Tax Basis in Membership Interests**

The IRS has traditionally asserted that the basis of a taxpayer, such as a U.S. Member, in its Membership Interest in a company such as NORCAL Mutual equals zero. As a result, the U.S. Member may recognize gain upon receipt of a Contribution Certificate or cash or the PRA Consideration equal to the full amount realized in the Conversion or Acquisition, as applicable, as described above. U.S. Members should be aware, however, that in a 2008 decision affirmed on appeal, the U.S. Court of Federal Claims rejected the IRS's position, applying instead the "open transaction" doctrine to a taxpayer's receipt of consideration in a conversion transaction. The IRS, however, prevailed in a separate U.S. Court of Appeals case.

The legal precedents regarding whether a policyholder has a tax basis in membership rights are complex and conflicting, and may depend upon the facts applicable to the particular situation. Nevertheless, if principles contrary to the IRS's position were applicable to a U.S. Member's Membership Interest, such U.S. Member could have a tax basis in its Membership Interest from premium payments made by the U.S. Member, and that tax basis would (a) equal the tax basis in Conversion Stock received in the Conversion, if applicable, and (b) reduce any gain recognized upon a sale or other disposition of Conversion Stock (including in exchange for the PRA Consideration pursuant to the Offer) or upon receipt of a Contribution Certificate or cash in the Conversion, as applicable. U.S. Members should consult with their tax advisers regarding their ability to reflect a basis in their Membership Interests in calculating the amount of their gain or loss upon receipt of a Contribution Certificate or cash in the Conversion or the PRA Consideration, or upon a later disposition of the Conversion Stock.

### **Backup Withholding**

If you have not previously provided NORCAL Mutual with your taxpayer identification number, which is your Social Security number if you are an individual, you later may be asked to provide it to us for information reporting and withholding purposes.

## **INTERESTS OF CERTAIN PERSONS IN THE PROPOSED TRANSACTION**

In considering the recommendation of the Board that Record Date Members vote to approve the Plan, including the Amended and Restated Articles of Incorporation, the Amended and Restated Bylaws, and the election of Director Nominees, you should be aware that NORCAL Mutual's directors and executive officers have interests in the Proposed Transaction that are different from, or in addition to, the interests of the Members. Certain members of the Board are policyholders and will receive Conversion Consideration and/or PRA Consideration. The Board was aware of these interests and considered them, among other matters, in approving and adopting the Plan.

### **Employment Following the Proposed Transaction and Nomination Rights**

Certain members of management of NORCAL Mutual, including officers and senior management, may continue in the employ of NORCAL or PRA after the consummation of the Proposed Transaction. The directors and officers of NORCAL Mutual in office immediately prior to the consummation of the Proposed Transaction will be replaced by those nominated by PRA pursuant to the Plan to be the directors and officers of the converted NORCAL. See "*The Election of Directors*" on page 40.

In addition, Scott Syphax and Fabiola Cobarrubias, current members of the Board, will be nominated by PRA for election as directors of PRA following the Closing subject to the review and approval of the Nominating/Corporate Governance Committee of the ProAssurance board of directors. Should Scott Syphax or Fabiola Cobarrubias not satisfy the criteria for service on the board of directors of PRA as determined in the reasonable judgment of the ProAssurance Nominating/Corporate Governance Committee, then NORCAL Mutual may nominate alternative individuals who satisfy such criteria.

### **Change in Control Agreements**

The following executives have change in control agreements with NORCAL Mutual that may trigger upon the closing of the Acquisition at the Purchase Effective Time:

- Scott Diener, Agreement dated July 15, 2015;
- Julia L. Burns, Agreement dated March 15, 2017;
- Mark D. Johnson, Agreement dated March 15, 2017;
- Ronald C. Rumin, Agreement dated March 15, 2017;
- Andre J. Stewart, Agreement dated March 15, 2017; and
- Jeffery J. Smith, Agreement dated January 9, 2019.

The NORCAL Mutual Change in Control Agreements provide that in the event the individual incurs a qualifying termination in connection with a change in control, the individual will receive a payment paid in fifty-two (52) equal bi-weekly installments. That payment is generally equal to (a) twenty-four (24) months' base salary at the final NORCAL Mutual base salary rate, less applicable withholding, (b) one (1) or two (2) times the individual's target annual bonus, and (c) a lump sum equal to the COBRA premiums for the individual and the individual's eligible dependents during the 24-month period following the date of the qualifying termination. A qualifying termination occurs if the individual terminates employment involuntarily with NORCAL Mutual or its successor for reasons other than cause, death, or disability, or if the individual resigns from employment for certain good reasons, such as the material diminution of duties, a material reduction in annual base salary, involuntary relocation of place of work, or the failure of the company's successor to perform its obligations under the Change in Control Agreement.

In addition, the following individuals have executive change in control agreements with PPM Insurance Services, Inc. ("PPM") that may trigger upon the Closing:

- Wade Willard, dated October 2, 2017;
- Deanna Olson, dated October 2, 2017; and
- Brian Thomas, dated October 2, 2017.

The change in control agreements with PPM provide that in the event the individual incurs a qualifying termination in connection with a change in control, the individual will receive a payment paid in eighteen (18) equal semi-monthly installments. That payment is generally equal to (a) nine (9) months' base salary at the final rate, (b) the individual's target annual bonus for nine (9) months' short-term incentive and long-term incentive based on current year amounts, and (c) a lump sum equal to the COBRA premiums for the individual and the individual's eligible dependents during the nine-month period following the date of the qualifying termination. A qualifying termination occurs if the individual terminates employment involuntarily with the company for reasons other than cause, death, or disability, or if the individual resigns from employment for certain good reasons, such as a 10% or more reduction in total annual target compensation, or relocation of the assigned place of work of 50 miles or more.

### **Retention Agreements**

The following members of the senior management team also have retention bonus agreements with NORCAL Mutual:

- Julie L. Burns, Agreement dated July 25, 2018
- Ronald C. Rumin, Agreement dated July 25, 2018
- Mark D. Johnson, Agreement dated July 25, 2018

The senior management team is receiving retention bonuses paid in the aggregate amount of \$1,261,001, and ranging in amount from \$213,704 to \$664,415 on an individual basis. In addition to senior management, certain other employees have been or will be given retention agreements, with bonuses based on a portion of the individual's annual salary, subject to the approval of PRA. To date, an additional thirty-five (35) employees have received retention bonus agreements, thirty-four (34) with NORCAL Mutual and one (1) with PPM.

The retention bonus agreements generally provide that in the event the individual remains an employee in good standing either at the Purchase Effective Time or to a specified period beyond the Purchase Effective Time ranging from three (3) months to 18 months post-closing, the individual will earn a bonus equal to a portion of the individual's then-current annual base salary ranging from ten percent to two years of base salary. In the event the individual remains an employee of NORCAL Mutual in good standing and the Board votes to cease pursuing the Closing, the individual will also receive a bonus.

### **Employment Agreements**

Except for the retention agreements described above, no new employment agreements were entered into between NORCAL Mutual or any of its subsidiaries and any NORCAL Mutual employees in anticipation of the Proposed Transaction, and it is not anticipated that others will be entered into in connection with the Proposed Transaction. However, the existing employment agreements between certain employees and NORCAL Mutual or any of its subsidiaries will remain in place after the consummation of the Proposed Transaction.

### **Indemnification; Directors' and Officers' Insurance**

PRA shall, and shall cause NIC and each NORCAL Subsidiary to, indemnify, defend and hold harmless each Indemnified Party against all claims in which an Indemnified Party is, or is threatened to be made, a party or witness in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of NORCAL Mutual or a NORCAL Subsidiary if such claim pertains to any matter of fact arising, existing or occurring at or before the Purchase Effective Time, regardless of whether such claim is asserted or claimed before, or after, the Purchase Effective Time, to the fullest extent NORCAL is permitted under applicable law and consistent with NORCAL Mutual's or any NORCAL Subsidiary's organizational documents as in effect as of the date of the Acquisition Agreement.

NORCAL Mutual shall use its commercially reasonable efforts, immediately prior to the Closing, to purchase a directors' and officers' liability insurance policy covering current and former officers and directors of NORCAL Mutual and the NORCAL Subsidiaries on terms and conditions, including limits, at least as favorable as their respective directors' and officers' liability insurance policy in effect on the date of the Acquisition Agreement, such policy or policies to become effective at the Purchase Effective Time and remain in effect for a period of six (6) years after the Purchase Effective Time or the period of the applicable statute of limitation, if longer. If NORCAL Mutual is unable to obtain such a policy prior to Closing, PRA shall use its best efforts to cause the individuals serving as officers and directors of NORCAL Mutual and the NORCAL



Subsidiaries, prior to the Purchase Effective Time, to be covered for a period of six (6) years from the Purchase Effective Time (or the period of the applicable statute of limitations, if longer) by the directors' and officers' liability insurance policy maintained by PRA with respect to acts or omissions occurring prior to the Purchase Effective Time which were committed by such officers and directors in their capacity as such, provided, however, that in no event shall the annual premium for any such insurance be more than the Insurance Premium Amount and provided further that if PRA is unable to maintain or obtain such insurance, PRA shall use its best efforts to obtain as much comparable insurance as available for the Insurance Premium Amount.

## AVAILABLE INFORMATION

NORCAL Mutual is subject to the laws and regulations of the State of California applicable to property/casualty insurance companies, and, as required by those laws, files financial reports and other information with the Department. Publicly available information regarding NORCAL Mutual and relevant to the Plan can be inspected at NORCAL Mutual's principal office, located at 575 Market Street, Suite 1000, San Francisco, CA 94105, between 10:00 a.m. and 4:00 p.m. Pacific Time, Monday through Friday until April 30, 2021, except days on which NORCAL Mutual is closed for business, or by calling us toll free at (844) 466-7225 from 9:00 a.m. to 4:00 p.m. Pacific Time, Monday through Friday to arrange an appointment. Certain information can also be requested from the Department pursuant to the Freedom of Information Act. For information and instructions regarding submitting such a request, please see the Department's website at <https://www.insurance.ca.gov/0500-about-us/05-Contact/upload/Guidelines-for-Accessing-Public-Records.pdf>.

## **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The financial statements of NORCAL Mutual, prepared in conformity with statutory accounting principles prescribed or permitted by the Insurance Regulators consistently applied, for the years ended December 31, 2018 and December 31, 2019 and the quarters ended March 31 and June 30, 2020, which have been filed with the Department, are incorporated by reference in this Member Information Statement. Copies of these documents and all other documents referred to in this Member Information Statement can be inspected by Eligible Members at NORCAL Mutual's principal office, located at 575 Market Street, Suite 1000, San Francisco, CA 94105, between 10:00 a.m. and 4:00 p.m. Pacific Time, Monday through Friday until April 30, 2021, except days on which NORCAL is closed for business, or by calling us toll free at (844) 466-7225 from 9:00 a.m. to 4:00 p.m. Pacific Time, Monday through Friday to arrange an appointment.

Statements contained in this Member Information Statement and in documents summarized or incorporated by reference into this Member Information Statement regarding the contents of any other document are not necessarily complete. In each instance where reference is made to the Plan, the Acquisition Agreement or any public or other document, each such statement is qualified in all respects by the more complete information contained in the referenced document. For the purposes of this Member Information Statement, each of the documents referred to in this Member Information Statement is deemed incorporated by reference in its entirety.

## **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION**

This Member Information Statement contains information that is forward-looking. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results to differ materially from the forward-looking statements. Words such as “anticipates,” “expects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “may,” “will,” “continue,” “project,” and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of our future performance and are subject to risks and uncertainties that could cause actual results to differ materially from the results contemplated by the forward-looking statements. These risks and uncertainties include:

- our ability to consummate the Proposed Transaction (including obtaining necessary regulatory and Eligible Member approval and satisfying the other conditions to the Closing of the Acquisition) and to realize the benefits of the Proposed Transaction;
- the impact on us of a failure to complete the Proposed Transaction;
- the validity of assumptions and methodologies used by management in analyzing the Proposed Transaction and in predicting our further capital and liquidity needs and the inability to predict with certainty any future scenarios;
- changes in law and accounting principles;
- changes in general economic conditions, including the impact of inflation or deflation and unemployment;
- uncertainties in our ability to raise capital or other sources of funding to support ongoing capital and liquidity needs;
- risks arising from our investment strategy, including risks related to the market value of our investments, fluctuations in interest rates and our need for liquidity;
- developments in financial markets that could affect our investment portfolio;
- the competitive environment in which we operate and associated pricing and other pressures;
- changes in the availability, cost, quality or collectability of insurance/reinsurance;
- consolidation of our insureds into or under larger entities which may be insured by competitors, or may not have a risk profile that meets our underwriting criteria or which may not use external providers for insuring or otherwise managing substantial portions of their liability risk;

- uncertainties inherent in the estimate of our loss and loss adjustment expense reserve and reinsurance recoverable;
- changes to the ratings assigned by rating agencies;
- changes in our organization, compensation and benefit plans;
- our ability to retain and recruit senior management;
- loss of the services of any of our key employees;
- our ability to achieve continued growth through expansion into new markets or through acquisitions or business combinations;
- expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected due to business disruption; loss of customers, employees or key agents; increased operating costs or inability to achieve cost savings; and assumption of greater than expected liabilities, among other reasons;
- the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;
- the availability, integrity and security of our technology infrastructure or that of our third-party providers of technology infrastructure, including any susceptibility to cyber-attacks which might result in a loss of information or operating capability;
- the impact of a catastrophic event, as it relates to both our operations and our insured risks;
- changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business; and
- the impact of pandemics, acts of terrorism and acts of war.

The effects of these factors are difficult to predict. New factors emerge from time to time, and we cannot assess the financial impact of any such factor on our business or the extent to which any factor or combination of factors may cause results to differ materially from those described in any forward-looking statement. Any forward-looking statement speaks only as of the date of this Member Information Statement, and we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of unanticipated events.

**ANNEX A**

**AMENDED AND RESTATED PLAN OF CONVERSION**

**AMENDED AND RESTATED  
PLAN OF CONVERSION  
OF  
NORCAL MUTUAL INSURANCE COMPANY**

**As approved on February 10, 2021  
by the Board of Directors**

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**AMENDED AND RESTATED**  
**PLAN OF CONVERSION**  
**OF**  
**NORCAL MUTUAL INSURANCE COMPANY**

**Under Section 4097 *et seq.* of the  
California Insurance Code**

**PREAMBLE**

This Amended and Restated Plan of Conversion amends and restates in its entirety that certain Plan of Conversion (the “Original Plan”) approved by the Board of Directors (the “Board”) of NORCAL Mutual Insurance Company, a mutual insurance company domiciled in the State of California (such entity, before the Conversion, being referred to as “NORCAL Mutual”, after the Conversion, being referred to as “NIC”, and both before and after the Conversion, being referred to as “NORCAL”), at a meeting duly called and held on February 18, 2020 (the “Initial Board Approval”) and provides for the conversion of NORCAL Mutual from a domestic incorporated medical malpractice mutual insurance company into an incorporated stock insurance company (the “Conversion”) and the purchase and sale (the “Purchase”) of at least eighty percent (80%) of the newly-issued shares of common stock of NIC to PRA Professional Liability Group, Inc., a Delaware corporation (“PRA Professional”), a wholly-owned subsidiary of ProAssurance Corporation, a Delaware corporation (“PRA” and together with PRA Professional, collectively, the “Sponsor”), pursuant to that certain Agreement and Plan of Acquisition, by and between NORCAL and the Sponsor, dated February 20, 2020, attached hereto as Exhibit A (the “Acquisition Agreement”), as authorized by Section 4097 of the California Insurance Code (together, the Conversion and Purchase, the “Sponsored Conversion”).

As required by Section 4097.02 of the California Insurance Code, resolutions specifying the reasons for and the purposes of the Conversion and the manner in which the Conversion is expected to benefit and serve the best interests of the policyholders of NORCAL were approved by unanimous resolution of the members of the Board pursuant to the Initial Board Approval and this Plan of Conversion was approved by unanimous written consent of the Board on February 10, 2021 (the “Amended and Restated Plan Board Approval” and together with the Initial Board Approval, the “Board Approval”). Pursuant to the Board Approval, the Board (a) determined the manner by which this Plan of Conversion is expected to benefit and serve the best interests of the policyholders of NORCAL, (b) accepted the Revised and Restated Appraisal Report and the fair value of NORCAL Mutual of \$440,000,000 and (c) adopted and approved the Allocation Formula set forth in ARTICLE 8 that will be used for determining the Equity of each Eligible Member as fair, just and equitable to the Eligible Members. As a result, the Board has directed that this Plan of Conversion be submitted to the Commissioner for approval pursuant to Section 4097.02 of the California Insurance Code. The Board has also directed that this Plan of Conversion be submitted to the Record Date Members for their approval pursuant to Sections 4097.02 and 4097.07 of the California Insurance Code and applicable provisions of NORCAL Mutual’s bylaws.

If the Commissioner and the Record Date Members approve the Plan of Conversion as required by the California Insurance Code and the conditions to the Purchase are satisfied or waived in accordance with the Acquisition Agreement, all Eligible Members, or their designees, will have the choice to receive (a) shares of the proposed capital stock of NIC at the Per Share Price, (b) a contribution certificate from NIC based on the member's Allocable Equity or (c) a cash payment from NIC based on the member's Allocable Equity, each in exchange for the extinguishment of their Membership Interests in NORCAL Mutual, in each case as further described below. In the event an Eligible Member elects to receive the proposed capital stock of NIC at the Per Share Price, such Eligible Member may either (x) immediately sell such stock to PRA Professional in exchange for a cash payment (the "Sponsor Fixed Consideration") and a right to receive future contingent cash payments based on loss and reserve development (the "Sponsor Contingent Consideration") as set forth in Article 3 of the Acquisition Agreement (the Sponsor Fixed Consideration and the Sponsor Contingent Consideration are collectively referred to as the "Sponsor Consideration") or (y) retain such stock for such Eligible Member's own account.

In order to consummate the Conversion, Section 4097.06 of the California Insurance Code requires that the Commissioner hold a public hearing regarding the Plan of Conversion after written notice of the hearing to NORCAL Mutual, its Members and the public. The public hearing shall be held virtually and shall occur prior to the Special Meeting. In addition, Section 4097.02 of the California Insurance Code requires that the Plan of Conversion be submitted to its Members for a vote at the Special Meeting. The Plan of Conversion must be approved by at least two-thirds of the Record Date Members present "in person" at the Special Meeting by attending the Special Meeting virtually or present "by proxy" by completing the provided proxy card (by paper or online). At least ten percent of the Record Date Members must be present "in person" or "by proxy" so as to constitute a quorum at the Special Meeting.

Capitalized terms used herein without definition have the meaning set forth in ARTICLE 2 hereof.

## ARTICLE 1 REASONS FOR THE CONVERSION

The principal purpose of the Conversion is to convert NORCAL Mutual from a mutual insurance company into a stock insurance company. The Sponsored Conversion will enhance NORCAL's strategic and financial flexibility and will provide the Eligible Members with the Consideration. The Board believes that the Sponsored Conversion is fair, just and equitable to NORCAL and its policyholders, is consistent with the purpose and intent of Section 4097 *et seq.* of the California Insurance Code and will not prejudice the interests of the Members. The Sponsored Conversion will not reduce insurance coverages provided to the NORCAL policyholders under the Policies issued by NORCAL Mutual that are currently in effect.

Although the Consideration allocated to the Eligible Members will vary according to the premiums properly and timely paid by Eligible Members under their Eligible Policies, the duration of such Eligible Members' membership in NORCAL Mutual and profitability associated with such Eligible Members' relationship with NORCAL Mutual, NORCAL Mutual intends that all Eligible Members will receive fair, just and equitable consideration, as described in ARTICLE 8 and

ARTICLE 9 of this Plan of Conversion in respect of the extinguishment of all Membership Interests.

In its present structure as a mutual insurance company, NORCAL Mutual can increase its statutory capital only through earnings contributed by its operating businesses, through the use of financial reinsurance arrangements, through the issuance of surplus notes or by divestiture of all or a portion of its interest in subsidiaries or other investments. These methods, however, are limited as to the extent to which they can provide a long-term source of permanent capital to allow NORCAL Mutual to develop new businesses, make acquisitions or provide greater stability and protection for its policyholders.

Through the transactions contemplated by this Plan of Conversion and the Acquisition Agreement, NIC will become a controlled subsidiary of the Sponsor. The Board believes that the resulting affiliation with the Sponsor will be in the best interests of NORCAL and its policyholders because, among other things:

- the Sponsored Conversion will help enhance the competitiveness of NORCAL and will generate greater efficiencies and significant opportunities for improved financial performance;
- the Sponsored Conversion will enhance NORCAL's ability to pursue its strategic objectives;
- the Sponsored Conversion will create meaningful economies of scale and will provide NORCAL with greater resources to back its obligations to policyholders, support the growth of NORCAL's business and product lines and take advantage of investment and acquisition opportunities;
- the Board has considered NORCAL Mutual's position as an independent company in the present competitive environment for medical professional liability insurers and believes that NORCAL's ability to pursue its strategic objectives would be enhanced by this affiliation;
- the Sponsored Conversion and affiliation with the Sponsor will create meaningful economies of scale and will provide NORCAL with greater resources to back its obligations to policyholders, support the growth of NORCAL's business and product lines and take advantage of investment and acquisition opportunities;
- the Sponsored Conversion will benefit both the short-term and long-term interests of NORCAL and its policyholders;
- the Sponsor has a history of successfully integrating the mutual insurance and stock insurance companies it has acquired and investing substantial resources in such companies, resulting in the steady growth and expansion of such insurers over time; and

- the Board has received the opinion of the Piper Sandler & Co. dated as of the Adoption Date, to the effect that, as of the Adoption Date, the aggregate consideration to be received by the Eligible Members, as a group, pursuant to the Acquisition Agreement is fair from a financial point of view to such Eligible Members, as a group.

Furthermore, as a result of the Sponsored Conversion, the Eligible Members will be compensated for their respective Membership Interests, which will be extinguished as part of the Conversion, by (a) NIC paying them the NORCAL Cash Payment, (b) NIC issuing them the Contribution Certificates or (c) NIC issuing them the Allocable Number of Shares of NIC (collectively, the “Conversion Consideration”). If the Plan of Conversion is approved by the Commissioner and the Eligible Members, the Acquisition Agreement obligates PRA Professional to offer to purchase the NIC Shares from the Eligible Members for the Sponsor Consideration and allows the Sponsor to make an Election Solicitation with respect to Eligible Members who have elected or are deemed to have elected to receive Contribution Certificates in the Conversion to instead elect to receive NIC Shares in order to satisfy the conditions to the Purchase under the Acquisition Agreement. In addition, for the Eligible Members electing to receive the Allocable Number of Shares of NORCAL, such Eligible Members will have the right, if Eligible Members holding at least 80% of the NIC Shares issued in connection with the Conversion elect, to sell such Allocable Number of Shares to PRA Professional in exchange for the Sponsor Consideration (together with the Conversion Consideration, the “Consideration”). Such Consideration would not be available to the Eligible Members as long as NORCAL Mutual continues its operations as a mutual insurance company and may, in fact, never be available to the Eligible Members absent Conversion.

## ARTICLE 2 DEFINITIONS

2.1 Certain Terms. As used in this Plan of Conversion, the following terms have the meanings set forth below:

“Acquisition Agreement” has the meaning specified in the Preamble.

“Adoption Date” has the meaning specified in Section 3.1.

“Allocable Equity” has the meaning specified in Section 8.2.

“Allocable Number of Shares” means, with respect to an Eligible Member, a number of NIC Shares equal to such Eligible Member’s Allocable Equity divided by the Per Share Price.

“Allocable Number of Whole Shares” has the meaning specified in Section 9.1(d).

“Allocation Formula” has the meaning specified in Section 8.2.

“Amended and Restated Bylaws” has the meaning specified in Section 5.1(a).

“Amended and Restated Articles” has the meaning specified in Section 5.1(a).

“Application” has the meaning specified in Section 4.1.

“Appraisal Firm” has the meaning specified in Section 8.1.

“Assumed Expense Ratio” means thirty-two one hundredths (0.32).

“Board” has the meaning specified in the Preamble.

“Board Approval” has the meaning specified in the Preamble.

“Closing” has the meaning specified in Section 6.3(b).

“Code” means the federal Internal Revenue Code of 1986, as amended.

“Commissioner” means the Insurance Commissioner of the Department.

“Consideration” has the meaning specified in the ARTICLE 1.

“Contribution Certificate” has the meaning specified in Section 9.1(e).

“Conversion” has the meaning specified in the Preamble.

“Conversion Agent” means Computershare Trust Company, N.A. or such other bank, trust company or investor services company as designated by the Sponsor and acceptable to NORCAL Mutual and the Commissioner to act as agent in connection with this Plan of Conversion and the Acquisition Agreement for distributing the NORCAL Cash Payment payable to certain Eligible Members pursuant to this Plan of Conversion.

“Conversion Consideration” has the meaning specified in ARTICLE 1.

“Department” means the Department of Insurance of the State of California.

“Effective Date Filing” has the meaning specified in Section 5.3.

“Effective Time” means 12:01 a.m., California time, on the Plan Effective Date or such other time on the Plan Effective Date as specified by NORCAL Mutual and the Sponsor, subject to any required consent of the Commissioner. This is the time that this Plan of Conversion is deemed to be effective.

“Election Date” has the meaning specified in Section 9.2

“Election Notice” has the meaning specified in Section 9.4(b).

“Election Solicitation” has the meaning specified in Section 9.4(a).

“Eligible Member” means a Member who is the Owner of an Eligible Policy; provided that for purposes of this Plan of Conversion, Eligible Member means at any time prior to the Effective Time, the Owner of a Policy that was In Effect on the Adoption Date or the Owner of a

Replacement Policy for which the predecessor Policy was In Effect on the Adoption Date. For the avoidance of doubt, a Member who is the Owner of a Policy and terminates or non-renews the Policy prior to the Effective Time shall not be entitled to Conversion Consideration.

“Eligible Policy” means (i) any Policy that is In Effect on the Adoption Date and the Plan Effective Date or (ii) any Replacement Policy that is In Effect on the Plan Effective Date.

“Eligible Premium” means, with respect to each Eligible Member, the sum of all of the premium of all Eligible Policies owned by such Eligible Member as of the Adoption Date (excluding all unearned premiums) and all earned premiums since January 1, 2002 under all of such Eligible Member’s Policies, as reflected in the NORCAL Records. For purposes of determining the total Eligible Premium under each Eligible Member’s Policies, (x) the earned premiums for all Policies for which such Eligible Member is a successor and/or which have been consolidated to a Policy issued to such Eligible Member shall be included, and (y) all premiums paid for an extended reporting period (“tail” coverage) endorsement with respect to a Policy that expired, was cancelled, nonrenewed or was otherwise terminated prior to the Adoption Date shall be excluded.

“Equity” has the meaning specified in Section 8.1.

“Incurred Claims” means, with respect to each Eligible Member, the sum of all incurred claims of all Eligible Policies owned by such Eligible Member as of the Adoption Date and all incurred claims since January 1, 2002 under all of such Eligible Member’s Policies, as reflected in the NORCAL Records. For purposes of determining the total Incurred Claims under each Eligible Member’s Policies, the incurred claims for all Policies for which such Eligible Member is a successor and/or which have been consolidated to a Policy issued to such Eligible Member shall be included.

“Incurred Profitability” means, with respect to each Eligible Member, an amount equal to the greater of (i) (x) one (1) minus the Assumed Expense Ratio multiplied by (y) such Eligible Member’s Eligible Premium minus (z) such Eligible Member’s Incurred Claims and (ii) zero (0).

“In Effect” has the meaning specified in Section 7.3(a).

“Member” means a person who, according to the NORCAL Records and pursuant to its Articles of Incorporation or bylaws, is deemed to be a holder of a Membership Interest in NORCAL Mutual, but shall not include persons named in a Policy as an additional insured or persons covered solely under an extended reporting period (“tail” coverage) endorsement.

“Membership Interests” means the interests of Members with respect to NORCAL Mutual arising under California law and the Amended and Restated Articles and Amended and Restated Bylaws of NORCAL Mutual prior to the Conversion, including the right to vote and the right to participate in any distribution of surplus in the event that NORCAL Mutual is liquidated. “Membership Interests” do not include the rights expressly conferred upon Members by their Policies (other than the right to vote and rights related thereto).

“NORCAL” has the meaning specified in the Preamble.

“NORCAL Cash Payment” has the meaning specified in Section 9.1(f)9.1(e).

“NORCAL Records” means the books, records and accounts of NORCAL.

“NIC Shares” means 8,800,000 shares of common stock of NIC, par value of an amount determined by dividing the actual number of NIC Shares issued in connection with the Conversion into \$2,600,000, which represent all of the duly authorized shares of common stock of NIC authorized to be issued on the Plan Effective Date upon the Conversion.

“Notice of Special Meeting” has the meaning specified in Section 5.2.

“Owner” means, with respect to any Policy, the Person or Persons specified or determined pursuant to the provisions of Section 7.2.

“Per Share Price” has the meaning specified in Section 9.1(b).

“Person” means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, trust, government or governmental agency, state or political subdivision of a state, public or private corporation, board, association, estate, trustee, or fiduciary, or any similar entity.

“Plan Effective Date” has the meaning specified in Section 6.3(b).

“Plan of Conversion” means this Amended and Restated Plan of Conversion (including all Schedules and Exhibits hereto), as it may be amended from time to time in accordance with Section 11.3. Any reference to the term “Plan of Conversion” shall be deemed to incorporate by reference all of the Schedules and Exhibits thereto.

“Policy” or “Policies” has the meaning specified in Section 7.1.

“Premium Percentage” has the meaning specified in Section 8.2(b).

“Profitability Percentage” has the meaning specified in Section 8.2(c).

“Proposal” has the meaning specified in Section 5.1(a).

“Purchase” has the meaning specified in the Preamble.

“Purchase and Sale of Shares” has the meaning specified in Section 9.1(c).

“Record Date Member” means each Member of record as of the record date for the Special Meeting as determined by the Board in accordance with NORCAL Mutual’s bylaws in effect as of the Adoption Date.

“Replacement Policy” means any successor policy to a Policy that is In Effect on the Adoption Date that is rewritten under a new Policy, resulting in uninterrupted, continuous coverage.



“Revised and Restated Appraisal Report” has the meaning specified in Section 8.1.

“Special Meeting” has the meaning specified in Section 5.1(a).

“Sponsor” has the meaning specified in the Preamble.

“Sponsor Consideration” has the meaning specified in the Preamble.

“Sponsor Contingent Consideration” has the meaning specified in the Preamble.

“Sponsor Fixed Consideration” has the meaning specified in the Preamble.

“Sponsored Conversion” has the meaning specified in the Preamble.

“Tenure Percentage” has the meaning specified in Section 8.2(a).

“Total Eligible Premium” means the sum of all Eligible Premiums of all Eligible Members.

“Total Incurred Profitability” means the sum of all Incurred Profitability of all Eligible Members.

2.2 Terms Generally. As used in this Plan of Conversion, except to the extent that the context otherwise requires:

(a) when a reference is made in this Plan of Conversion to an Article, Section, Schedule or Exhibit, such reference is to an Article or Section of, or a Schedule or Exhibit to, this Plan of Conversion unless otherwise indicated;

(b) the words “hereby”, “herein”, “hereof”, “hereunder” and words of similar import refer to this Plan of Conversion as a whole (including the Schedules and Exhibits hereto) and not merely to the specific section, paragraph or clause in which such word appears;

(c) whenever the words “include,” “includes,” or “including” (or similar terms) are used in this Plan of Conversion, they are deemed to be followed by the words “without limitation”;

(d) the definitions contained in this Plan of Conversion are applicable to the singular as well as the plural forms of such terms; and

(e) whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms.

### ARTICLE 3 ADOPTION BY THE BOARD OF DIRECTORS

3.1 Adoption by the Board. This Plan of Conversion has been approved and adopted by the Board pursuant to the Initial Board Approval on February 18, 2020 (the “Adoption Date”) and the Amended and Restated Plan Board Approval on February 10, 2021.

ARTICLE 4  
APPROVAL BY THE COMMISSIONER

4.1 Application for Approval. Following the adoption of this Plan of Conversion by the Board, NORCAL Mutual shall file an application executed by the Chief Executive Officer of NORCAL Mutual (the “Application”) with the Commissioner for approval of this Plan of Conversion in accordance with Section 4097.02 of the California Insurance Code. The Application shall include true and correct copies of the following documents:

- (a) this Plan of Conversion;
- (b) the proposed Amended and Restated Articles attached hereto as Exhibit B;
- (c) the proposed Amended and Restated Bylaws attached hereto as Exhibit C;
- (d) the list of officers and directors of NIC, attached hereto as Exhibit D;
- (e) the Initial Board Approval and the Amended and Restated Board Approval, each certified by the Secretary of the Board, authorizing the Conversion and a report of the percentage of directors approving the resolutions attached hereto as Exhibit E;
- (f) the Revised and Restated Appraisal Report of NORCAL Mutual provided by the Appraisal Firm as part of their opinion provided in accordance with Section 8.1, attached hereto as Exhibit F;
- (g) the three-year *pro forma* financial statements in the form required by the Commissioner attached hereto as Exhibit G;
- (h) a plan of operations for NIC following the Conversion attached hereto as Exhibit H;
- (i) the Information Statement (as defined in the Acquisition Agreement) and proxy to be mailed to the Eligible Members seeking their approval of this Plan of Conversion and the Acquisition Agreement attached hereto as Exhibit I;
- (j) the form of notice of the Special Meeting required by Section 4097.07 of the California Insurance Code attached hereto as Exhibit J;
- (k) the form of the Contribution Certificate attached hereto as Exhibit K; and
- (l) any other relevant information as the Commissioner may require.

If the Commissioner requires modifications to this Plan of Conversion or documents submitted in connection with the application for approval, NORCAL Mutual shall submit any amended Plan of Conversion to the Commissioner for his review and approval.

4.2 Notice of Hearing. As part of the examination of this Plan of Conversion, the Commissioner shall order a public hearing pursuant to Section 4097.06 of the California Insurance

Code. NORCAL Mutual shall mail notice of the Commissioner’s public hearing to all Record Date Members. In addition, NORCAL Mutual shall give written notice of the hearing to the public by publication in media sources as determined appropriate by NORCAL Mutual and approved by the Commissioner. The public hearing shall be held virtually and shall occur prior to the Special Meeting.

4.3 Approval of Plan of Conversion. This Plan of Conversion is subject to the consent of the Commissioner. The Commissioner shall consent to this Plan of Conversion following the public hearing upon finding that (i) this Plan of Conversion is fair, just and equitable to NORCAL Mutual and its policyholders, (ii) this Plan of Conversion does not violate the law and (iii) NIC will, after the Conversion, satisfy the requirements for the issuance of a license to write the line or lines of insurance for which NORCAL Mutual is presently licensed.

## ARTICLE 5 APPROVAL BY THE MEMBERS

### 5.1 Special Meeting.

(a) Following the hearing on the Plan of Conversion, NORCAL Mutual shall hold a virtual special meeting of the Members to vote on this Plan of Conversion (the “Special Meeting”). At the Special Meeting, each Record Date Member shall be entitled to one vote in accordance with NORCAL Mutual’s bylaws in effect as of the Adoption Date on a single proposal (the “Proposal”) to (i) adopt and approve this Plan of Conversion and the other transactions contemplated by this Plan of Conversion, including without limitation, the transactions contemplated by the Acquisition Agreement; (ii) amend and restate the Articles of Incorporation of NORCAL Mutual to read in the form attached as Exhibit B (the “Amended and Restated Articles”); (iii) amend and restate the Bylaws of NORCAL Mutual to read in the form attached as Exhibit C (the “Amended and Restated Bylaws”); and (iv) elect a new slate of directors of NIC to fill the vacancies created by the resignations set forth in Section 10.2 hereof.

(b) In accordance with Section 4097.07 of the California Insurance Code, at least ten percent (10%) of the Record Date Members must be present (in person or by proxy) to constitute a quorum at the Special Meeting. Absent a quorum, any vote by such Record Date Members shall be ineffective. Record Date Members may be present “in person” at the Special Meeting by attending the Special Meeting virtually and may be present “by proxy” by completing the provided proxy card (by paper or online).

(c) In accordance with Section 4097.02(c) of the California Insurance Code, the Proposal is subject to approval by vote of not less than two-thirds of the Record Date Members actually present in person or by proxy and voting thereon at the Special Meeting.

5.2 Notice of the Special Meeting. NORCAL Mutual shall mail notice of the time, place and purpose of the Special Meeting (the “Notice of Special Meeting”) to the Record Date Members at least forty-five (45) days prior to the date of the Special Meeting. The form of notice is attached hereto as Exhibit J, which will be subject to the approval of the Commissioner. The Notice of Special Meeting shall be accompanied by a true and correct copy of this Plan of Conversion, the Information Statement regarding this Plan of Conversion and the Purchase, the

tender offer statement of Sponsor for the Purchase and Sale of Shares, a proxy card to be provided to the Record Date Members in connection with the solicitation of the approval of the Proposal at the Special Meeting, such other explanatory information that the Commissioner approves or requires and a form for the Eligible Members to elect to receive their respective amount of Allocable Equity in the form of one of the four choices described in ARTICLE 9 below (provided the requisite approval of the Record Date Members is obtained at the Special Meeting and the conditions to the Purchase are satisfied or waived in accordance with Section 6.3(b) hereof), all of which shall be in a form satisfactory to the Commissioner. Such documents shall be delivered personally, or deposited in the post office, postage prepaid, and addressed to each Record Date Member at his or her last post office address in the NORCAL Records. With the prior approval of the Commissioner, NORCAL Mutual may also send or post on a secure website established by the Conversion Agent supplemental information relating to this Plan of Conversion and the Purchase to the Record Date Members either before or after the date of the Special Meeting. NORCAL Mutual shall have the right, upon written agreement of Sponsor, to postpone the date of the Special Meeting.

5.3 Filing of Plan of Conversion and Amended and Restated Articles. Immediately prior to the Closing of the Purchase, NORCAL Mutual shall file with the Commissioner: (a) a certified copy of this Plan of Conversion as voted on by the Record Date Members at the Special Meeting; and (b) a certificate of NORCAL Mutual setting forth the results of the vote on the Proposal and certifying as to whether it was approved by not less than two-thirds of the Record Date Members voting in person or by proxy at the Special Meeting, both of which shall be subscribed by the Chief Executive Officer of NORCAL Mutual and attested to by the Secretary of NORCAL Mutual, under the corporate seal of NORCAL Mutual (the filing described in clauses (a) and (b) above, the “Effective Date Filing”). NORCAL shall also file with the Commissioner such other documents as the Commissioner shall require.

## ARTICLE 6 THE CONVERSION AND PURCHASE

6.1 Effect on NORCAL. On the Plan Effective Date, NORCAL Mutual shall be converted from a mutual insurance company into a stock insurance company in accordance with Section 4097 of the California Insurance Code, and the Purchase shall occur in accordance with this Plan of Conversion and the Acquisition Agreement. Under the terms of the Acquisition Agreement, PRA Professional will acquire at least eighty percent (80%) of the NIC Shares.

6.2 Effect on Existing Policies. Any Policy In Effect on the Plan Effective Date will remain In Effect under the terms of such Policy, except that the following rights, to the extent they existed in NORCAL Mutual, shall be extinguished on the Plan Effective Date:

- (i) any voting rights of the policyholder or Member provided under or as a result of the policy or the Articles of Incorporation or bylaws of NORCAL Mutual;
- (ii) any right of the policyholder or Member to share in the surplus of NORCAL Mutual, including dividends; and

- (iii) the right of the policyholder or Member to attend annual meetings of policyholders or members of NORCAL Mutual (which will no longer occur).

### 6.3 Effectiveness of Plan of Conversion and Acquisition Agreement.

(a) The Plan of Conversion, including the Amended and Restated Articles, will only be effective upon the closing of the Purchase. The closing of the Purchase is subject to the satisfaction of the conditions described in Section 9.3 hereof unless the satisfaction of any or all of such conditions is waived by the Sponsor.

(b) The “Plan Effective Date” of the Plan of Conversion shall be the date of the closing of the Purchase under the Acquisition Agreement (the “Closing”), subject to any required consent of the Commissioner, after all of the following steps have been completed: (i) the Plan of Conversion has been approved by the Commissioner; (ii) the Record Date Members have approved the Plan of Conversion by the requisite vote; (iii) the Amended and Restated Articles have been duly adopted as part of the Plan of Conversion; (iv) the Effective Date Filing shall have been made by NORCAL Mutual; (v) a new certificate of authority shall have been issued by the Commissioner as of the Effective Time; and (vi) the satisfaction of all of the conditions to the performance of NORCAL Mutual’s and the Sponsor’s obligations as set forth in Article 9 of the Acquisition Agreement. Subsequent to the Plan Effective Date, the bylaws of NIC shall be substantially in the form of the Amended and Restated Bylaws. Subject to Section 9.3, this Plan of Conversion shall be deemed to have become effective at the Effective Time.

(c) At the Effective Time:

- (i) NORCAL Mutual shall by operation of Section 4097 of the California Insurance Code and any other applicable provisions of California law become a stock insurance company;
- (ii) the Amended and Restated Articles and the Amended and Restated Bylaws shall (without further action) become effective; and
- (iii) all of the Membership Interests shall be extinguished as provided in this Plan of Conversion.

(d) On the Plan Effective Date:

- (i) NIC will issue NIC Shares to those Eligible Members who elect the Purchase and Sale of Shares and to those Eligible Members who elect to sell their NIC Shares to PRA Professional in accordance with Section 9.4 hereof, the Acquisition Agreement and the Offer (as defined in the Acquisition Agreement) and will hold such NIC Shares for delivery to PRA Professional upon the sale of such NIC Shares to PRA Professional pursuant to the Acquisition Agreement;

- (ii) NIC will issue NIC Shares to those Eligible Members electing to receive their Allocable Number of Whole Shares;
- (iii) NIC will issue Contribution Certificates to those Eligible Members (A) electing to receive their Contribution Certificates or (B) not making an affirmative election and deemed to have elected to receive their Contribution Certificates; and
- (iv) NIC will deposit, or cause to be deposited, via wire transfer of immediately available funds, with the Conversion Agent an amount equal to the aggregate NORCAL Cash Payments payable to the Eligible Members electing to receive their NORCAL Cash Payment.

(e) The NIC Shares shall be uncertificated and the exchange of the NIC Shares for the Sponsor Consideration shall be governed by the Acquisition Agreement.

(f) As promptly as practicable following the Plan Effective Date, but in any event no later than ten (10) business days following the Plan Effective Date, (i) the Conversion Agent shall (A) distribute the NORCAL Cash Payment to the Eligible Members electing to receive their Allocable Equity in the form of the NORCAL Cash Payment in accordance with this Plan of Conversion and (B) deliver the Contribution Certificates to the Eligible Members electing to receive their Allocable Equity in the form of the Contribution Certificates in accordance with this Plan of Conversion and (ii) NORCAL shall provide evidence in a form reasonably satisfactory to Sponsor of the transfer of Shares to PRA Professional for those Eligible Members who elect to sell their NIC Shares to PRA Professional.

(g) NORCAL and the Conversion Agent will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Plan of Conversion to any Eligible Member such amounts as NORCAL or the Conversion Agent is required to deduct and withhold with respect to the making of such payment under the Code, or any other applicable provision of U.S. federal, state, local or non-U.S. tax law. To the extent that such amounts are properly withheld by NORCAL or the Conversion Agent, such withheld amounts will be treated for all purposes of this Plan of Conversion as having been paid in full to the Eligible Member in respect of whom such deduction and withholding were made by NORCAL or the Conversion Agent.

## ARTICLE 7 POLICIES

7.1 Policies. For the purposes of this Plan of Conversion, the term “Policy” means any contract for insurance issued or for which coverage had been bound by NORCAL Mutual.

7.2 Determination of Ownership. The Owner of any Policy (including Eligible Policies) as of any date shall be determined on the basis of the NORCAL Records as of such date in accordance with the following provisions: (a) the Owner shall be the named insured and/or the holder of the Policy as shown on the NORCAL Records; (b) except as otherwise set forth in this ARTICLE 7, the identity of the Owner of a Policy shall be determined without giving effect to any interest of any other Person in such Policy; (c) in any situation not expressly covered by the

foregoing provisions of this Section 7.2, the owner of the Policy, as reflected on the NORCAL Records, and as determined in good faith by NORCAL Mutual, shall conclusively be presumed to be the Owner of such Policy for purposes of this Section 7.2, and except for administrative errors, NORCAL Mutual shall not be required to examine or consider any other facts or circumstances; (d) the mailing address of an Owner as of any date for purposes of this Plan of Conversion shall be the Owner's last known address as shown on the NORCAL Records as of such date; (e) in no event may there be more than one Owner of a Policy, although more than one Person may constitute a single Owner; and (f) any dispute as to the identity of the Owner of a Policy or the right to vote or receive compensation shall be resolved in accordance with the foregoing and Schedule I attached hereto and such other procedures as NORCAL Mutual may determine. Any determinations made by NORCAL Mutual shall be conclusive as between NORCAL and any Owner of a Policy or any other Person with an interest therein but shall not preclude any actions among such Persons.

### 7.3 In Effect.

(a) A Policy shall be deemed to be In Effect ("In Effect") as of any date if, as shown in the NORCAL Records:

- (i) such Policy has been issued or coverage had been bound as of such date; and
- (ii) such Policy has not expired or been cancelled, non-renewed or otherwise terminated as of 12:01 a.m. in the time zone in which the Policy was issued; provided, however, that a Policy that has expired or was cancelled, non-renewed or otherwise terminated shall be deemed to be In Effect after lapse for nonpayment of premiums until expiration of any applicable grace period (or similar period however designated in such Policy) or any extension of such grace period in connection with NORCAL's normal administrative procedures during which the Policy is in full force for its basic benefits.

(b) The date of expiration, cancellation, non-renewal or termination of a Policy shall be as shown on the NORCAL Records.

## ARTICLE 8 DETERMINATION OF EQUITY AND ALLOCATION OF EQUITY

8.1 Equity. For purposes of this Plan of Conversion, NORCAL Mutual has determined that the Eligible Members' collective equity in NORCAL Mutual ("Equity") totals \$440,000,000. The determination of this Equity amount was based upon a revised and restated appraisal, dated August 25, 2020, of the fair value of NORCAL Mutual ("Revised and Restated Appraisal Report") by Boenning & Scattergood, Inc., a qualified disinterested firm that was appointed by NORCAL Mutual with the approval of the Commissioner ("Appraisal Firm"). In conducting its appraisal of the fair value of NORCAL Mutual, the Appraisal Firm considered the assets and liabilities of NORCAL Mutual and any factors bearing on the value of NORCAL Mutual, as specified in Section 4097.04 of the California Insurance Code. A copy of the Revised and Restated Appraisal Report is attached as Exhibit F hereto and is incorporated herein by reference.

8.2 Allocation of Consideration. The Equity shall be allocated and distributed to each Eligible Member (“Allocable Equity”) based upon an allocation formula (“Allocation Formula”) that is comprised of the following factors:

(a) Tenure Percentage: One-third of the Equity will be allocated to Eligible Members based upon the length of their policyholder relationship with NORCAL Mutual. The tenure is determined as the number of days the Eligible Member has maintained insurance with NORCAL Mutual commencing on NORCAL Mutual’s date of inception and terminating on the Adoption Date. The tenure percentage is calculated by dividing the total number of days that the Eligible Member has maintained insurance with NORCAL Mutual by the total number of days that all Eligible Members have maintained insurance with NORCAL Mutual commencing with NORCAL Mutual’s date of inception and terminating on the Adoption Date (the “Tenure Percentage”).

(b) Premium Percentage: One-third of the Equity will be allocated to Eligible Members based upon the earned premium associated with their policyholder relationship with NORCAL Mutual. The amount of premium associated with the policyholder relationship with NORCAL Mutual will be determined by the Eligible Premium on the Adoption Date. The premium percentage is calculated by dividing the Eligible Premium with respect to such Eligible Member by the Total Eligible Premium (the “Premium Percentage”).

(c) Profitability Percentage: One-third of the Equity will be allocated to Eligible Members based upon the profitability associated with their policyholder relationship with NORCAL Mutual. The profitability associated with the policyholder relationship with NORCAL Mutual will be determined by the Incurred Profitability on the Adoption Date. The profitability percentage is calculated by dividing the Incurred Profitability with respect to such Eligible Member by the Total Incurred Profitability (the “Profitability Percentage”).

The Allocation Formula is calculated as the sum of a fraction the numerator of which is one and the denominator of which is three multiplied by the Tenure Percentage, plus the sum of a fraction the numerator of which is one and the denominator of which is three multiplied by the Premium Percentage, plus a fraction the numerator of which is one and the denominator of which is three multiplied by the Profitability Percentage. The Allocation Formula may be expressed in the mathematical form as follows:

Allocation Formula

$$\left( \text{Equity} \times \frac{1}{3} \right) * \frac{\text{Policy Years}}{\text{Total Policy Years}} + \left( \text{Equity} \times \frac{1}{3} \right) * \frac{\text{Eligible Premium}}{\text{Total Eligible Premium}} + \left( \text{Equity} \times \frac{1}{3} \right) * \frac{\text{Incurred Profitability}}{\text{Total Incurred Profitability}}$$

*Tenure Factor – 1/3*

*Portion of Equity = \$146,666,666.67*

*Premium Paid Factor – 1/3*

*Portion of Equity = \$146,666,666.67*

*Profitability Factor – 1/3*

*Portion of Equity = \$146,666,666.67*

The Allocation Formula was selected by the Board in reasonable reliance upon a revised and restated report, dated September 18, 2020, that was issued by the Appraisal Firm in respect of the Allocation Formula.



8.3 Commissioner Approval of Allocation Formula. The Allocation Formula is subject to the consent of the Commissioner.

8.4 Determination of the Allocation. NORCAL Mutual shall use utmost good faith in making the allocations set forth in this ARTICLE 8. The materials accompanying the Information Statement shall include the estimated Allocable Equity of each Eligible Member. Disputes as to the determination by NORCAL Mutual may be resolved in accordance with the procedures set forth in Schedule I. The Eligible Members will not have the right to dispute their Allocable Equity in accordance with such procedures unless they do so within forty-five (45) days of the mailing of the Information Statement; provided, however, that an Eligible Member's legal rights and other claims against NORCAL under California law with respect to the determination of Allocable Equity shall not be prejudiced.

## ARTICLE 9

### DISTRIBUTION OF ELIGIBLE MEMBER EQUITY

#### 9.1 Choices for Receipt of Allocable Equity.

(a) Each Eligible Member will have four choices regarding the form of Consideration such Eligible Member is eligible to receive under this Plan of Conversion as payment of such Eligible Member's Allocable Equity. The Consideration received by each Eligible Member shall constitute full payment and discharge of such Eligible Member's Membership Interest, and each such Eligible Member shall have no other rights with respect thereto.

(b) Pursuant to this Plan of Conversion, up to 8,800,000 NIC Shares are being offered at the subscription price of \$50.00 per share (the "Per Share Price"), which Per Share Price is determined by dividing the total number of authorized NIC Shares into the Equity. NIC shall not issue any share certificate that includes a fractional share amount, except in connection with the Purchase and Sale of Shares. NORCAL Mutual shall include within the policyholder Information Statement, proxy and such other explanatory information that the Commissioner approves or requires instructions and forms allowing each Eligible Member to elect to receive their respective amount of Allocable Equity in the form of one of the four choices described in below.

(c) **Choice 1: Purchase NIC Shares for Sale to PRA Professional for the Sponsor Consideration Pursuant to the Offer.** Each Eligible Member has a preemptive right (subject to NORCAL Mutual's determination of the legality of such offer and sale under applicable state securities laws in the event the Eligible Member is a resident of a jurisdiction other than California) to apply the value of such Eligible Member's Allocable Equity towards the purchase of such Eligible Member's Allocable Number of Shares (including any fractional shares) at the Per Share Price, then sell the Allocable Number of Shares (including any fractional shares) to PRA Professional in consideration for receiving the Sponsor Consideration pursuant to the terms of the Acquisition Agreement and the Offer ("Purchase and Sale of Shares"). NIC shall transfer the Eligible Member's Allocable Number of Shares on behalf of such Eligible Member to PRA Professional upon payment of the Sponsor Consideration by the Sponsor to the Conversion Agent pursuant to the Acquisition Agreement and the Offer.

(d) **Choice 2: Purchase Stock and Retain for Own Account.** Each Eligible Member has a preemptive right (subject to NORCAL Mutual's determination of the legality of such offer and sale under applicable state securities laws in the event the Eligible Member is a resident of a jurisdiction other than California) to apply the value of such Eligible Member's Allocable Equity towards the purchase of such Eligible Member's Allocable Number of Shares for such Eligible Member's own account ("Allocable Number of Whole Shares"). Each Eligible Member's Allocable Number of Whole Shares shall be determined by calculating such Eligible Member's Allocable Number of Shares and, if there is a fractional share interest, cash shall be paid to the Eligible Member for the fractional share based on the Per Share Price.

(e) **Choice 3: Contribution Certificate.** Each Eligible Member has the right to receive a contribution certificate in the form attached hereto as Exhibit K (the "Contribution Certificate") in a principal amount equal to one hundred percent (100%) of such Eligible Member's Allocable Equity that shall bear interest at the rate provided in the form of Contribution Certificate payable annually on each anniversary date of the Plan Effective Date, the principal amount of which shall be repayable within ten (10) years following the Plan Effective Date, but only with the written consent of the Commissioner and only if immediately following such payment NIC will have a surplus in an amount exceeding the greater of (1) "Total Adjusted Capital" (as defined in Section 739(m) of the California Insurance Code) equal to 150% of its "Company Action Level RBC" (as defined in Section 739(j)(1) of the California Insurance Code) as reflected in NIC's most recent "RBC Report" (as defined in Section 739(l) of the California Insurance Code) filed with the California Department of Insurance or (2) the amount of surplus required by the laws of any jurisdiction in which NIC is licensed to do business to retain unimpaired its Certificate of Authority therein.

(f) **Choice 4: NORCAL Cash Payment.** Each Eligible Member has the right to receive a cash payment equal to fifty percent (50%) of such Eligible Member's Allocable Equity (the "NORCAL Cash Payment").

9.2 Procedure to Designate Election of Form of Consideration. The Eligible Members will designate an election, in writing or electronically through a designated web platform, to effect the Purchase and Sale of Shares, to receive a Contribution Certificate or the NORCAL Cash Payment or to purchase NIC Shares to retain for their own account on or prior to 5:00 p.m. Pacific Time on the date that is sixty (60) days after the initial mailing of the Information Statement or such later date and time to the extent the Stock Offer Initial Expiration Time (as defined in the Acquisition Agreement) is extended pursuant to Section 3.1(d) of the Acquisition Agreement (such date, the "Election Date"). As required by Section 4097.04(c) of the California Insurance Code, any Eligible Member not making an affirmative election on or prior to the Election Date respecting such Eligible Member's desired form of Consideration shall be deemed to have elected to receive a Contribution Certificate. Instructions and the order form for such election or subscription will be provided with the Notice of Special Meeting. Sponsor shall have the right to extend the Election Date, and the offer for and solicitation of the Purchase and Sale of Shares, pursuant to, and in accordance with, Section 3.1(d) of the Acquisition Agreement. Each Eligible Member shall have the right to revoke a prior election and make a new election prior to the Election Date.

9.3 Required NIC Shares. Unless waived in accordance with the Acquisition Agreement, the Sponsor has the right to terminate the Acquisition Agreement and the Purchase without any further obligation on its part to NORCAL Mutual or its policyholders or Members if:

(a) the sum of the face amount of the Contribution Certificates issued to Eligible Members pursuant to Choice 3 in Section 9.1(e) hereof exceeds Two Hundred Million Dollars (\$200,000,000); or

(b) less than eighty percent (80%) of the number of NIC Shares issued pursuant to Choice 1 in Section 9.1(c) hereof and pursuant to Choice 2 in Section 9.1(d) hereof are validly tendered and not withdrawn prior to the expiration of the Stock Offer (as may be extended through the end of the Solicitation Period or otherwise pursuant to the Acquisition Agreement).

9.4 Election Solicitation.

(a) If immediately following the Election Date either condition set forth in Sections 9.3(a) or (b) above is not satisfied or waived, the Sponsor shall commence a solicitation of the Eligible Members who have elected or deemed to have elected to receive Contribution Certificates pursuant to Choice 3 in Section 9.1(e) and Eligible Members who have elected to purchase NIC Shares and hold for their own account pursuant to Choice 2 in Section 9.1(d) to change their election or make an election pursuant to Choice 1 in Section 9.1(c) (the “Election Solicitation”) on or before the end of the Solicitation Period (as defined in the Acquisition Agreement). The Stock Offer (as defined in the Acquisition Agreement) shall be extended through the end of the Solicitation Period.

(b) In connection with the Election Solicitation, the Sponsor will require the Conversion Agent to deliver to each Eligible Member described in Section 9.4(a), a notice prepared by Sponsor with the written approval of NORCAL Mutual stating the terms of Sponsor’s offer, including without limitation the following (the “Election Notice”), subject to approval of the Commissioner:

- (i) the number of NIC Shares to which an Eligible Member electing or deemed to have elected a Contribution Certificate would have been entitled to receive under the Plan of Conversion based on such Eligible Member’s Allocable Equity, and a statement that PRA Professional will purchase such NIC Shares pursuant to the Acquisition Agreement and the Offer (including the amount of the Sponsor Fixed Consideration that would have been paid for such NIC Shares and the potential amount of the Sponsor Contingent Consideration that may be paid for such NIC Shares in accordance with the Acquisition Agreement); and
- (ii) such other statements as may be required by the Commissioner to supplement the Sponsor’s Tender Offer Statement or that may be required to comply with Section 14(e) of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated pursuant thereunder.

(c) The Election Notice shall be accompanied by a letter of transmittal, in a form reasonably acceptable to the Sponsor and subject to the approval of the Commissioner.

(d) The Election Notice shall include a statement that the Sponsor reserves the right to terminate the Acquisition Agreement and the Purchase if at the expiration of the Offer the conditions set forth in Section 9.3 of the Plan of Conversion have not been satisfied or waived in accordance with the Acquisition Agreement.

## ARTICLE 10 OFFICERS AND BOARD OF DIRECTORS

10.1 Officers. The officers of NORCAL Mutual immediately prior to the Effective Time shall serve as officers of NIC after the Effective Time until new officers are duly elected pursuant to the Amended and Restated Articles and the Amended and Restated Bylaws.

10.2 Directors. Each of the members of NORCAL Mutual's Board immediately prior to the Effective Time shall resign as of the Effective Time and the new directors set forth on Exhibit D shall be the Board of NIC.

## ARTICLE 11 ADDITIONAL PROVISIONS

11.1 Continuation of Corporate Existence. Upon the conversion of NORCAL Mutual to a stock insurance company in accordance with the terms of this Plan of Conversion and the provisions of Section 4097 *et seq.* of the California Insurance Code:

(a) the corporate existence of NORCAL Mutual shall be continued in NIC's corporate existence as a stock insurance company;

(b) all the rights, titles, franchises and interests of NORCAL Mutual as a mutual insurance company in and to every species of property, real, personal and mixed, and things in action thereunto belonging, shall be deemed transferred to and vested in NIC as a stock insurance company without any deed or transfer; and

(c) NIC (as converted to a stock insurance company) shall be deemed to have assumed all the obligations and liabilities of NORCAL Mutual (as the former mutual insurance company).

11.2 Conflict of Interest. Except as otherwise set forth in this Plan of Conversion, no director, officer, agent or employee of NORCAL Mutual, or any of its subsidiaries or affiliates or any other Person shall receive any fee, commission or other valuable consideration whatsoever, other than his or her regular salary and compensation and opportunities for severance in connection with a change of control transaction, for in any manner aiding, promoting or assisting in the transactions contemplated by this Plan of Conversion; *provided*, that NORCAL may pay fees and compensation to attorneys, exchange and solicitation agents, accountants and actuaries for services performed in the independent practice of their professions, even if such attorney, accountant or actuary is also a director or agent of NORCAL.

11.3 Amendment or Withdrawal of Plan of Conversion.

(a) At any time prior to the Plan Effective Date, NORCAL Mutual may, by resolution of not less than two-thirds of the Board, amend or withdraw this Plan of Conversion (including the Schedule and Exhibits hereto). Any amendment shall require the written consent of the Commissioner and Sponsor. No amendment may change the Plan of Conversion in a manner that the Commissioner determines is materially disadvantageous to policyholders unless (i) a further public hearing is held on the Plan of Conversion, as amended, if the amendment is made after the initial public hearing ordered by the Commissioner in accordance with Section 4097.06 of the California Insurance Code, or (ii) such Plan of Conversion, as amended, is submitted for reconsideration by the Eligible Members pursuant to the provisions of Sections 5.1 and 5.2 if the amendment is made after the Plan of Conversion has been approved by the Eligible Members. The Plan of Conversion as so amended shall be filed with the Commissioner.

(b) After the Plan Effective Date, the Amended and Restated Articles adopted pursuant to this Plan of Conversion may be amended pursuant to the provisions of such Amended and Restated Articles, the California Insurance Code and the statutory provisions generally applicable to the amendment of the articles of incorporation of insurance companies, or such other statutory provisions as may be applicable at the time of the amendment.

11.4 Corrections. Prior to the Plan Effective Date, NORCAL Mutual, with the prior consent of the Commissioner and Sponsor, may make such modifications as are appropriate to correct errors, cure ambiguities, clarify existing items or make additions to correct manifest omissions in this Plan of Conversion or any Schedules or Exhibits hereto.

11.5 Notices. If NORCAL Mutual complies substantially and in good faith with the notice requirements of Section 4097.07 of the California Insurance Code with respect to the giving of any required notice to Members, the failure of NORCAL Mutual to give any Member any required notice does not impair the validity of any action taken under Section 4097 of the California Insurance Code unless the Commissioner determines otherwise.

11.6 Limitation of Actions. No Person shall have any rights or claims against NORCAL Mutual or its Board based upon the withdrawal or termination of this Plan of Conversion.

11.7 Costs and Expenses. Except as set forth in the Acquisition Agreement, all the costs and expenses related to the Plan of Conversion, including the costs of outside advisors and consultants of the regulatory agencies, shall be borne by NORCAL.

11.8 Headings. Article and Section headings contained in this Plan of Conversion are for convenience only and shall not be considered in construing or interpreting any of the provisions hereof.

11.9 Governing Law. The Plan of Conversion shall be governed by and construed in accordance with the laws of the State of California, without regard to such State's principles of conflicts of law.

IN WITNESS WHEREOF, NORCAL Mutual by authority of its Board, has caused this Plan of Conversion to be duly executed as of the day and year first above written.

NORCAL Mutual Insurance Company

By: 

Name: Theodore Scott Diener

Title: President & Chief Executive Officer

## **SCHEDULE I**

### **DISPUTE MECHANISM**

#### Objection to NORCAL Mutual's Calculation of Allocable Equity

If an Eligible Member (or its designee) believes that NORCAL Mutual has incorrectly calculated its Allocable Equity as estimated by NORCAL Mutual, the Eligible Member (or its designee) may, within forty-five (45) days from the date of the mailing of the Information Statement, proxy and such other explanatory information that the Commissioner approves or requires, send NORCAL Mutual an objection via e-mail (preferred) to [clo@norcal-group.com](mailto:clo@norcal-group.com) or letter to 1700 Bent Creek Boulevard, Mechanicsburg, PA 17050, Attn: Chief Legal Officer (return receipt requested). If sent by mail, the objection will be considered to be received by NORCAL Mutual only when actually received. The Eligible Member must set forth the amount that such Eligible Member (or its designee) believes is the correct amount, along with any documentation that such Eligible Member (or its designee) has to support its calculation. Eligible Members (and their designees) will not have the right to dispute their Allocable Equity in accordance with these procedures unless they do so within such forty-five (45) day period; provided, however, that an Eligible Member's legal rights and other claims against NORCAL Mutual under California law with respect to the determination of Allocable Equity shall not be prejudiced.

The Chief Financial Officer of NORCAL Mutual will then review the objection and NORCAL Mutual will inform such Eligible Member (or its designee) in writing of the Chief Financial Officer's determination as to whether the Eligible Member's (or its designee's) calculation is correct.

If the Eligible Member (or its designee) still disagrees with NORCAL Mutual's calculation, it may appeal that determination to an impartial ombudsman by sending a request to NORCAL Mutual, who will forward the appeal to the ombudsman. The ombudsman will review both the Eligible Member's (or its designee's) calculation and that of NORCAL Mutual and issue a decision within five (5) business days of receipt thereof, or within such reasonable time as determined by the ombudsman. The ombudsman's decision will be communicated in writing to the Eligible Member (or its designee) and to NORCAL Mutual. The ombudsman's decision shall be final unless reversed by the Commissioner upon request for review by the Eligible Member or NORCAL Mutual. The impartial ombudsman will be appointed by NORCAL Mutual, subject to approval by the Commissioner.

#### Objection to Recipient of Consideration

If a policy administrator has not been specifically designated to receive the Consideration allocated to an Eligible Member, but nevertheless believes that it has a legal right to elect the form of and/or receive such Consideration, such policy administrator may send NORCAL Mutual an objection via e-mail (preferred) to [clo@norcal-group.com](mailto:clo@norcal-group.com) or letter to 1700 Bent Creek Boulevard, Mechanicsburg, PA 17050, Attn: Chief Legal Officer (return receipt requested), at any time prior to the date of the Commissioner's public hearing. If sent by mail, the objection will be considered to be received by NORCAL Mutual only when actually

received. The objection must set forth the policy administrator's position along with a statement to the effect that the policy administrator has provided a copy of such e-mail or letter to the applicable Eligible Member(s). NORCAL Mutual will forward the objection to the ombudsman. The ombudsman will review the objection and issue a decision within five (5) business days of receipt thereof, or within such reasonable time as determined by the ombudsman. The ombudsman's decision will be communicated in writing to the policy administrator, the Eligible Member and to NORCAL Mutual. The ombudsman's decision shall be final unless reversed by the Commissioner upon request for review by the policy administrator, the Eligible Member or NORCAL Mutual.



**EXHIBIT A**

**ACQUISITION AGREEMENT**

See Annex B to the Information Statement.

**EXHIBIT B**

**AMENDED AND RESTATED ARTICLES**

See Annex C to the Information Statement.

**EXHIBIT C**

**AMENDED AND RESTATED BYLAWS**

See Annex D to the Information Statement.

## **EXHIBIT D**

### **LIST OF OFFICERS AND DIRECTORS**

See Annex E to the Information Statement.

**EXHIBIT E**

**CERTIFIED BOARD RESOLUTIONS**

See Annex F to the Information Statement

**EXHIBIT F**

**REVISED AND RESTATED APPRAISAL REPORT**

See Annex M to the Information Statement.

## **EXHIBIT G**

### **THREE-YEAR *PRO FORMA* FINANCIAL STATEMENTS**

See Annex G to the Information Statement

**EXHIBIT H**  
**PLAN OF OPERATIONS**

See Annex H to the Information Statement.



**EXHIBIT I**  
**INFORMATION STATEMENT**

See Information Statement.

**EXHIBIT J**

**NOTICE OF SPECIAL MEETING**

See Annex I to the Information Statement.

**EXHIBIT K**

**FORM OF CONTRIBUTION CERTIFICATE**

See Annex J to the Information Statement.

**ANNEX B**

**ACQUISITION AGREEMENT**

**AGREEMENT AND PLAN OF ACQUISITION**  
**BY AND AMONG**  
**PROASSURANCE CORPORATION,**  
**PRA PROFESSIONAL LIABILITY GROUP, INC.**  
**AND**  
**NORCAL MUTUAL INSURANCE COMPANY**

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## AGREEMENT AND PLAN OF ACQUISITION

THIS AGREEMENT AND PLAN OF ACQUISITION (the “*Agreement*”), dated as of February 20, 2020, by and among PROASSURANCE CORPORATION, a Delaware corporation (“*ProAssurance*”), PRA PROFESSIONAL LIABILITY GROUP, INC., a Delaware corporation (“*PRA Professional*”), and together with ProAssurance, collectively, “*PRA*”) and NORCAL MUTUAL INSURANCE COMPANY, a California mutual insurance company (“*NORCAL*”).

### WITNESSETH:

**WHEREAS**, ProAssurance is an insurance holding company that provides, through insurance subsidiaries, professional liability insurance, liability insurance for medical technology and life sciences risk and workers’ compensation insurance and PRA Professional is a wholly owned subsidiary of ProAssurance that serves as a holding company for ProAssurance’s insurance subsidiaries that provide professional liability insurance;

**WHEREAS**, NORCAL is a mutual insurance company that provides, directly and through its subsidiaries, medical professional liability insurance throughout the United States;

**WHEREAS**, the Board of Directors of NORCAL (“*NORCAL Board*”) has, by at least two-thirds of the NORCAL Board, adopted the Plan of Conversion (as defined in Section 2.1 below), pursuant to which NORCAL will be converted (the “*Conversion*”) from a mutual insurance company to a stock insurance company and renamed NORCAL Insurance Company (“*NORCAL INC.*”) pursuant to Section 4097 et seq. of the California Insurance Code (“*CA Insurance Code*”);

**WHEREAS**, the Plan of Conversion provides that each of NORCAL’s Policyholders has the right to elect to receive in the Conversion (i) a contribution certificate, (ii) cash, or (iii) shares of common stock of NORCAL INC. in exchange for their membership interests as policyholders of NORCAL, in accordance with and subject to the terms and conditions of this Agreement and the Plan of Conversion;

**WHEREAS**, PRA desires to acquire control of NORCAL INC. on the terms and subject to the conditions set forth in this Agreement;

**WHEREAS**, in furtherance thereof and pursuant to this Agreement, ProAssurance has agreed to cause PRA Professional to offer to purchase all of the outstanding shares of NORCAL Common Stock immediately after the Conversion for the PRA Consideration on the terms and subject to the conditions set forth in this Agreement; and

**WHEREAS**, the Board of Directors of ProAssurance (the “*PRA Board*”) has determined that it is in the best interests of PRA for PRA to acquire NORCAL through the transactions provided for in this Agreement and the NORCAL Board has determined that it is in the best interests of NORCAL and its policyholders for PRA to acquire NORCAL through the transactions provided for in this Agreement.

**NOW, THEREFORE**, in consideration of the mutual covenants, representations,

warranties and agreements contained in this Agreement, and intending to be legally bound by this Agreement, the parties to this Agreement agree as follows:

## ARTICLE 1 DEFINITIONS

**1.1 Definition of Certain Terms; Interpretation.** The terms defined in this Section 1.1, whenever used in this Agreement (including in the NORCAL Disclosure Schedule or the PRA Disclosure Schedule), shall have the respective meanings indicated below for all purposes of this Agreement (each such meaning to be equally applicable to the singular and the plural forms of the respective terms so defined).

The following terms, as used in this Agreement, have the meanings that follow:

**“Action”** means any claim, action, cause of action, demand, lawsuit, arbitration, audit, proceeding, litigation, citation, summons or subpoena (whether civil, criminal, administrative or regulatory) whether at law or in equity.

**“Adoption Date”** means February 18, 2020.

**“Affiliate”** means with respect to any specified Person, any other Person that at the time of determination directly, or indirectly through one or more intermediaries, Controls, or is Controlled by, or is under common Control with, such specified Person.

**“Applicable Law”** means all laws, published rules, statutes, regulations, codes and judgments, injunctions, orders, decrees, licenses, permits and all other binding requirements of Governmental Authorities applicable to the Person, place and situation in question.

**“Business Day”** means any day other than a Saturday, Sunday or other day on which banking institutions in the State of California are required or authorized by law or executive order to be closed.

**“Code”** means the United States Internal Revenue Code of 1986, as amended.

**“Control”** means, as to any Person, the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. The terms “Controlled by,” “under common Control with” and “Controlling” shall have correlative meanings.

**“Conversion Statutes”** means the provisions of CA Insurance Code Section 4097 *et seq.* applicable to the conversion of a mutual insurance company to a stock insurance company, but excluding the provisions applicable to the organization of a mutual holding company.

**“Eligible Policyholder”** means, at any time prior to the Closing Date, a person who is a Policyholder on the Adoption Date and, at any time on or after the Closing Date, a person who is a Policyholder on both the Adoption Date and the Closing Date. For the avoidance of doubt, a person who is a Policyholder on the Adoption Date and who terminates or non-renews his, her or

its Policy (as defined in the Plan of Conversion) prior to the Closing Date will not be an Eligible Policyholder and will not be entitled to receive Conversion Consideration even if such person timely submits an election to receive the Conversion Consideration pursuant to the Plan of Conversion.

**“Employee Plan”** means any “employee benefit plan,” as defined in Section 3(3) of ERISA; any employment, severance or similar service agreement, plan, arrangement or policy; any other plan or arrangement providing for compensation, bonuses, profit-sharing, stock option or other equity-related rights or other forms of incentive or deferred compensation, vacation benefits, insurance (including any self-insured arrangements), medical, dental or vision benefits, disability or sick leave benefits, life insurance, employee assistance program, workers’ compensation, supplemental unemployment benefits, severance benefits and post-employment or retirement benefits (including compensation, pension, insurance or medical benefits); or any loan; in each case including plans or arrangements, both written and oral, covering or extended to any current or former director, officer, manager, employee or independent contractor.

**“Environmental Laws”** means any federal, state, local or foreign law (including common law) treaty, judicial decision, regulation, rule, judgment, order, decree, injunction, permit or binding governmental restriction or requirement relating to protection of the environment or to pollutants, contaminants, wastes or chemicals or any toxic, radioactive, ignitable, corrosive, reactive or otherwise hazardous substances, wastes or materials.

**“Environmental Permits”** means, with respect to any Person, all permits, licenses, franchises, certificates, approvals and other similar authorizations of Governmental Authorities required by Environmental Laws and affecting, or relating in any way to, the business of such Person or any of such Person’s Subsidiaries, as currently conducted.

**“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

**“ERISA Affiliate”** means any Person that, together with NORCAL, would be treated as a single employer within the meaning of Section 414(b), (c), (m) or (o) of the Code.

**“Exchange Act”** means the Securities Exchange Act of 1934, as amended.

**“Governmental Authority”** means any United States federal, state or local or any supra-national or non-U.S. governmental, political subdivision, governmental, regulatory or administrative authority, instrumentality, agency, body or commission, self-regulatory organization or any court, tribunal, or judicial or arbitral body.

**“Insurance Laws”** means all Applicable Laws applicable to the business of insurance and the regulation of insurance holding companies, whether domestic or foreign, and all applicable orders and directives of Governmental Authorities and market conduct recommendations resulting from market conduct examinations of Insurance Regulators.

**“Insurance Regulators”** means all Governmental Authorities regulating the business of insurance under the Insurance Laws.

**“Intellectual Property”** means all trademarks, service marks, logos, domain names, corporate names and registrations and applications for registration thereof, copyrights and registrations and applications for registration thereof, computer software (including computer software used in insurance operations or for accounting operations), data and documentation, trade secrets and confidential business information (including financial, marketing and business data, pricing and cost information, business and marketing plans, and customer and supplier lists and information), other proprietary rights, and copies and tangible embodiments thereof (in whatever form or medium).

**“Knowledge of NORCAL”** means the actual knowledge of any person listed on Exhibit A after reasonable inquiry of such person’s direct reports.

**“Knowledge of PRA”** means the actual knowledge of any person listed on Exhibit B after reasonable inquiry of such person’s direct reports.

**“Lien”** means, with respect to any property or asset (real or personal, tangible or intangible), any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such property or asset. For purposes of this Agreement, a Person shall be deemed to own subject to a Lien any property or asset that it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such property or asset.

**“Material Adverse Effect”** means, with respect to NORCAL and PRA, as the case may be, a material adverse effect on the business, assets, properties, operations, or condition (financial or otherwise) of such party and its Subsidiaries taken as a whole; provided that any adverse change or effect arising out of or resulting from or attributable to the following shall be excluded in any determination of Material Adverse Effect: (i) any circumstance, change or effect (including international events such as acts of terrorism or war) affecting generally companies operating in the medical professional liability insurance business; (ii) any circumstance, change or effect affecting generally the United States or world economy or capital, credit or financial markets generally, including changes in interest or exchange rates; (iii) changes or prospective changes in laws, rules or regulations or accounting or actuarial practices or principles or any change in the interpretation or enforcement thereof by a Governmental Authority; (iv) the execution or announcement of or the consummation of the transactions contemplated by this Agreement or the Plan of Conversion (including the adverse effect of any loss or threatened loss of, or disruption or threatened disruption in, any customer, reinsurer, policyholder, supplier, and/or vendor relationships or loss of personnel resulting from such execution, announcement or consummation); (v) actions taken or omitted by such party at the direction of, or with the prior written consent of, the other party; (vi) the effect of any action taken by the other party or its Affiliates with respect to the transactions contemplated by this Agreement; (vii) compliance with the terms of, or the taking of any action required by, this Agreement; (viii) the effect of any breach, violation or non-performance of any provision of this Agreement by the other party or its Affiliates; (ix) any action taken in connection with obtaining regulatory or third party approvals, licenses or consents or any event, change or effect resulting therefrom; (x) any acts of war (whether or not declared), armed hostilities, sabotage or terrorism occurring after the date of this Agreement or the continuation, escalation or worsening of any such acts of war, armed hostilities, sabotage or terrorism threatened or underway as of the date of this Agreement; (xi) any earthquakes, hurricanes, floods or other

natural disasters, acts of God, pandemics or force majeure events; (xii) any change in NORCAL's credit rating or financial strength rating (including AM Best rating) or any failure by any party or its Affiliates to meet any projections, estimates or budgets for any period prior to, on or after the date of this Agreement (other than facts underlying such failure); (xiii) any deterioration in the business, financial condition (including statutory surplus) and/or prospects of any party or its Affiliates to the extent it relates to or arises out of circumstances or conditions existing as of the date of this Agreement that were known by, or disclosed to, the other party as of or prior to the date of this Agreement, including those matters set forth in the Disclosure Schedule or (xiv) any Action initiated or threatened on or after the date hereof by any policyholders of NORCAL against NORCAL, any of its Affiliates or any of their respective directors or officers arising out of this Agreement or the transactions contemplated hereby. Notwithstanding the foregoing, with respect to clauses (i), (ii), (iii), (x) or (xi) above, any adverse change or effect may be taken into account in determining whether or not there has been a "Material Adverse Effect" to the extent that NORCAL or PRA, as the case may be, and its respective Subsidiaries (taken as a whole) are disproportionately affected thereby as compared to other participants in the industries or markets in which NORCAL or PRA, as the case may be, operate.

**"Multiemployer Plan"** means a plan as defined in ERISA Section 3(37).

**"NORCAL Disclosure Schedule"** means the disclosure schedule delivered by NORCAL to PRA on the date of this Agreement, which such disclosure schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in Article 5; provided, however, (i) that each exception set forth in such disclosure schedule shall be deemed disclosed for purposes of all representations and warranties if such exception shall reasonably appear from the substance of the exception to be applicable to any such representations or warranties in Article 5, and (ii) the mere inclusion of an exception in such disclosure schedule shall not be deemed an admission by NORCAL that such exception represents a material fact, event or circumstance or would result in a material adverse effect, material adverse change or Material Adverse Effect on NORCAL.

**"NORCAL Privacy and Data Policies"** means all of NORCAL's and the NORCAL Subsidiaries' internal or public-facing policies, notices, and statements concerning the privacy, security, or Processing of Personal Information in effect as of the date hereof or that have been in effect in the past three years.

**"Permitted Lien"** means (i) any Liens included in the NORCAL Disclosure Schedules; (ii) statutory Liens for current Taxes or other governmental charges not yet due and payable or the amount or validity of which is being contested in good faith by appropriate Actions of NORCAL or its Affiliates; (iii) mechanics', carriers', workers', repairers' and similar statutory Liens arising or incurred in the ordinary course of business; and (iv) zoning, entitlement, building and other land use regulations imposed by any Governmental Authority having jurisdiction over owned real property which are not violated by the current use and operation of the owned real property.

**"Person"** means an individual, corporation, partnership (general or limited), limited liability company, association, trust or other entity or organization, including any Governmental Authority.

***“Personal Information”*** means any information that identifies or, alone or in combination with any other information, could reasonably be used to identify, locate, or contact a natural Person, including name, street address, telephone number, email address, identification number issued by a Governmental Authority, credit card number, bank information, customer or account number, online identifier, device identifier, IP address, browsing history, search history, or other website, application, or online activity or usage data, location data, biometric data, medical or health information, or any other information that is considered “personally identifiable information,” “personal information,” or “personal data” under applicable Privacy Laws.

***“Policyholder”*** means a Person who (i) holds a policy of insurance issued by NORCAL, other than a reinsurance contract or reporting endorsement and (ii) by the records of NORCAL and by its articles of incorporation or bylaws, is deemed to be a holder of a membership interest in NORCAL as of an applicable date.

***“PRA Disclosure Schedule”*** means the disclosure schedule delivered by PRA to NORCAL on the date of this Agreement, which such disclosure schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in Article 6; provided, however, (i) that each exception set forth in such disclosure schedule shall be deemed disclosed for purposes of all representations and warranties if such exception shall reasonably appear from the substance of the exception to be applicable to any such representations or warranties in Article 6, and (ii) the mere inclusion of an exception in such disclosure schedule shall not be deemed an admission by PRA that such exception represents a material fact, event or circumstance or would result in a material adverse effect, material adverse change or Material Adverse Effect on PRA.

***“Privacy Laws”*** means all Applicable Laws concerning the privacy, security, or Processing of Personal Information, including, as applicable, data breach notification laws, consumer protection laws, laws concerning requirements for website and mobile application privacy policies and practices, Social Security number protection laws, and data security laws, and laws concerning email, text message, or telephone communications. Without limiting the foregoing, Privacy Laws include: the Federal Trade Commission Act, the Telephone Consumer Protection Act, the Telemarketing and Consumer Fraud and Abuse Prevention Act, the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, the Children’s Online Privacy Protection Act, the California Consumer Privacy Act of 2018, the Computer Fraud and Abuse Act, the Electronic Communications Privacy Act, the Fair Credit Reporting Act, the Fair and Accurate Credit Transaction Act, the Health Insurance Portability and Accountability Act of 1996, as amended and supplemented by the Health Information Technology for Economic and Clinical Health Act of the American Recovery and Reinvestment Act of 2009, the Gramm-Leach-Bliley Act, the Family Educational Rights and Privacy Act, and all other similar international, federal, state, provincial, and local laws.

***“Processing”*** means any operation performed on Personal Information, including the collection, creation, receipt, access, use, handling, compilation, analysis, monitoring, maintenance, storage, transmission, transfer, protection, disclosure, destruction, or disposal of Personal Information.

***“Record Date Policyholder”*** means each Policyholder of record as of the record date for

the Special Meeting as determined by the NORCAL Board in accordance with bylaws of NORCAL in effect as of the Adoption Date.

“**SEC**” means the United States Securities and Exchange Commission.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Solicitation Period**” means the 30-day period commencing on the date the Exchange Agent delivers the information required by Section 4.3(c), or such longer period as the parties may agree.

“**Subsidiary**” of any Person means any corporation, general or limited partnership, joint venture, limited liability company, limited liability partnership, other business or insurance entity or organization or other Person that is a legal entity, trust or estate (i) where such Person has the right to elect a majority of the board of directors (or a majority of another body performing similar functions) of or otherwise control or manage such corporation or other Person, whether through ownership of voting securities or interests, by exercising of contractual rights or otherwise, or (ii) of which (or in which ) more than 50% of the (a) voting capital stock of such corporation or other Person, (b) interest in the capital or profits of such partnership, joint venture or limited liability company or (c) the beneficial interest in such trust or estate, is at the time of determination directly or indirectly owned or controlled by such Person.

“**Termination Fee**” means \$15,000,000.

**1.2 Index of Other Defined Terms.** Set forth below is an index to the definitions set forth in this Agreement.

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## ARTICLE 2 PLAN OF CONVERSION

**2.1 NORCAL Plan of Conversion.** Prior to the execution of this Agreement, the NORCAL Board, by at least two-thirds of the NORCAL Board, adopted a Plan of Conversion, a copy of which has been provided to PRA (as amended or supplemented from time to time in accordance with the terms of this Agreement, the “*Plan of Conversion*”), which complies with the Conversion Statutes and includes or provides for the following:

(a) the conversion of NORCAL from a mutual insurance company to a stock insurance company under the name of NORCAL INC. in accordance with Section 4097(a) of the CA Insurance Code such that NORCAL INC. shall be a continuation of the existence of NORCAL and treated as such pursuant to Section 4097.11(b) of the CA Insurance Code;

(b) the appraised value of NORCAL of Four Hundred Forty Million Dollars (\$440,000,000) (the “*NORCAL Appraised Value*”), as determined in accordance with the Conversion Statutes;

(c) a fair, just and equitable formula for the determination of each of Policyholder’s fractionalized interest of the NORCAL Appraised Value, as determined by the NORCAL Board in accordance with the Conversion Statute (each, a “*Fractionalized Interest*” and, collectively, the “*Fractionalized Interests*”);

(d) each Eligible Policyholder’s preemptive right to acquire his or her proportionate part of all of the proposed shares to be issued in a single class of voting common stock of NORCAL INC. (the “*NORCAL Common Stock*”), within a reasonable time period, by (i) first dividing the total number of authorized shares of NORCAL Common Stock (the “*Authorized Conversion Shares*”) into the NORCAL Appraised Value to determine the per share price of the NORCAL Common Stock authorized to be issued in the Conversion (the “*Subscription Price Per Share*”), and (ii) next, dividing the Subscription Price Per Share into the value of a Fractionalized Interest of a Policyholder, as determined under the formula described in Section 2.1(c) hereof, to determine the number of shares of NORCAL Common Stock representing the Policyholder’s preemptive right in the NORCAL Appraised Value;

(e) each Policyholder’s right to receive one of the following: (i) a contribution certificate equal to 100% of such Policyholder’s Fractionalized Interest in the NORCAL Appraised Value, which shall bear interest at the rate established in CA Insurance Code Section 10489.4 for minimum standard valuation of all life insurance policies of more than twenty (20) years’ duration issued in the year, and which shall be repayable within ten (10) years following the Plan Effective Date (as defined in the Plan of Conversion) but only with the written consent of the Commissioner and only out of NORCAL’s surplus in excess of four hundred percent (400%) of NORCAL’s “Risk-based Capital” as reflected on NORCAL’s last filed “RBC Report” (collectively, the “*Contribution Certificates*”); (ii) an amount of cash equal to 50% of such Policyholder’s Fractionalized Interest in the NORCAL Appraised Value; or (iii) a number of shares of NORCAL Common Stock with an aggregate value (based on the Subscription Price Per Share) equal to 100% of such Policyholder’s Fractionalized Interest in the NORCAL Appraised Value;

(f) the issuance of Contribution Certificates to Policyholders who either (i) elect to receive a Contribution Certificate or (ii) do not elect to receive a cash payment or shares of capital stock of NORCAL INC. pursuant to the Plan of Conversion (the “***Certificate Subscribers***”);

(g) the payment of cash to Policyholders who elect to receive a cash payment as determined in accordance with Section 2.1(e) above pursuant to the Plan of Conversion (the “***Cash Subscribers***”);

(h) the issuance of NORCAL Common Stock to Policyholders who elect to receive shares of capital stock of NORCAL INC. pursuant to the Plan of Conversion (the “***Stock Subscribers***”);

(i) the number of shares of NORCAL Common Stock to be authorized and the Subscription Price Per Share, as determined in accordance with Section 2.1(d);

(j) the adoption of the articles of incorporation for NORCAL INC. after the Conversion in substantially the form attached to the Plan of Conversion (the “***Articles of Incorporation***”);

(k) the adoption of bylaws for NORCAL INC. after the Conversion in substantially the form attached to the Plan of Conversion (the “***Bylaws***”);

(l) the appointment of the persons named on Exhibit C to serve as directors and officers of NORCAL INC. after the Conversion;

(m) that the effectiveness of the Plan of Conversion is conditioned upon Stock Subscribers holding at least 80% of the shares of NORCAL Common Stock outstanding immediately after the Conversion electing to sell their shares of NORCAL Common Stock to PRA Professional pursuant to Section 3.1 below (such Stock Subscribers, including, for the avoidance of doubt, Certificate Subscribers and Stock Subscribers who change their election or make an election, as the case may, during the Election Solicitation, the “***Selling Stockholders***”);

(n) that the NORCAL Common Stock issued pursuant to the Plan of Conversion shall have been offered and issued in compliance with federal and applicable state securities laws;

(o) that the requirement that the conditions set forth in Section 9.1 hereof shall be satisfied as conditions to the effectiveness of the Plan of Conversion; and

(p) such additional terms and provisions as are agreed upon in writing by the parties hereto and not inconsistent with the provisions set forth herein.

**2.2 Approval of the Plan of Conversion.** Subject to the provisions of Section 8.3 and Section 8.7 hereof:

(a) As promptly as reasonably practicable after the execution and delivery of this Agreement by the parties, NORCAL shall file the Plan of Conversion with the Insurance

Commissioner (the “**Commissioner**”) of the California Department of Insurance (the “**Department**”) in accordance with the Conversion Statute. NORCAL shall take such action as may reasonably be required to obtain approval of the Plan of Conversion by the Commissioner, in accordance with the Conversion Statute, including without limitation providing notice of the Plan of Conversion to Policyholders and the public hearing thereon, if any, and appearing at the hearing on the Plan of Conversion; provided, however, that any changes to the Plan of Conversion required by the Commissioner shall require the consent of PRA (which such consent shall not be unreasonably withheld, conditioned or delayed) and at least two-thirds of the NORCAL Board.

(b) NORCAL, in accordance with the Plan of Conversion and Applicable Law (including without limitation the Conversion Statute), shall submit a proposal to the Record Date Policyholders to approve the Plan of Conversion (the “**Proposal**”) in accordance with Section 8.3 hereof (which proposal shall include the terms and conditions of the Offer), and shall give such notice to the Record Date Policyholders containing the date, time and place for voting on the Proposal (the “**Special Meeting**”) as may be required under the Conversion Statute. Subject to Section 8.7 hereof, the Proposal shall include the determination of the NORCAL Board that the Plan of Conversion is fair, just and equitable to the Policyholders and NORCAL and shall include NORCAL Board’s recommendation that the Record Date Policyholders approve the Plan of Conversion.

### **ARTICLE 3 OFFER TO PURCHASE SHARES**

#### **3.1 The Offer.**

(a) **Commencement of the Offer.** Unless this Agreement shall have been terminated in accordance with Article 10, and subject to the other terms and conditions set forth herein and in the Plan of Conversion, (i) simultaneously with the mailing of the Information Statement, PRA shall commence an offer to purchase from the Stock Subscribers the shares of NORCAL Common Stock that will be issued to Stock Subscribers in the Conversion in exchange for the PRA Consideration calculated in accordance with Section 3.2 below (the “**Stock Offer**”), and (ii) immediately following receipt of the information delivered by the Exchange Agent pursuant to Section 4.3(c) hereof, in the event the Offer Condition set forth in Section 3.1(b)(ii) and/or Section 3.1(b)(iii) is not satisfied or waived by PRA as of the date the Exchange Agent delivers the information required by Section 4.3(c), PRA shall commence a solicitation of the Certificate Subscribers to change their election from a Certificate Subscriber to, or to make an election to be, as the case may be, a Stock Subscriber and then sell, and/or, if applicable, a solicitation of the Stock Subscribers to sell, shares of NORCAL Common Stock of such Stock Subscribers pursuant to the Stock Offer (the “**Election Solicitation**”), in which case the Stock Offer shall be extended through the end of the Solicitation Period (the “**Extended Stock Offer**” and together with the Stock Offer, collectively, the “**Offer**”).

(b) **Terms and Conditions of the Offer.** The obligation of PRA to accept for payment and purchase the shares of NORCAL Common Stock in the Stock Offer or the Extended Stock Offer validly tendered and not validly withdrawn pursuant to the Offer shall be subject to: (i) consummation of the Conversion in accordance with the Plan of Conversion and the Conversion

Statute (the “**Conversion Condition**”); (ii) the face amount of the Contribution Certificates to be issued to Eligible Policyholders in the Conversion shall not exceed \$200,000,000; (iii) the holders of not less than 80% of the outstanding shares of NORCAL Common Stock to be issued in the Conversion validly tender their shares of NORCAL Common Stock for purchase pursuant to the Offer; and (iv) the satisfaction, or waiver (to the extent permitted by Law and the terms of this Agreement) of the conditions set forth in Article 9 (together with the Conversion Condition, the conditions in clauses (ii), (iii) and (iv), collectively, the “**Offer Conditions**”). Subject to the satisfaction or waiver by PRA of the Offer Conditions, PRA shall, and shall cause PRA Professional to, consummate the Offer in accordance with its terms and shall pay for all shares of NORCAL Common Stock so purchased as promptly as practicable after the Closing in accordance with Article 4 hereof.

(c) **Offer to Purchase; Adjustment of Offer Price; Waiver of Conditions.**

The Offer shall be made by means of an offer to purchase (the “**Offer to Purchase**”) that describes the terms and conditions of the Offer as set forth in this Agreement, including the Offer Conditions, which terms and conditions shall comply with Section 14(e) of the Exchange Act and the rules promulgated thereunder. PRA expressly reserves the right (in its sole discretion) to waive, in whole or in part, any Offer Condition, to the extent allowed under Article 9 of this Agreement, to increase the PRA Consideration, or to make any other changes in the terms and conditions of the Offer; provided, however, that unless otherwise provided by this Agreement or as previously approved in writing by NORCAL, PRA shall not: (i) reduce the number of shares of NORCAL Common Stock subject to the Offer; (ii) reduce the PRA Consideration; (iii) add, amend or modify any Offer Condition in a manner adverse in any respect to any holders of shares of NORCAL Common Stock; (iv) except as otherwise provided in this Section 3.1, extend or otherwise change the expiration date of the Offer; (v) change the form of consideration payable in the Offer; or (vi) otherwise amend, modify, or supplement any of the terms of the Offer in a manner adverse in any respect to any holders of shares of NORCAL Common Stock.

(d) **Expiration of the Offer; Extension of Offer.** The Stock Offer shall expire at 5:00 p.m. (Central Time) on the date that is sixty days (60) days after the initial mailing of the Information Statement (the “**Stock Offer Initial Expiration Time**”) or, in the event the Stock Offer Initial Expiration Time has been extended pursuant to this Agreement, including an extension through the end of the Solicitation Period pursuant to Section 3.1(a), the date and time to which the Offer has been so extended (the Stock Offer Initial Expiration Time, or such later date and time to which the Stock Offer Initial Expiration Time has been extended pursuant to this Agreement, is referred to as the “**Offer Expiration Time**”). Subject to Section 10.1(i), PRA shall, and shall cause PRA Professional to: (i) extend the Offer until the first Business Day following the issuance by the Commissioner of his decision and order approving the Plan of Conversion if such decision and order has not been issued prior to the sixtieth (60th) day following the initial mailing of the Information Statement; and (ii) extend the Stock Offer for any period required by Applicable Law, any interpretation or position of the SEC, the staff thereof, or the New York Stock Exchange (the “**NYSE**”) applicable to the Stock Offer, and until any waiting period (and any extension thereof) applicable to the consummation of the Stock Offer under the Hart-Scott-Rodino Anti-Trust Improvements Act, as amended, and the rules and regulations thereunder (collectively, the “**HSR Act**”), and any other similar Applicable Law shall have expired or been terminated; provided, however, that in no event shall PRA or PRA Professional be required to extend the Stock Offer at any time that PRA is permitted to terminate this Agreement pursuant to Article 10.

(e) **Payment.** On the terms and subject to the conditions of this Agreement, PRA shall, and shall cause PRA Professional to, promptly after the Offer Expiration Time accept for payment all shares of NORCAL Common Stock validly tendered and not validly withdrawn pursuant to the Offer and promptly pay for such shares tendered pursuant to the Offer in accordance with Article 4 hereof.

(f) **Termination of Offer.** PRA shall not terminate or withdraw the Offer prior to the applicable Offer Expiration Time without the prior written consent of NORCAL except in the event that this Agreement is terminated pursuant to Article 10. If the Offer is terminated or withdrawn by PRA in accordance with the terms of this Agreement, or this Agreement is terminated pursuant to Article 10, prior to the acceptance for payment of NORCAL Common Stock tendered in the Offer, PRA shall promptly return, and shall cause any depository acting on behalf of PRA to return, all tendered NORCAL Common Stock to the registered holders thereof.

### **3.2 Purchase Price of NORCAL Common Stock.**

(a) The aggregate purchase price for all Authorized Conversion Shares shall be the sum of the following (the “**PRA Consideration**”): (i) a fixed amount of \$450,000,000 assuming all Policyholders are Stock Subscribers (the “**Fixed PRA Consideration**”) and (ii) a contingent amount of up to \$150,000,000 to be determined as provided in Section 3.2(b) hereof (the “**Contingent PRA Consideration**”). For each share of NORCAL Common Stock issued in the Conversion, PRA agrees to pay to the holder of a share of NORCAL Common Stock cash in an amount equal to such holder’s pro rata share of each of the Fixed PRA Consideration and the Contingent PRA Consideration with such pro rata share to be determined on a per share basis by dividing the total number of Authorized Conversion Shares into the amount of each of the Fixed PRA Consideration and the Contingent PRA Consideration. The per share amount of the Fixed PRA Consideration and the Contingent PRA Consideration (the “**Per Share Offer Price**”) shall be payable to the Selling Stockholders in cash as provided in Article 4 hereof. For the avoidance of doubt, the Fixed PRA Consideration and Contingent PRA Consideration shall be payable only to those Eligible Policyholders who elect to receive NORCAL Common Stock in the Conversion and who tender their shares of NORCAL Common Stock to PRA pursuant to the Offer so that the total consideration paid by PRA under this Section 3.2(a) will be reduced by an amount equal to the aggregate Per Share Offer Price for the number of shares of NORCAL Common Stock that would have been issued to the Certificate Subscribers and Cash Subscribers if the Certificate Subscribers and Cash Subscribers had elected to become Stock Subscribers in the Conversion. By way of example, assuming that the total number of Authorized Conversion Shares (being the total number of shares of NORCAL Common Stock authorized to be issued in the Conversion) is 8,800,000 shares and that the total amount of the Contingent PRA Consideration is ultimately determined to be \$150,000,000, the Per Share Offer Price for a share of NORCAL Common Stock pursuant to the Offer shall be \$68.1818181818 which is an amount equal to the sum of (i) \$51.1363636363 (determined by dividing the number of Authorized Conversion Shares (8,800,000) into the Fixed PRA Consideration (\$450,000,000)); and (ii) \$17.0454545454 (determined by dividing the number of Authorized Conversion Shares (1,000,000) into the Contingent PRA Consideration (\$150,000,000)). Assuming further that only 7,040,000 shares of NORCAL Common Stock are issued to Stock Subscribers in the Conversion because Policyholders entitled to receive 1,760,000 shares of NORCAL Common Stock are Certificate Subscribers or Cash Subscribers, then the total PRA Consideration available for payment for the shares of NORCAL Common Stock issued to



Stock Subscribers in the Conversion will be reduced by \$120,000,000 (1,760,000 shares multiplied by the Per Share Offer Price of \$68.1818181818) from \$600,000,000 to \$480,000,000.

(b) The Contingent PRA Consideration shall be an amount equal to the product to be determined by multiplying (X) the After Tax Percentage (as defined in subparagraph (i) of this Section 3.2(b)) and (Y) the amount by which the PRA Ultimate Loss Estimate (as defined in subparagraph (ii) of this Section 3.2(b)) exceeds the Actuary's Ultimate Loss Estimate (as defined in subparagraph (iii) of this Section 3.2(b)); provided that in the event the amount of the Actuary's Ultimate Loss Estimate is equal to or greater than the PRA Ultimate Loss Estimate, the amount of the Contingent PRA Consideration shall be zero dollars (\$0), and in no event shall the total amount of the Contingent PRA Consideration exceed \$150,000,000; provided, however, that to the extent (A) the sum of the face amount of the Contribution Certificates to be issued to Eligible Policyholders in the Conversion; plus (B) the sum of the cash to be paid to Eligible Policyholders in the Conversion; plus (C) the value of the shares to be issued to Eligible Policyholders in the Conversion assuming all shares are valued at a purchase price equal to the Fixed PRA Consideration, exceeds \$450,000,000 (such excess, if any, being referred to herein as the "Excess Amount"), then in such event (i) PRA shall not be obligated to make any payments of Contingent PRA Consideration hereunder until the aggregate amount of Contingent PRA Consideration exceeds the Excess Amount, in which event PRA shall only be required to pay Contingent PRA Consideration in excess of the Excess Amount; and (ii) the total possible Contingent PRA Consideration of \$150,000,000 shall be reduced dollar-for-dollar by an amount equal to the Excess Amount.

(i) The "**After Tax Percentage**" shall be the percentage determined by subtracting from one hundred percent (100%) the maximum federal income tax marginal rate for corporations for the taxable year ending December 31, 2023; *provided*, that to the extent any reserves of NORCAL or any NORCAL Insurance Subsidiary are released in any of the taxable years ending December 31, 2020, December 31, 2021 or December 31, 2022, then the After Tax Percentage shall be adjusted to reflect (on a proportional basis) the maximum federal income tax for corporations for the taxable year(s) in which such reserves are released.

(ii) The "**PRA Ultimate Loss Estimate**" shall be an amount equal to the sum of (A) Three Billion Six Hundred Twenty-Seven Million Dollars (\$3,627,000,000) (being an amount equal to the consolidated ultimate losses and loss adjustment expenses (allocated and unallocated) net of reinsurance as has been determined by PRA for NORCAL and its Subsidiaries for the accident years ended on or before December 31, 2018 determined in accordance with the reserve requirements, statutory accounting rules and actuarial principles applicable to NORCAL and its Subsidiaries under Applicable Law and, to the extent consistent therewith, commonly accepted actuarial and practices consistently applied in the preparation of the PRA Ultimate Loss Estimate schedule, a copy of which has been delivered to NORCAL on the date hereof); plus (B) an amount equal to 102% of the consolidated net earned premium as reported in the consolidated annual statement of NORCAL and its Subsidiaries for the year ending December 31, 2019; plus (C) an amount equal to 98% of the consolidated net earned premium reported in the consolidated annual statement of NORCAL and its Subsidiaries for the year ending December 31, 2020; provided that for purposes of this calculation the net earned premium amounts referenced in subsections (B) and (C) above shall exclude the effect of any adjustment related to NORCAL's reserve for death, disability or retirement.

(iii) The “**Actuary’s Ultimate Loss Estimate**” shall mean the amount of the best estimate of NORCAL’s 2020 Ultimate Net Loss (herein defined) for accident years ended on or before December 31, 2020, to be determined as of December 31, 2023, by an independent actuary in accordance with this Section 3.2(b)(iii). Prior to Closing, NORCAL and PRA shall select a mutually acceptable independent actuarial consultant (the “**Actuary**”) to conduct a reserve review of the consolidated ultimate losses and loss adjustment expenses (including both allocated and unallocated expenses) of NORCAL and its Subsidiaries. In connection with such review, the Actuary shall determine its best estimate of the consolidated ultimate losses and loss adjustment expenses (allocated and unallocated) of NORCAL and its Subsidiaries at December 31, 2020 net of reinsurance for accident years ended on or before December 31, 2020 (“**NORCAL’s 2020 Ultimate Losses**”). The Actuary shall conduct an actuarial review of NORCAL’s 2020 Ultimate Losses at December 31, 2023, to roll forward its estimate of NORCAL’s 2020 Ultimate Losses. All actuarial calculations shall be in accordance with the reserve requirements, statutory accounting rules and actuarial principles applicable to NORCAL and its Subsidiaries under Applicable Law and, to the extent consistent therewith, commonly accepted actuarial standards and practices consistently applied in the preparation of the PRA Ultimate Loss Estimate schedule, a copy of which has been delivered to NORCAL on the date hereof. The Actuary’s Ultimate Loss Estimate shall be an amount equal to the Actuary’s estimate of NORCAL’s 2020 Ultimate Losses at December 31, 2023, as the same may be adjusted in accordance with Section 3.2(c) hereof.

(c) The determination of the Actuary’s Ultimate Loss Estimate shall be completed on or before June 30, 2024. Upon completion, the Actuary shall provide a written report to PRA and to the NORCAL Committee appointed pursuant to Section 3.2(d) hereof. PRA and the NORCAL Committee shall have a period of thirty (30) days to review the Actuary’s report on the Actuary’s Ultimate Loss Estimate. In the event that either of PRA or the NORCAL Committee disagrees with the determination of the Actuary’s Ultimate Loss Estimate, then PRA and/or the NORCAL Committee may deliver written notice of disagreement setting forth the basis of such disagreement to the other party within such thirty (30) day review period. If PRA and the NORCAL Committee are unable to resolve any disagreement within thirty (30) days of delivery of such notice of disagreement, then PRA and the NORCAL Committee shall jointly appoint a nationally recognized independent actuary (or, if PRA and the NORCAL Committee are unable to agree on such actuary, a nationally recognized independent actuary selected by the Actuary) (the “**Second Actuary**”) to perform an independent review to determine its best estimate of NORCAL’s 2020 Ultimate Losses at December 31, 2023 (the “**Second Actuary’s Estimate**”). If the loss reserve calculation embedded in the Second Actuary’s Estimate are within five percent (5%) of the loss reserve calculation embedded in the Actuary’s Ultimate Loss Estimate, then the Actuary’s Ultimate Loss Estimate as delivered by the Actuary shall be final and binding. If the loss reserve calculation embedded in the Second Actuary’s Estimate is not within five percent (5%) of the loss reserve calculation embedded in the Actuary’s Ultimate Loss Estimate, then the amount of the Actuary’s Ultimate Loss Estimate under Section 3.2(b)(iii) hereof shall be the average of the Actuary’s Ultimate Loss Estimate and the Second Actuary’s Estimate. The cost of the Actuary and a Second Actuary (if any) shall be paid in equal shares by PRA and by the NORCAL Committee from the Contingent PRA Consideration; provided that if there is no Contingent PRA Consideration to be paid after completion of the reviews by the Actuary and/or Second Actuary, PRA shall be solely responsible for the cost of the Actuary and the Second Actuary (if any).

(d) On or before the Closing, NORCAL shall appoint a committee comprised of three individuals (the “**NORCAL Committee**”) to act for and on behalf of NORCAL in the appointment of the Actuary pursuant to Section 3.2(b)(iii) and to review the Actuary’s Ultimate Loss Estimate and to appoint a Second Actuary if the NORCAL Committee, in its discretion, determines to exercise the right to appoint a Second Actuary in accordance with Section 3.2(c) hereof. The NORCAL Committee shall act by a majority of its members. Any vacancy on the NORCAL Committee shall be filled by the remaining members on the Committee. The NORCAL Committee shall provide PRA notice of the names of the members of the Committee and an address at which notices to the NORCAL Committee can be delivered. The costs and expenses of the NORCAL Committee, including any amounts payable to members of the NORCAL Committee as compensation or the costs and expenses of legal, financial and other professional advisers retained by the NORCAL Committee to assist in the performance of its duties, shall reduce the Contingent PRA Consideration (if any) or be paid by NORCAL (if the Contingent PRA Consideration is determined to be \$0 or is otherwise not sufficient to pay such costs and expenses).

**3.3 Reverse Stock Split.** Subject to the terms and provisions of this Agreement and Applicable Law, after the Closing, PRA may cause NORCAL INC. to be recapitalized through a reverse stock split of the NORCAL Common Stock or through other reorganization transactions. The consideration payable to each holder of fractional shares of NORCAL Common Stock will be an amount of PRA Consideration equal to the amount of PRA Consideration such holder would have received had such holder tendered his shares of NORCAL Common Stock to PRA in the Offer.

## **ARTICLE 4 THE CLOSING**

**4.1 Closing.** Subject to the terms and conditions of this Agreement, the closing of the Conversion and the Offer as contemplated by this Agreement (the “**Closing**”) will take place at the offices of McDermott Will & Emery LLP in San Francisco, California, at 10:00 a.m. on a date to be specified in a notice delivered by PRA, which shall be on a date no later than five (5) Business Days after the satisfaction or waiver (subject to Applicable Law) of the latest to occur of the conditions set forth in Article 9 of this Agreement, or at such other time and place as may be mutually agreed by the parties (the “**Closing Date**”).

**4.2 Exchange Agent.** PRA and NORCAL shall mutually designate a bank or other institution (the “**Exchange Agent**”) to act as conversion agent and paying agent in effecting the distribution and payment of the Conversion Consideration to the Policyholders and the PRA Consideration to the Selling Stockholders. NORCAL and PRA shall each be responsible for and pay one-half of all of the charges and expenses of the Exchange Agent associated with the effecting the distributions and payments contemplated by this Agreement.

**4.3 Exchange Procedures.**

(a) As soon as reasonably practicable (but in any event at least five (5) Business Days) before the mailing of the Information Statement to the Eligible Policyholders, NORCAL shall provide to the Exchange Agent a list, certified by the Secretary of NORCAL, which sets forth

the name, address and other information reasonably requested by the Exchange Agent of each Eligible Policyholder, the Fractionalized Interest of such Eligible Policyholder and the estimated Allocable Equity (as defined in the Plan of Conversion) of such Eligible Policyholder (the “*Eligible Policyholder Distribution List*”).

(b) As soon as practicable after NORCAL’s delivery to the Exchange Agent of the items required to be delivered pursuant to Section 4.3(a) hereof, the Exchange Agent shall, with the mailing of the Information Statement, send to each Eligible Policyholder an election form or other form of documentation, in form and substance reasonably acceptable to NORCAL and PRA, setting forth the options such Eligible Policyholder has with respect to the Conversion as set forth in Article 9 of the Plan of Conversion, including (i) the estimated amount of cash such Eligible Policyholder shall receive if such Eligible Policyholder elects to receive cash in the Conversion, (ii) the estimated face amount of a Contribution Certificate such Eligible Policyholder shall receive if such Eligible Policyholder elects (or fails to make any election) to receive a Contribution Certificate in the Conversion, (iii) the estimated number of shares of NORCAL Common Stock that will be issued to such Eligible Policyholder in the Conversion if such Eligible Policyholder elects to receive NORCAL Common Stock, and (iv) the estimated amount of Fixed PRA Consideration payable to such Eligible Policyholder and the right to receive Contingent PRA Consideration, if any, if such Eligible Policyholder elects to tender to PRA Professional all of his, her or its shares of NORCAL Common Stock. An IRS Form W-9 will accompany the election form or other form of documentation sent to Eligible Policyholders by the Exchange Agent for an Eligible Policyholder to complete and return to the Exchange Agent if such Eligible Policyholder elects to become a Cash Subscriber or a Selling Stockholder. A letter of transmittal will accompany the election form or other form of documentation sent to Eligible Policyholders by the Exchange Agent for an Eligible Policyholder to complete and return to the Exchange Agent if such Eligible Policyholder elects to tender all of his, her or its shares of NORCAL Common Stock to PRA Professional in accordance with Article 3 hereof. Upon Exchange Agent’s receipt of a letter of transmittal, duly executed by a Stock Subscriber and such other documents as may reasonably be required by the Exchange Agent, such Stock Subscriber shall be entitled to receive in exchange for such Stock Subscriber’s NORCAL Common Stock the Fixed PRA Consideration and the Contingent PRA Consideration, if any, in accordance with Section 3.1 and Section 3.2 hereof. In the event of a transfer of ownership of shares to a person that is not listed as an Eligible Policyholder in the Eligible Policyholder Distribution List, payment may be made to a person other than the person named in the Eligible Policyholder Distribution List if the letter of transmittal is executed in proper form for transfer and the person requesting such payment shall establish ownership of the shares to the satisfaction of the Exchange Agent. No interest will be paid or will accrue on the PRA Consideration.

(c) As soon as reasonably practicable after the Stock Offer Initial Expiration Time, the Exchange Agent shall provide NORCAL and PRA:

(i) a list that sets forth the name of each Certificate Subscriber and the face amount of each Conversion Certificate to be issued to each of them as a result of the Conversion (the “*Certificate Distribution List*”);

(ii) a list that sets forth the name of each Cash Subscriber and the amount of cash to be distributed to each of them as a result of the Conversion (the “**Cash Distribution List**”);

(iii) a list that sets forth the name of each Selling Stockholder and the number of uncertificated shares of NORCAL Common Stock to be issued to each of them as a result of the Conversion; and

(iv) a list that sets forth the name of each Non-Electing Stock Subscriber and the number of uncertificated shares of NORCAL Common Stock to be issued to each of them as a result of the Conversion (the “**Non-Electing Stockholder Distribution List**”).

(d) As soon as practicable after the Exchange Agent’s delivery to NORCAL and PRA of the items required to be delivered pursuant to Section 4.3(c) hereof, if PRA Professional commences the Election Solicitation and/or the Extended Stock Offer, the Exchange Agent shall (i) send to each Stock Subscriber who did not elect to tender all of his, her or its shares of NORCAL Common Stock to PRA Professional in the Stock Offer (“**Non-Electing Stock Subscriber**”) an election form or other form of documentation, in form and substance reasonably acceptable to NORCAL and PRA, setting forth the number of shares of NORCAL Common Stock to be issued to such Non-Electing Stock Subscriber, the amount of Fixed PRA Consideration payable to such Non-Electing Stock Subscriber and the right to receive Contingent PRA Consideration, if any, if such Non-Electing Stock Subscriber changes his, her or its election to receive NORCAL Common Stock and tender all of his, her or its shares of NORCAL Common Stock, attaching an IRS Form W-9 that will accompany the election form or other form of documentation sent to Eligible Policyholders by the Exchange Agent for such Non-Electing Stock Subscriber to complete and return to the Exchange Agent if such Non-Electing Stock Subscriber elects to tender all of his, her or its shares of NORCAL Common Stock to PRA Professional in accordance with Article 3, and attaching a letter of transmittal for such Non-Electing Stock Subscriber to complete and return to the Exchange Agent if such Non-Electing Stock Subscriber elects to tender all of his, her or its shares of NORCAL Common Stock to PRA Professional in accordance with Article 3, and (ii) if PRA Professional initiates the Election Solicitation, send to each Certificate Subscriber an election form or other form of documentation, in form and substance reasonably acceptable to NORCAL and PRA, setting forth the amount of Fixed PRA Consideration payable to such Certificate Subscriber and the right to receive Contingent PRA Consideration, if any, if such Certificate Subscriber changes his, her or its election to receive NORCAL Common Stock and tenders all of his, her or its NORCAL Common Stock, and attaching an IRS Form W-9 that will accompany the election form or other form of documentation sent to Eligible Policyholders by the Exchange Agent for such Non-Electing Stock Subscriber to complete and return to the Exchange Agent if such Non-Electing Stock Subscriber elects to tender all of his, her or its shares of NORCAL Common Stock to PRA Professional in accordance with Article 3, and attaching a letter of transmittal for such Certificate Subscriber to complete and return to the Exchange Agent if such Certificate Subscriber elects change his, her or its election to receive NORCAL Common Stock and tender all of his, her or its NORCAL Common Stock to PRA Professional in accordance with Article 3. Upon Exchange Agent’s receipt of a letter of transmittal, duly executed by a Non-Electing Stock Subscriber or a Certificate Subscriber who has subsequently elected to be a Stock Subscriber in connection with the Election Solicitation and to tender all of his, her or its shares of NORCAL Common Stock, if applicable, and such other

documents as may reasonably be required by the Exchange Agent, such Non-Electing Stock Subscriber or Certificate Subscriber who has subsequently elected to be a Stock Subscriber in connection with the Election Solicitation and to tender all of his, her or its shares of NORCAL Common Stock, as applicable, shall be entitled to receive in exchange for such Non-Electing Stock Subscriber's or Certificate Subscriber's NORCAL Common Stock, the Fixed PRA Consideration and the Contingent PRA Consideration, if any, in accordance with Section 3.1 and Section 3.2 hereof. In the event of a transfer of ownership of shares to a person that is not listed as a Non-Electing Stock Subscriber in the Non-Electing Stockholder Distribution List or a Certificate Subscriber who has subsequently elected to be a Stock Subscriber in connection with the Election Solicitation in the Certificate Subscription List, as applicable, payment may be made to a person other than the person named in the Non-Electing Stockholder Distribution List or Certificate Distribution List, as applicable, if the letter of transmittal is executed in proper form for transfer and the person requesting such payment shall establish ownership of the shares to the satisfaction of the Exchange Agent. No interest will be paid or will accrue on the PRA Consideration.

(e) Promptly after the Offer Expiration Time, the Exchange Agent shall certify as to the number of shares of NORCAL Common Stock validly tendered and not withdrawn. If the number of shares of NORCAL Common Stock so tendered is 80% or more of the number of shares to be issued by NORCAL in the Conversion, the Exchange Agent shall provide to PRA a list which shall set forth the name and address of each Selling Stockholder who validly tendered, and did not validly withdraw, all of his, her or its shares of NORCAL Common Stock to PRA Professional pursuant to the Offer, the number of share of NORCAL Common Stock tendered to PRA Professional and the amount of the PRA Consideration payable to such Selling Stockholder (the "*Selling Stockholder Distribution List*").

(f) The Exchange Agent shall maintain the Selling Stockholder Distribution List until the distribution of the Contingent PRA Consideration is made to the Selling Stockholders in accordance with Section 4.8 hereof. The right to receive payment of the Contingent PRA Consideration shall not be transferable by any of the Selling Stockholders, except (i) to the personal representative or heirs of a deceased individual; or (ii) the successor to the business of a corporation or other business entity, in each case upon presentation to the Exchange Agent of documentation of such permitted transfer to the satisfaction of the Exchange Agent. The Exchange Agent shall provide a copy of the Selling Stockholder Distribution List to PRA and the NORCAL Committee upon their reasonable request.

#### **4.4 Deposit of Funds.**

(a) At least three (3) Business Days prior to the Closing, NORCAL shall:

(i) deposit with the Exchange Agent (or otherwise make available to the reasonable satisfaction of PRA and the Exchange Agent), for the benefit of the Certificate Subscribers, a number of Contribution Certificates equal to the total face amount of Contribution Certificates distributable to the Certificate Subscribers upon the effectiveness of the Conversion, and

(ii) deposit with the Exchange Agent (or otherwise make available to the reasonable satisfaction of PRA and the Exchange Agent), for the benefit of the Cash

Subscribers, an amount of cash equal to the total amount of cash distributable to the Cash Subscribers upon the effectiveness of the Conversion (the “*Cash Subscriber Payment Amount*”).

(b) At least three (3) Business Days prior to the Closing, PRA shall deposit or cause to be deposited with the Exchange Agent (or otherwise make available to the reasonable satisfaction of NORCAL and the Exchange Agent), for the benefit of the Selling Stockholders and for exchange through the Exchange Agent, an amount of cash equal to the total amount of the Fixed PRA Consideration (such amount, together with the Cash Subscriber Payment Amount, the “*Exchange Fund*”).

**4.5 Effective Time of the Plan of Conversion.** At the Closing, NORCAL shall deliver a certified copy of the Plan of Conversion and Articles of Incorporation to the Department. Upon receipt of the certified copy of the Plan of Conversion and Articles of Incorporation, the Commissioner shall issue a new certificate of authority (the “*Certificate of Authority*”) for NORCAL stating the effective date of the Conversion and deliver the Articles of Incorporation to the office of the California Secretary of State for filing in accordance with CA Insurance Code Section 4097.11. The effective time of the Plan of Conversion (the “*Conversion Effective Time*”) shall be at such time as the Commissioner provides in the Certificate of Authority. At the Conversion Effective Time, NORCAL shall cause the Exchange Agent to issue or pay (i) the Contribution Certificates to all Certificate Subscribers in accordance with the Plan of Conversion; (ii) cash to all Cash Subscribers in accordance with the Plan of Conversion; and (iii) uncertificated shares of NORCAL Common Stock to all of the Stock Subscribers in accordance with the Plan of Conversion (collectively, the “*Conversion Consideration*”). The Conversion Consideration shall be payable by NORCAL by delivery of the same to the Exchange Agent.

**4.6 Purchase of NORCAL Common Stock by PRA.** At the Closing and immediately after the Conversion Effective Time (the “*Purchase Effective Time*”), PRA shall cause PRA Professional to purchase, and the Selling Stockholders shall sell, the shares of NORCAL Common Stock issued to the Selling Stockholders set forth on the Selling Stockholder Distribution List (the “*Purchased Stock*”) for the PRA Consideration. The purchase price of the Purchased Stock shall be payable by PRA by delivery of the Fixed PRA Consideration to the Exchange Agent as provided in Section 4.4(b) and by payment of the Contingent PRA Consideration as provided in Section 4.8 hereof. Upon the occurrence of both the Conversion Effective Time and delivery of the PRA Consideration to the Exchange Agent, the transfer of the Purchased Stock from the Selling Stockholders to PRA Professional shall be effective without any further action on the part of PRA, PRA Professional, the Selling Stockholders and NORCAL INC. shall reflect such transfer in its corporate records as of said time.

#### **4.7 Conversion and Exchange Procedures**

(a) As promptly as practicable, but in no event more than ten (10) Business Days after the Closing Date, the Exchange Agent shall distribute from the Exchange Fund:

(i) to each Certificate Subscriber, a contribution certificate, in the face amount set forth on the Certificate Distribution List, as the contribution certificate required to be delivered to such Certificate Subscriber in connection with the Conversion;

(ii) to each Cash Subscriber, a check or wire transfer for funds, in the amount set forth on the Cash Distribution List, as the cash payment required to be paid to such Cash Subscriber in connection with the Conversion;

(iii) to each Non-Electing Stock Subscriber, a book entry registration representing the number of uncertificated shares of NORCAL Common Stock issued to such Stock Subscriber in connection with the Conversion; and

(iv) to each Stock Subscriber who is a Selling Stockholder, a check or wire transfer for funds, in an amount equal to the Fixed PRA Consideration payable to such Selling Stockholder in exchange for the sale of such Selling Stockholder's NORCAL Common Stock to PRA Professional, as set forth on the Selling Stockholder Distribution List.

(b) Any other provision of this Agreement notwithstanding, neither PRA nor the Exchange Agent shall be liable to a Policyholder, Cash Subscriber, Selling Stockholder or Non-Electing Stock Subscriber for any amounts paid or property delivered in good faith to a public official pursuant to any applicable abandoned property law.

**4.8 Payment of the Contingent PRA Consideration.** If the Contingent PRA Consideration is due to be paid to the Selling Stockholders then the payment thereof shall be made in accordance with this Section 4.8.

(a) As soon as practicable after the determination of the Actuary's Ultimate Loss Estimate in accordance with Section 3.2 hereof, PRA shall provide the NORCAL Committee notice of the amount of the Contingent PRA Consideration, and the NORCAL Committee shall provide to PRA a list of the costs and expenses incurred pursuant to Section 3.2(d) hereof and the names and addresses of the payees of such costs and expenses. PRA shall then calculate the amount of the Contingent PRA Consideration to be paid to the Selling Stockholders after deducting payment of such costs and expenses.

(b) Promptly after making the calculation required under Section 4.8(a) above, PRA shall deposit or cause to be deposited with the Exchange Agent (i) cash in an amount equal to the Contingent PRA Consideration (the "***Contingent Consideration Exchange Fund***"), (ii) the list of payees of costs and expenses provided to PRA by the NORCAL Committee under Section 4.8(a) above and (iii) the amount of the Contingent PRA Consideration payable to each of the Selling Stockholders.

(c) Promptly after receipt of all of the required deliverables from PRA under Section 4.8(b) above, the Exchange Agent shall distribute from the funds deposited by or on behalf of PRA, (i) payment of costs and expenses on the list provided by the NORCAL Committee under Section 4.8(a) above; and (ii) payment of the amount of Contingent PRA Consideration to each of the Selling Stockholders in accordance with the list provided by PRA under Section 4.8(b) above.

**4.9 Undistributed Exchange Fund.**

(a) Any portion of the Exchange Fund that remains undistributed to the Policyholders and/or Selling Stockholders for twelve (12) months after the Closing Date shall be



delivered to PRA, on demand, and the Exchange Agent's duties with respect to the Exchange Fund hereunder shall terminate. Thereafter and subject to applicable abandoned property, escheat and similar laws, each Policyholder and/or Selling Stockholder that has not yet received the distribution to which it is entitled to pursuant to this Agreement and the Plan of Conversion may contact PRA and PRA shall pay or deliver to such Policyholder and/or Selling Stockholder the consideration to which it is entitled.

(b) Any portion of the Contingent Consideration Exchange Fund that remains undistributed to the Selling Stockholders for twelve (12) months after December 31, 2023 shall be delivered to PRA, on demand, and the Exchange Agent's duties with respect to the Contingent Consideration Exchange Fund hereunder shall terminate. Thereafter and subject to applicable abandoned property, escheat and similar laws, each Selling Stockholder that has not yet received the distribution to which it is entitled to pursuant to this Agreement and the Plan of Conversion may contact PRA and PRA shall pay or deliver to such Selling Stockholder the consideration to which it is entitled.

**4.10 Withholding.** NORCAL, PRA and the Exchange Agent will be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement or the transactions contemplated hereby to any Policyholder and/or Selling Stockholder such amounts as NORCAL (or any Affiliate thereof), PRA (or any Affiliate thereof) or the Exchange Agent is required to deduct and withhold with respect to the making of such payment to such Policyholder and/or Selling Stockholder under the Code, or any applicable provision of U.S. federal, state, local or non-U.S. tax law. To the extent that such amounts are properly withheld by NORCAL, PRA or the Exchange Agent and remitted to the proper Governmental Authority, such withheld amounts will be treated for all purposes of this Agreement as having been paid to such Policyholder and/or Selling Stockholder in respect of whom such deduction and withholding were made by NORCAL, PRA or the Exchange Agent.

## **ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF NORCAL.**

Except as set forth in the NORCAL Disclosure Schedule (including any changes to the NORCAL Disclosure Schedule that are disclosed by NORCAL to PRA in accordance with Section 8.5 of this Agreement), NORCAL represents and warrants to PRA as follows:

### **5.1 Corporate Organization.**

(a) NORCAL is a mutual insurance company duly organized, validly existing and in good standing under the laws of the State of California. NORCAL has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as it is now being conducted.

(b) NORCAL is duly licensed or qualified to do business in each jurisdiction in which the nature of the business conducted by it or the character or location of the properties and assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed or qualified would not have a Material Adverse Effect on NORCAL. Section 5.1(b) of the NORCAL Disclosure Schedule identifies a true, complete and correct list of

(i) the type of insurance products that NORCAL is authorized or licensed to offer, (ii) the states or other jurisdictions in which NORCAL is authorized or licensed to offer such insurance products, and (iii) the licenses or authorizations held by NORCAL to offer such insurance products. NORCAL does not offer any insurance products in any jurisdiction where it is neither authorized nor licensed to offer such insurance products. All of such licenses identified in Section 5.1 of the NORCAL Disclosure Schedules are in full force and effect, and NORCAL has not received any written or, to the Knowledge of NORCAL, oral notice from any Governmental Authority regarding the actual or proposed revocation, amendment, cancellation, termination, modification, impairment, failure to renew, limitation, suspension or restriction of any such license, nor is there any proceeding or, to the Knowledge of NORCAL, investigation by a Governmental Authority pending or, to the Knowledge of NORCAL, threatened which would reasonably be expected to lead to the revocation, amendment, cancellation, termination, modification, impairment, failure to renew, limitation, suspension or restriction of any such license.

## **5.2 Subsidiaries.**

(a) Section 5.2(a) of the NORCAL Disclosure Schedule sets forth the name and state of incorporation or organization of each Subsidiary of NORCAL (the “**NORCAL Subsidiaries**”). Each NORCAL Subsidiary (i) is duly organized and validly existing as a corporation under the laws of its jurisdiction of organization, and (ii) has all requisite corporate power and authority to own or lease its properties and assets and to carry on its business as now conducted.

(b) Section 5.2(b) of the NORCAL Disclosure Schedule identifies a true, complete and correct list of (i) the NORCAL Subsidiaries that conduct insurance business of any kind and in any capacity, including as an insurer, insurance agent or broker, insurance adjustor, insurance administrator, risk purchasing group or risk retention group (the “**NORCAL Insurance Subsidiaries**”), (ii) the states or other jurisdictions in which the NORCAL Insurance Subsidiaries are authorized or licensed to conduct such insurance business, (iii) the licenses or authorizations held by the NORCAL Insurance Subsidiaries to conduct insurance business in each of those states or other jurisdictions, and (iv) as applicable, the type of insurance products that they are authorized or licensed to offer in each such state or other jurisdiction. Except as set forth in Section 5.2(b) of the NORCAL Disclosure Schedules, no NORCAL Insurance Subsidiary offers any insurance products or conducts any insurance business in any jurisdiction where it is neither authorized nor licensed to conduct such insurance business. The business of each NORCAL Insurance Subsidiary has been and is being conducted in compliance with all of its licenses in all material respects. All of such licenses identified in Section 5.2(b) of the NORCAL Disclosure Schedule are in full force and effect, and NORCAL and the NORCAL Insurance Subsidiaries have not received written or, to the Knowledge of NORCAL, oral notice from any Governmental Authority regarding the actual or proposed revocation, amendment, cancellation, termination, modification, impairment, failure to renew, limitation, suspension or restriction of any such license, nor is there any proceeding or, to the Knowledge of NORCAL, investigation by any Governmental Authority pending or, to the Knowledge of NORCAL, threatened which would reasonably be expected to lead to the revocation, amendment, cancellation, termination, modification, impairment, failure to renew, limitation, suspension or restriction of any such license. Each NORCAL Subsidiary is duly qualified to do business and in good standing in all jurisdictions (whether federal, state, local or foreign) where its ownership or leasing of property or the conduct of its business requires it to be

so qualified and in which the failure to be so qualified would have a Material Adverse Effect on NORCAL.

(c) Except as set forth in Section 5.2(c) of the NORCAL Disclosure Schedule, NORCAL is, directly or indirectly, the record and beneficial owner of all of the outstanding shares of capital stock of each of the NORCAL Subsidiaries. There are no irrevocable proxies granted by NORCAL or any NORCAL Subsidiary with respect to such shares. There are no equity securities of any of the NORCAL Subsidiaries that are or may become required to be issued by reason of any option, warrants, scrip, rights, to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into or exchangeable for, shares of any capital stock of any of the NORCAL Subsidiaries except shares of the NORCAL Subsidiaries issued to other wholly owned NORCAL Subsidiaries. There are no contracts, commitments, understandings or arrangements by which any of the NORCAL Subsidiaries is bound to issue additional shares of its capital stock or options, warrants or rights to purchase or acquire any additional shares of its capital stock or securities convertible into or exchangeable for such shares. All of the shares of the NORCAL Subsidiaries described in the first sentence of this Section 5.2(c) are validly issued, fully paid and nonassessable and free of preemptive rights, and are owned by NORCAL or a NORCAL Subsidiary free and clear of any and all Liens except for Permitted Liens.

**5.3 Corporate Affairs.** NORCAL has made available to PRA correct and complete copies of the articles of incorporation and bylaws of NORCAL and the articles of incorporation and bylaws of each of the NORCAL Subsidiaries (each as amended to date) (the “*Organizational Documents*”). NORCAL has made available to PRA all of the minute books containing the records of the meetings of the policyholders, the board of directors and any committee of the board of directors of NORCAL and each of the NORCAL Subsidiaries (except for confidential portions of such minutes relating to the Conversion and the transactions contemplated by this Agreement) since January 1, 2016. Subject to the immediately preceding sentence, the minute books of NORCAL and the NORCAL Subsidiaries reflect all of the material actions taken by each of their respective boards of directors (including each committee thereof) and policyholders. NORCAL has made available to PRA all of the stock ledgers of NORCAL and the NORCAL Subsidiaries.

**5.4 Capitalization.**

(a) At the Conversion Effective Time, all of the shares of NORCAL Common Stock to be issued to Stock Subscribers pursuant to the Plan of Conversion will be authorized under the Articles of Incorporation. The shares of NORCAL Common Stock issued pursuant to the Plan of Conversion will constitute all of the issued and outstanding shares of capital stock of NORCAL INC., all of which will be duly authorized and validly issued and fully paid, nonassessable and free of preemptive rights. As of the date of this Agreement and other than as provided in this Agreement, NORCAL does not have and is not bound by any outstanding subscriptions, options, warrants, calls, commitments or agreements of any character calling for the purchase or issuance of any shares of NORCAL Common Stock or any other equity securities of NORCAL INC. or any securities representing the right to purchase or otherwise receive any shares of NORCAL Common Stock or any other equity securities of NORCAL.

(b) Section 5.4(b) of the NORCAL Disclosure Schedule sets forth a complete list of (i) the officers and directors of NORCAL and each NORCAL Subsidiary, (ii) the percentage

of the outstanding voting stock of each NORCAL Subsidiary owned or controlled, directly or indirectly, by NORCAL, and (iii) the percentage of the outstanding voting stock of each NORCAL Subsidiary owned or controlled, directly or indirectly, by one or more of the other Subsidiaries of NORCAL. Except as set forth in Section 5.4(b) of the NORCAL Disclosure Schedule, NORCAL does not have any direct or indirect equity or ownership interest in any other business or entity and does not have any direct or indirect obligation or any commitment to invest any funds in any corporation or other business or entity, other than for investment purposes in the ordinary course of business in accordance with past practice.

### **5.5 Authority; No Violation; Consents and Approvals.**

(a) Subject to the receipt of all approvals of Governmental Authorities required to consummate the transactions contemplated by this Agreement as set forth on Section 5.5(a) of the NORCAL Disclosure Schedule (all such approvals and the expiration or termination of all statutory waiting periods in respect thereof being referred to in this Agreement as the “*Requisite Regulatory Approvals*”), NORCAL has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement by NORCAL and the consummation of the transactions contemplated hereby have been authorized by the NORCAL Board. Other than obtaining approval and adoption of the Plan of Conversion by at least two-thirds of the NORCAL Board, the approval and adoption of the Plan of Conversion and this Agreement by the affirmative vote of at least two-thirds of the Record Date Policyholders that actually vote, whether by ballot, in person or by proxy (provided there is a quorum as required by CA Insurance Code Section 4097.07), and any actions required to obtain all Requisite Regulatory Approvals, no other corporate proceedings on the part of NORCAL are necessary to approve the Plan of Conversion and this Agreement and to consummate the transactions contemplated by this Agreement. Subject to the foregoing, this Agreement has been duly and validly executed and delivered by NORCAL and (assuming due authorization, execution and delivery by PRA and the receipt of all Requisite Regulatory Approvals) constitutes a valid and binding obligation of NORCAL, subject to applicable bankruptcy, insolvency and similar laws affecting creditors’ rights generally, and subject, as to enforceability, to general principles of equity.

(b) Neither the execution and delivery of this Agreement by NORCAL nor the consummation by NORCAL of the transactions contemplated by the Plan of Conversion and this Agreement, nor compliance by NORCAL with any of the terms or provisions of the Plan of Conversion and this Agreement, will (i) violate any provision of the Organizational Documents or (ii) assuming that all Requisite Regulatory Approvals and all of the consents and approvals referred to in Section 5.5(c) of this Agreement are duly obtained, (x) violate any Applicable Law applicable to NORCAL or any of its properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the properties or assets of NORCAL under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, surplus debentures, deed of trust, license, lease, agreement or other instrument or obligation to which NORCAL is a party, or by which it or any of its properties or assets may be bound or affected, except (in the case of clause (ii) above) as set forth in Section 5.5(b)(ii) of the NORCAL Disclosure Schedule, or for such

violations, conflicts, breaches, terminations, cancellations, accelerations, Liens or defaults which, either individually or in the aggregate, would not have a Material Adverse Effect on NORCAL.

(c) Except for (i) the Requisite Regulatory Approvals and (ii) the approval of the Plan of Conversion and the transactions contemplated by this Agreement by the requisite votes of the Record Date Policyholders, no consents or approvals of or filings or registrations with any Governmental Authority, or with any other Person by NORCAL or any NORCAL Subsidiary are necessary in connection with the execution and delivery by NORCAL of this Agreement or the consummation by NORCAL of the transactions contemplated by this Agreement, except where the failure to obtain any such consents or approvals or to make any such filings would not be material to the transaction or NORCAL and the NORCAL Subsidiaries, taken as a whole.

(d) Except as provided by Section 4097.04 of the CA Insurance Code, no Policyholder of NORCAL shall have any pre-emptive rights under Applicable Law with respect to, or as a result of, the transactions contemplated by this Agreement (including the Conversion).

## **5.6 Insurance Reports.**

(a) Since December 31, 2016 NORCAL and each NORCAL Insurance Subsidiary (i) have filed or submitted (or have filed or submitted on its behalf) with all applicable Insurance Regulators all reports, registrations, statements, documents, filings, submissions, notices and reports, together with all supplements and amendments thereto required under the Insurance Laws applicable to insurance holding companies (the “**NORCAL Holding Company Act Reports**”), (ii) have filed (or have had filed on its behalf) all NORCAL SAP Statements, (iii) have filed (or have had filed on its behalf) all other material reports, registrations, statements, documents, filings, submissions and notices, together with all amendments and supplements thereto, required to be filed with any Insurance Regulator under the Insurance Laws, and (iv) have paid all fees and assessments due and payable by them under the Insurance Laws. Section 5.6(a) to the NORCAL Disclosure Schedule sets forth a list of, and NORCAL has made available to PRA, accurate and complete copies of, all NORCAL SAP Statements, all NORCAL Holding Company Act Reports, and all other material reports, registrations, statements, documents, filings, submissions, and notices filed by NORCAL or any of the NORCAL Insurance Subsidiaries with any Insurance Regulator for periods ending and events occurring, after December 31, 2016 and prior to the Closing Date. All such NORCAL SAP Statements, NORCAL Holding Company Act Reports and other material reports, registrations, statements, documents, filings, submissions, and notices complied in all material respects with the Insurance Laws when filed or as amended or supplemented and, as of their respective dates, contained all material information required under the Insurance Laws and did not contain any false statements or material misstatements of fact or omit to state any material facts necessary to make the statements set forth therein not materially misleading in light of the circumstances in which such statements were made. No deficiencies have been asserted by any Governmental Authority with respect to such NORCAL SAP Statements, NORCAL Holding Company Act Reports and other material reports, registrations, statements, documents, filings, submissions, and notices. Nothing in this Section 5.6(a) shall apply to Taxes, which are covered exclusively by Section 5.12.

(b) Except for normal examinations conducted by a Governmental Authority in the regular course of the business of NORCAL and its Subsidiaries, audits by taxing authorities

and consumer complaints to Insurance Regulators in the ordinary course of business, and except as set forth in Section 5.6(b) of the NORCAL Disclosure Schedule, there are no proceedings, investigations, examinations (including financial, market conduct, underwriting, rating or claims examinations) or material inquiries by any Governmental Authority in progress or that have not been completed with respect to NORCAL, any NORCAL Subsidiary or any director or officer of NORCAL or any NORCAL Subsidiary, nor, to the Knowledge of NORCAL, no Governmental Authority initiated or scheduled any proceeding, examination (including financial, market conduct, underwriting, rating or claims examinations) or investigation into the business or operations of NORCAL, any NORCAL Subsidiary, or any director or officer of NORCAL or any NORCAL Subsidiary, since December 31, 2016. All material deficiencies or violations noted with respect to the examinations of NORCAL or any of the NORCAL Subsidiaries (including financial, market conduct, underwriting, rating or claims examinations) have either been resolved, are subject to ongoing negotiation for which NORCAL or the NORCAL Subsidiary, as applicable, believes is a reasonable basis to contest such findings, or are subject to a plan that has been established to resolve such deficiencies or violations, and NORCAL or the NORCAL Subsidiary, as applicable, is in material compliance with any such plan, in each case, to the reasonable satisfaction of the Governmental Authority that noted such deficiencies or violations.

(c) Section 5.6(c) of the NORCAL Disclosure Schedule lists all financial and market conduct (including underwriting, rating or claims) examinations that any Insurance Regulator has conducted with respect to NORCAL or any of the NORCAL Insurance Subsidiaries since December 31, 2016. NORCAL has made available to PRA correct and complete reports issued by the applicable Insurance Regulator with respect to such examinations, including solely with respect to examination for which a final report has not yet been issued, any draft reports and correspondence with respect to such examinations. There are no regulatory examinations (including financial, market conduct, underwriting, rating or claims examinations) of NORCAL or any of the NORCAL Insurance Subsidiaries currently in process.

(d) Except as otherwise contemplated by this Agreement, since December 31, 2016, neither NORCAL nor any NORCAL Subsidiary has received from any Person any Notice on Form A or such other form as may be prescribed under Applicable Law indicating that such Person intends to make or has made a tender offer for or a request or invitation for tenders of, or intends to enter into or has entered into any agreement to exchange securities for, or intends to acquire or has acquired (in the open market or otherwise), any voting security of NORCAL, if after the consummation thereof such Person would directly or indirectly be in control of NORCAL.

## **5.7 Financial Statements; Financial Reporting.**

(a) “*NORCAL SAP Statements*” means (i) the annual statutory statements of each of NORCAL and the NORCAL Insurance Subsidiaries filed with any Insurance Regulator for each of the years ended December 31, 2016, December 31, 2017 and December 31, 2018, (ii) the quarterly statutory statements of each of NORCAL and the NORCAL Insurance Subsidiaries filed with any Insurance Regulator for each quarterly period in 2019 prior to the date of this Agreement, and (iii) all exhibits, interrogatories, notes, schedules and any actuarial opinions, affirmations or certifications or other supporting documents filed in connection with such annual statutory statements and quarterly statutory statements.

(b) All such NORCAL SAP Statements were prepared (i) in conformity with statutory accounting principles prescribed or permitted by the Insurance Regulators consistently applied (“*SAP*”) and (ii) in accordance with the books and records of NORCAL and the NORCAL Insurance Subsidiaries. The NORCAL SAP Statements, when read in conjunction with the notes thereto and any statutory audit reports relating thereto, present fairly in all material respects the financial condition and results of operations of NORCAL and the NORCAL Insurance Subsidiaries for the dates and periods indicated in accordance with SAP. The annual balance sheets and income statements included in the NORCAL SAP Statements have been, where required by Insurance Laws, audited by an independent accounting firm of recognized national reputation. In accordance with Section 5.7(b) of the NORCAL Disclosure Schedule, NORCAL has made available to PRA true and complete copies of all of the NORCAL SAP Statements and all audit opinions related thereto.

(c) Each of NORCAL and the NORCAL Subsidiaries maintains accurate books and records reflecting its assets and liabilities and maintains proper and adequate internal accounting controls over financial reporting which provide reasonable assurance regarding the reliability of financial reporting. Neither the auditors nor the board of directors or audit committee of NORCAL or any NORCAL Subsidiary have been advised by their accountants with respect to the audited consolidated balance sheets of NORCAL and the NORCAL Subsidiaries as of December 31, 2018, and the related consolidated audited statements of earnings, policyholders’ equity and cash flows of NORCAL and the NORCAL Subsidiaries for the period ended December 31, 2018 of: (x) any significant deficiencies or material weaknesses in the design or operation of the internal controls over financial reporting (as such term is defined in Section 13(b)(2)(B) and Rules 13d-15(d) and 15d-15(d) of the Exchange Act) of NORCAL or any NORCAL Subsidiary which could materially adversely affect its ability to record, process, summarize and report financial data, or (y) any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls over financial reporting of NORCAL or any NORCAL Subsidiary.

(d) Except as described in Section 5.7(d) of the NORCAL Disclosure Schedule, at the dates of the aforementioned balance sheets, neither NORCAL nor any of the NORCAL Subsidiaries had any liabilities or obligations of any nature, whether accrued, absolute, contingent or otherwise, which would be required to be disclosed in or reflected or reserved for on a balance sheet prepared in conformity with SAP, other than (i) as disclosed in or reflected or reserved against on the balance sheets described in Section 5.7(a), (ii) those liabilities and obligations incurred pursuant to contractual obligations identified in this Agreement or the NORCAL Disclosure Schedule other than liabilities or obligations due to breaches by NORCAL thereunder, (iii) liabilities incurred or to be incurred pursuant to, in connection with, or as a result of, the Plan of Conversion and the other transactions contemplated by this Agreement and (iv) those liabilities and obligations incurred in the ordinary course of business.

(e) Section 5.7(e) of the NORCAL Disclosure Statement lists, and NORCAL has delivered to PRA copies of the documentation creating or governing, all securitization transactions and “off-balance sheet arrangements” (as defined in Item 303(c) of Regulation S-K of the SEC) effected by NORCAL or any of the NORCAL Subsidiaries since December 31, 2016.

(f) KPMG US LLP, which has expressed its opinion with respect to the financial statements of NORCAL and the NORCAL Subsidiaries (including the related notes), is and has been throughout the periods covered by such financial statements “independent” with respect to NORCAL and the NORCAL Subsidiaries within the meaning of Regulation S-X.

**5.8 Broker’s Fees.** Except as set forth in Section 5.8 of the NORCAL Disclosure Schedule, none of NORCAL, the NORCAL Subsidiaries and their respective officers and directors, has employed any broker or finder or incurred any liability for any broker’s fees or commissions, or investment banker fees or commissions, or finder’s fees in connection with the transactions contemplated by this Agreement.

**5.9 Absence of Certain Changes or Events.**

(a) Since September 30, 2019, and except as set forth in Section 5.9(a) of the NORCAL Disclosure Schedule, neither NORCAL nor any of its Subsidiaries has (except as required by Applicable Law): (i) increased the wages, salaries, compensation, pension, or other fringe benefits or perquisites payable to any executive officer, employee, or director from the amount thereof in effect as of June 30, 2019, (ii) granted any stock options or severance or termination pay, entered into any contract to make or grant any stock options or severance or termination pay, or paid any bonuses, or (iii) suffered any strike, work stoppage, slowdown, or other labor disturbance.

(b) Since September 30, 2019, and except as set forth in Section 5.9(b) of the NORCAL Disclosure Schedule, there has not been: (i) any material adverse change in the financial condition, assets, liabilities or business of NORCAL or any NORCAL Subsidiary; (ii) any material change in any method of accounting or accounting principles or practice by NORCAL or any NORCAL Subsidiary, except as required by SAP and disclosed in the notes to the unaudited financial statements of NORCAL and the NORCAL Subsidiaries; (iii) any material change in the actuarial, investment, reserving, underwriting or claims administration policies, practices, procedures, methods, assumptions (outside of the ordinary course of business) or principles of NORCAL or any NORCAL Insurance Subsidiary; (iv) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the properties or business of NORCAL or any NORCAL Subsidiary; (v) any declaration or payment of any dividends or distribution of any kind to the Policyholders of NORCAL or in respect of the capital stock of any NORCAL Subsidiary; (vi) any direct or indirect redemption, purchase or other acquisition by NORCAL or any NORCAL Insurance Subsidiary of any of the capital stock of any NORCAL Subsidiary; (vii) any discharge or cancellation, whether in part or in whole, of any indebtedness owed by NORCAL or any NORCAL Subsidiary to any Person, except reimbursement to employees of ordinary business expenses or other debts arising in the ordinary course of business; (viii) any sale or transfer or cancellation of any of the assets, properties, or claims of NORCAL or any NORCAL Insurance Subsidiary, except in the ordinary course of business; (ix) any sale, assignment or transfer of any trademarks, trade names, or other intangible assets of NORCAL or any NORCAL Subsidiary; (x) except as set forth in Section 5.9(b) of the NORCAL Disclosure Schedule, any material amendment to or termination of any material contract, agreement, instrument or license to which NORCAL or any NORCAL Subsidiary is a party; or (xi) any other event or condition of any character materially and adversely affecting the business or properties of NORCAL or any NORCAL Subsidiary.



## **5.10 Legal Proceedings and Judgments.**

(a) Except as set forth in Section 5.10(a) of the NORCAL Disclosure Schedule, neither NORCAL nor any NORCAL Subsidiary is a party to any, and there are no pending or, to the Knowledge of NORCAL, threatened, legal, administrative, arbitral or other inquiries, proceedings, claims (whether asserted or unasserted), actions or governmental or regulatory or applicable industry self regulatory organization (including, without limitation, the National Association of Insurance Commissioners) investigations of any nature (including noncontractual claims, bad faith claims and claims against any directors or officers of NORCAL or any NORCAL Subsidiary, but excluding coverage and other claims made with respect to insurance policies issued by NORCAL or any NORCAL Insurance Subsidiary for which adequate claims reserves have been established in accordance with SAP and generally accepted actuarial principles) against NORCAL, any NORCAL Subsidiary, any of their respective businesses or assets, any assets of any other Person which are used in any of the business or operations of NORCAL or any NORCAL Subsidiary, any directors or officers of NORCAL or any NORCAL Subsidiary, or the transactions contemplated by this Agreement, or challenging the validity or propriety of the transactions contemplated by this Agreement, other than, in each case, as would not be material to NORCAL and the NORCAL Subsidiaries, taken as a whole.

(b) Except as set forth in Section 5.10(b) of the NORCAL Disclosure Schedule, there is no injunction, order, judgment, decree, or regulatory restriction (including noncontractual claims, bad faith claims and claims against any directors or officers of NORCAL or any NORCAL Subsidiary, but excluding coverage and other claims made with respect to insurance policies issued by NORCAL or any NORCAL Insurance Subsidiary for which adequate claims reserves have been established) imposed upon NORCAL, any NORCAL Subsidiary or the assets of NORCAL or any NORCAL Subsidiary.

(c) Except as set forth in Section 5.10(c) of the NORCAL Disclosure Schedule, to the Knowledge of NORCAL, since December 31, 2016 no breach of contract, breach of fiduciary duties under ERISA, bad faith, breach of warranty, tort, negligence, infringement, fraud, discrimination, wrongful discharge or other claim of any nature has been asserted or threatened against NORCAL or any NORCAL Subsidiary.

## **5.11 Insurance.**

(a) Section 5.11(a) of the NORCAL Disclosure Schedule sets forth policies of general liability, fire and casualty, automobile, directors and officers, errors and omissions, fiduciary, and other forms of insurance currently maintained by NORCAL and the NORCAL Insurance Subsidiaries (the "*NORCAL Insurance Policies*"). All such policies are in full force and effect, all premiums due and payable thereon have been paid (other than retroactive or retrospective premium adjustments that are not yet, but may be, required to be paid with respect to any period ending prior to the Closing Date under comprehensive general liability and workmen's compensation insurance policies), and no written or, to the Knowledge of NORCAL, oral notice of cancellation or termination has been received with respect to any such policy which has not been replaced on substantially similar terms prior to the date of such cancellation. To the Knowledge of NORCAL, the activities and operations of NORCAL and the NORCAL Insurance

Subsidiaries have been conducted in a manner so as to conform in all material respects to all applicable provisions of such insurance policies.

(b) No issuer of the NORCAL Insurance Policies has issued a reservation-of-rights letter, or entered into a nonwaiver agreement, or otherwise denied or limited coverage (in whole or in part), under any open claims under the NORCAL Insurance Policies, and during the last twelve (12) months no declaratory judgment has been sought by any Person or entered by any court of competent jurisdiction that denies or limits coverage (in whole or in part) under any open claims under the NORCAL Insurance Policies.

#### **5.12 Taxes and Tax Returns.**

(a) As used in this Agreement: “**Tax**” or “**Taxes**” means all federal, state, county, local, and foreign income, excise, gross receipts, gross income, profits, franchise, license, ad valorem, profits, gains, capital, sales, transfer, use, payroll, employment, severance, withholding, duties, intangibles, franchise, backup withholding, stamp, occupation, premium, social security (or similar), unemployment, disability, real property, personal property, sales, use, registration, alternative or add on minimum, estimated, and other taxes, charges, levies or like assessments together with all penalties and additions to tax and interest thereon). “**Tax Return**” or “**Tax Returns**” means any and all returns, declarations, claims for refunds, reports, information returns and information statements (including, without limitation, Form 1099, Form W-2 and W-3, Form 5500, and Form 990) with respect to Taxes filed, or required to be filed, by any Person or any Subsidiary of such Person with the Internal Revenue Service (“**IRS**”) or any other Governmental Authority or tax authority or agency, whether domestic or foreign (including consolidated, combined and unitary tax returns).

(b) NORCAL and the NORCAL Subsidiaries have duly filed all material Tax Returns required to be filed by them on or prior to the date of this Agreement (all such Tax Returns being accurate and complete in all material respects), taking into account any valid extension of time within which to file, and have duly paid or made sufficient provisions for the payment of all Taxes shown thereon as owing on or prior to the date of this Agreement (including, if and to the extent applicable, those due in respect of their properties, income, business, capital stock, premiums, franchises, licenses, sales and payrolls) other than Taxes which are not yet delinquent or are being contested in good faith and have not been finally determined for which adequate reserves have been made on the financial statements described in Section 5.7(a) of this Agreement. Neither NORCAL nor any NORCAL Subsidiary has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax Return or tax assessment or deficiency other than extensions that are automatically granted by the taxing authorities upon filing an application therefor. The unpaid Taxes of NORCAL and the NORCAL Subsidiaries do not exceed the reserve for tax liability set forth on the balance sheets referenced in Section 5.7(a) of this Agreement as adjusted for the passage of time through the Closing Date in accordance with past custom and practice of NORCAL in filing its returns. No written claim (which remains unresolved) has been made since December 31, 2016 by an authority in a jurisdiction where NORCAL or any NORCAL Subsidiary does not file Tax Returns that it is or may be subject to taxation by that jurisdiction.

(c) There is no claim, audit, Action, other administrative or judicial proceeding or, to the Knowledge of NORCAL, investigation now pending or, to the Knowledge of NORCAL, threatened against or with respect to NORCAL or any NORCAL Subsidiary in respect of any material Tax. NORCAL and each NORCAL Subsidiary in connection with amounts paid or owed to any employee, independent contractor, creditor, shareholder or other third party have complied with applicable tax withholding in all material respects. NORCAL and each NORCAL Subsidiary have reported such withheld amounts to the appropriate taxing authority and to each such employee, independent contractor, creditor, shareholder or other third party as required by Applicable Law.

(d) There are no Tax Liens upon any property or assets of NORCAL or its Subsidiaries except for Permitted Liens. Neither NORCAL nor any NORCAL Subsidiary has been required to include in income any adjustment pursuant to Section 481 of the Code by reason of a voluntary change in accounting method initiated by NORCAL or any NORCAL Subsidiary, and the IRS has not initiated or proposed any such adjustment or change in accounting method. Except as set forth in the financial statements described in Section 5.7(a) of this Agreement, neither NORCAL nor any NORCAL Subsidiary has entered into a transaction which is being accounted for as an installment obligation under Section 453 of the Code. Neither NORCAL nor any NORCAL Subsidiary is a party to or bound by any tax indemnity, tax sharing or tax allocation agreement (other than such agreements as exist by and among themselves or customary Tax indemnifications contained in ordinary course commercial contracts with third parties that do not relate primarily to Taxes). Except as set forth in Section 5.13(d) of the NORCAL Disclosure Schedule, since January 1, 2013, neither NORCAL nor any NORCAL Subsidiary has been a member of an affiliated group of corporations within the meaning of Section 1504 of the Code other than an affiliated group in which NORCAL has been the common parent corporation. Neither NORCAL nor any NORCAL Subsidiary is liable for the Taxes of any person under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local or foreign Tax law) or by contract, as a successor or otherwise (other than ordinary course commercial contracts with third parties that do not relate primarily to Taxes). During the five (5) year period ending on the date hereof, neither NORCAL nor any NORCAL Subsidiary was a distributing corporation or a controlled corporation in a transaction intended to be governed by Section 355 of the Code. Neither NORCAL nor any NORCAL Subsidiary is a party to any joint venture, partnership or other arrangement or contract that could be treated as a partnership for federal income tax purposes.

(e) To the Knowledge of NORCAL, there is no dispute or claim concerning any tax liability of NORCAL or any NORCAL Subsidiary except as disclosed in Section 5.12(e) of the NORCAL Disclosure Schedule. Section 5.12(e) of the NORCAL Disclosure Schedule identifies the last Tax Returns that have been audited by the taxing authority with whom they were filed, and indicates those Tax Returns that currently are the subject of an audit procedure or that NORCAL or any NORCAL Subsidiary has received notice will be subject to an audit procedure. NORCAL has made available to PRA correct and complete copies of all federal income tax returns (including amendments thereto) of, all examination reports of, and statements of deficiencies assessed against or agreed to by, NORCAL or any NORCAL Subsidiary since December 31, 2016.

(f) Neither NORCAL nor any NORCAL Subsidiary is a party to any employment, severance or termination agreement or other compensation arrangement (including any NORCAL Employee Plan) with any individual that obligates NORCAL or any NORCAL

Subsidiary to reimburse any employee for any taxes attributable to a “parachute payment” Section 280G of the Code.

### **5.13 Employee Plans; Labor Matters.**

(a) Section 5.13(a) of the NORCAL Disclosure Schedule contains a true and complete list of each pension, benefit, retirement, compensation, profit-sharing, deferred compensation, incentive, performance award, phantom equity or other equity, change in control, retention, severance, vacation, paid time off, material fringe-benefit and other similar agreement, plan, policy, program or arrangement (and any amendments thereto), in each case whether or not reduced to writing and whether funded or unfunded, including each “employee benefit plan” within the meaning of Section 3(3) of ERISA, whether or not tax-qualified and whether or not subject to ERISA, which is or has been during the preceding three (3) calendar years maintained, sponsored, contributed to, or required to be contributed to by NORCAL for the benefit of any current or former employee, officer, manager, retiree, independent contractor or consultant of NORCAL or any spouse or dependent of such individual, or under which NORCAL has or may have any liability, or with respect to which PRA or any of its ERISA Affiliates would reasonably be expected to have any liability, contingent or otherwise (as listed on Section 5.13(a) of the NORCAL Disclosure Schedule, each, an “*NORCAL Benefit Plan*”).

(b) With respect to each NORCAL Benefit Plan, NORCAL has made available to PRA accurate, current and complete copies of each of the following: (i) where the NORCAL Benefit Plan has been reduced to writing, the plan document together with all amendments; (ii) where the NORCAL Benefit Plan has not been reduced to writing, a written summary of all material plan terms; (iii) where applicable, copies of any trust agreements or other funding arrangements, custodial agreements, insurance policies and contracts, administration agreements and similar agreements, and investment management or investment advisory agreements, now in effect or required in the future as a result of the transactions contemplated by this Agreement or otherwise; (iv) copies of any summary plan descriptions, summaries of material modifications, employee handbooks and any other material written communications relating to any NORCAL Benefit Plan; (v) in the case of any NORCAL Benefit Plan that is intended to be qualified under Section 401(a) of the Code, a copy of the most recent determination, opinion or advisory letter from the Internal Revenue Service; (vi) in the case of any NORCAL Benefit Plan for which a Form 5500 is required to be filed, a copy of the most recently filed Form 5500, with schedules attached; (vii) actuarial valuations and reports related to any NORCAL Benefit Plans with respect to the two most recently completed plan years; and (viii) copies of material written notices, letters or other correspondence from the Internal Revenue Service, Department of Labor or Pension Benefit Guaranty Corporation relating to the NORCAL Benefit Plan.

(c) Each NORCAL Benefit Plan has been established, administered and maintained in accordance with its terms and in material compliance with all Applicable Laws (including ERISA and the Code). Each NORCAL Benefit Plan that is intended to be qualified under Section 401(a) of the Code (a “*Qualified Benefit Plan*”) is so qualified and has received a favorable and current determination letter from the Internal Revenue Service, or with respect to a prototype plan, can rely on an opinion letter from the Internal Revenue Service to the prototype plan sponsor, to the effect that such Qualified Benefit Plan is so qualified and that the plan and the trust related thereto are exempt from federal income taxes under Sections 401(a) and 501(a),

respectively, of the Code, and nothing has occurred that could reasonably be expected to cause the revocation of such determination letter from the Internal Revenue Service or the unavailability of reliance on such opinion letter from the Internal Revenue Service, as applicable, nor has such revocation or unavailability been threatened. Each such NORCAL Benefit Plan has been timely amended, as necessary, to reflect mandatory changes required by Applicable Law. Nothing has occurred with respect to any NORCAL Benefit Plan that has subjected or could reasonably be expected to subject NORCAL or, with respect to any period on or after the Closing Date, PRA or any of its ERISA Affiliates, to a penalty under Section 502 of ERISA or to tax or penalty under Section 4975 of the Code. All benefits, contributions and premiums relating to each NORCAL Benefit Plan have been timely paid in material compliance with the terms of such NORCAL Benefit Plan and all Applicable Laws and accounting principles, and all benefits accrued under any unfunded NORCAL Benefit Plan have been paid, accrued or otherwise adequately reserved to the extent required by, and in accordance with, generally accepted accounting principles in the United States (“*GAAP*”).

(d) Except as set forth in Section 5.13(d) of the NORCAL Disclosure Schedules, neither NORCAL nor any of its ERISA Affiliates has (i) incurred or reasonably expects to incur, either directly or indirectly, any material liability under Title I or Title IV of ERISA or related provisions of the Code or foreign Applicable Law relating to employee benefit plans; (ii) failed to timely pay premiums to the Pension Benefit Guaranty Corporation; (iii) withdrawn from any NORCAL Benefit Plan; or (iv) engaged in any transaction which would give rise to liability under Section 4069 or Section 4212(c) of ERISA.

(e) No reportable event that would require notice (either advance or post event) under Section 4043 of ERISA has occurred within the past three (3) years.

(f) With respect to each NORCAL Benefit Plan (i) no such plan is a “multiple employer plan” within the meaning of Section 413(c) of the Code or a “multiple employer welfare arrangement” (as defined in Section 3(40) of ERISA); and (ii) no Action has been initiated by the Pension Benefit Guaranty Corporation to terminate any such plan or to appoint a trustee for any such plan.

(g) Except as described in Section 5.13(g) of the NORCAL Disclosure Schedule, there does not now exist, nor do any circumstances exist that could result in, any Controlled Group Liability that would be a liability of PRA following the Closing. “*Controlled Group Liability*” means any and all liabilities (i) under Title IV of ERISA, (ii) under Section 302 of ERISA, (iii) under Sections 412 and 4971 of the Code, (iv) as a result of a failure to comply with the continuation coverage requirements of Section 601 et seq. of ERISA and Section 4980B of the Code and (v) under corresponding or similar provisions of foreign laws or regulations. Without limiting the generality of the foregoing, NORCAL has not engaged in any transaction described in Section 4069 or Section 4203-4205 or 4212 of ERISA and no event has occurred or circumstance exists that constitutes, or could reasonably be expected to cause, any withdrawal from, or the participation, termination, reorganization, or insolvency of, any Multiemployer Plan that could result in any liability of NORCAL to a Multiemployer Plan. For each Multiemployer Plan, NORCAL has provided PRA with the following to the extent applicable and available to or in possession of NORCAL or NORCAL: (i) any letter from the administrator of the Multiemployer Plan setting forth the estimated withdrawal liability which would be imposed by the Multiemployer

Plan if NORCAL or any ERISA Affiliate were to withdraw from the Multiemployer Plan in a complete withdrawal, as of the most recently-available information, and the factors used to determine such estimate and (ii) a copy of the most recently-available Form 5500 and/or actuarial report of the Multiemployer Plan, which sets forth the actuarial assumptions used in determining the present value of unfunded vested benefits for withdrawal liability purposes.

(h) All contributions required to be made to any NORCAL Benefit Plan by Applicable Law or by any plan document or other contractual undertaking, and all premiums due or payable with respect to insurance policies funding any NORCAL Benefit Plan, for any period through the date hereof have been timely made or paid in full or, to the extent not required to be made or paid on or before the date hereof, have been fully reflected on the financial statements.

(i) Except as required by Applicable Law, no provision of any NORCAL Benefit Plan or collective bargaining agreement could reasonably be expected to result in any limitation on PRA or any of its ERISA Affiliates from amending or terminating any NORCAL Benefit Plan. NORCAL has no commitment or obligation and has not made any representations to any employee, officer, manager, independent contractor or consultant, whether or not legally binding, to adopt, amend or modify any NORCAL Benefit Plan or any collective bargaining agreement, in connection with the consummation of the transactions contemplated by this Agreement or otherwise.

(j) Except as set forth in Section 5.13(j) of the NORCAL Disclosure Schedule, other than as required under Section 601 et. seq. of ERISA or other Applicable Law, no NORCAL Benefit Plan provides post-termination or retiree welfare benefits to any individual for any reason, and neither NORCAL nor any of its ERISA Affiliates has any liability to provide post-termination or retiree welfare benefits to any individual or ever represented, promised or contracted to any individual that such individual would be provided with post-termination or retiree welfare benefits.

(k) There is no pending or, to the Knowledge of NORCAL, threatened Action relating to a NORCAL Benefit Plan (other than routine claims for benefits), and no NORCAL Benefit Plan has within the three years prior to the date hereof been the subject of an examination or audit by a Governmental Authority or the subject of an application or filing under or is a participant in, an amnesty, voluntary compliance, self-correction or similar program sponsored by any Governmental Authority.

(l) Other than in the ordinary course of business or as disclosed under Section 5.13(l) of the NORCAL Disclosure Schedule, there has been no amendment to, announcement by NORCAL or any of its ERISA Affiliates relating to, or change in employee participation or coverage under, any NORCAL Benefit Plan that would increase the annual expense of maintaining such plan above the level of the expense incurred for the most recently completed fiscal year with respect to any manager, officer, employee, independent contractor or consultant, as applicable. Other than in the ordinary course of business or as disclosed under Section 5.13(l) of the NORCAL Disclosure Schedule, neither NORCAL nor any of its ERISA Affiliates has any commitment or obligation or has made any representations to any manager, officer, employee, independent contractor or consultant, whether or not legally binding, to adopt, amend or modify any NORCAL Benefit Plan.

(m) Each NORCAL Benefit Plan that is or was a “nonqualified deferred compensation plan” within the meaning of Section 409A of the Code and associated Treasury Department guidance has (i) been operated between January 1, 2005 and December 31, 2008, in good faith compliance with Section 409A of the Code and Notice 2005-01 and (ii) since January 1, 2009 (or such later date permitted under applicable guidance), been operated in compliance with, is in documentary compliance with, and, no compensation is subject to reporting under, in all material respects, Section 409A of the Code and IRS regulations and guidance thereunder. No compensation payable by under any such NORCAL Benefit Plan has been reportable as nonqualified deferred compensation in the gross income of any individual or entity, and subject to an additional tax, as a result of the operation of Section 409A of the Code and no arrangement exists with respect to a nonqualified deferred compensation plan that would result in income inclusion under Section 409A(b) of the Code.

(n) Except as set forth in Section 5.13(n) of the NORCAL Disclosure Schedule, neither the execution of this Agreement nor any of the transactions contemplated by this Agreement will (either alone or upon the occurrence of any additional or subsequent events): (i) entitle any current or former director, manager, officer, employee, independent contractor or consultant of NORCAL to severance pay or any other payment; (ii) accelerate the time of payment, funding or vesting, or increase the amount of compensation due to any such individual; (iii) limit or restrict the right of NORCAL to merge, amend or terminate any NORCAL Benefit Plan; (iv) increase the amount payable under or result in any other material obligation pursuant to any NORCAL Benefit Plan; (v) result in “excess parachute payments” within the meaning of Section 280G(b) of the Code; or (vi) require a “gross-up” or other payment to any “disqualified individual” within the meaning of Section 280G(c) of the Code. NORCAL has made available to PRA true and complete copies of any Section 280G calculations prepared (whether or not final) with respect to any disqualified individual in connection with the transactions.

#### **5.14 Employees.**

(a) NORCAL has made available to PRA a true and correct list of the names of the employees of NORCAL and the NORCAL Subsidiaries, their birth dates, hire dates, compensation rates, name of employer and capacity in which employed, and accrued vacation and sick leave, if any, all as of December 31, 2019. Except as limited by any employment agreements and severance agreements listed on Section 5.14(a) of the NORCAL Disclosure Schedule, and except for any limitations of general application which may be imposed under applicable employment laws, NORCAL and the NORCAL Subsidiaries have the right to terminate the employment of any of their respective employees at will and without payment to such employees.

(b) NORCAL and the NORCAL Subsidiaries are in compliance, in all material respects, with all Applicable Laws regarding labor and employment and the compensation therefore, discrimination in employment, terms and conditions of employment, wages, hours and occupational safety and health, and employment practices, whether state or federal (including, without limitation, as applicable, wage and hour laws; workplace safety laws; workers’ compensation laws; equal employment opportunity laws; equal pay laws; civil rights laws; the Occupational Safety and Health Act of 1970, as amended; the Equal Employment Opportunity Act, as amended; the Americans With Disabilities Act, 42 U.S.C. § 12101 et seq., as amended; the Fair Labor Standards Act, 29 U.S.C. § 201 et seq., as amended; the Equal Pay Act, 29 U.S.C. §

206d, as amended, the Portal-to-Portal Pay Act of 1947, 29 U.S.C. § 255 et seq., as amended; Title VII of the Civil Rights Act of 1964, 42 U.S.C. § 2000e, as amended and 42 U.S.C. § 1981, as amended; Rehabilitation Act of 1973, as amended; the Vietnam-Era Veterans' Readjustment Assistance Act of 1974, as amended; the Immigration Reform and Control Act, 8 U.S.C. § 1324A et seq., as amended; the Employee Polygraph Protection Act of 1988, as amended; the Veterans Re-employment Act - Handicap Bias, 38 U.S.C. § 2027 et seq., as amended; the Civil Rights Act of 1991, as amended; the Family and Medical Leave Act of 1993, as amended; the Religious Freedom Restoration Act of 1993, as amended; the Age Discrimination and Employment Act of 1967, as amended; and the Consolidated Omnibus Budget Reconciliation Act of 1985). Except as set forth in Section 5.14(b) of the NORCAL Disclosure Schedule, no action or, to the Knowledge of NORCAL, investigation has been instituted or, to the Knowledge of NORCAL, is threatened to be conducted by any state or federal agency regarding any potential violation by NORCAL or any NORCAL Subsidiary of any laws, orders, ordinances and regulations regarding labor and employment or the compensation therefore (including, without limitation, any of the aforementioned statutes, to the extent applicable) during the past three (3) years.

(c) Neither NORCAL nor any NORCAL Subsidiary has ever been a party to or bound by any union or collective bargaining contract, nor is any such contract currently in effect or being negotiated by NORCAL or any NORCAL Subsidiary. NORCAL does not know of any activities or proceedings of any labor union to organize any employees of NORCAL or any NORCAL Subsidiary. To the Knowledge of NORCAL, since December 31, 2018, no executive officer of NORCAL or any NORCAL Subsidiary has indicated in writing to any executive officer of NORCAL an intention to terminate his or her employment on or before six (6) months following the Closing of the transactions contemplated by this Agreement.

(d) NORCAL and each of the NORCAL Subsidiaries have complied with all applicable notice provisions of and have no material obligations under the Consolidated Omnibus Budget Reconciliation Act of 1985 with respect to any former employees or qualifying beneficiaries thereunder. Except as set forth in Section 5.14(d) of the NORCAL Disclosure Schedules, there is no action, claim, cause of action, suit or proceeding pending or, to the Knowledge of NORCAL, threatened against NORCAL or any NORCAL Subsidiary, on the part of any employee or applicant for employment, including any such action, claim, cause of action, suit or proceeding based on allegations of wrongful termination or discrimination on the basis of age, race, religion, sex, sexual preference, or mental or physical handicap or disability. Neither NORCAL nor any NORCAL Subsidiary is delinquent in the payment of wages, salaries, bonuses, relocation benefits, stock options or other incentives due to or for the benefit of any employee of NORCAL or any NORCAL Subsidiary. To the Knowledge of NORCAL, no person treated as an independent contractor by NORCAL or any NORCAL Subsidiary is an employee as defined in Section 3401(c) of the Code, nor has any employee been otherwise improperly classified, as exempt, nonexempt or otherwise, for purposes of federal or state income tax withholding or overtime laws, rules, or regulations.

(e) Since December 31, 2018, neither NORCAL nor any NORCAL Subsidiary has effectuated (i) a "plant closing" (as defined in the Worker Adjustment and Retraining Notification Act (the "*WARN Act*")) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of NORCAL or any NORCAL Subsidiary; (ii) a "mass layoff" (as defined in the *WARN Act*); or (iii) such other transaction,



layoff, reduction in force or employment terminations sufficient in number to trigger application of any similar foreign, state or local law.

(f) Each individual who is classified by NORCAL as an independent contractor has been properly classified for purposes of participation and benefit accrual under each NORCAL Benefit Plan.

#### **5.15 Compliance with Applicable Law.**

(a) NORCAL and the NORCAL Subsidiaries have complied in all material respects with, and are not in default in any material respect under any, and have maintained and conducted their respective businesses in all material respects in compliance with, all Applicable Laws during the last three (3) years.

(b) Neither NORCAL nor any NORCAL Subsidiary is subject to any cease and desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar written undertaking to, or is subject to any order or directive by, or has been a recipient of any supervisory letter from, or since that date, has adopted any board resolutions at the request of any Governmental Authority that: (i) materially limits the ability of NORCAL or any NORCAL Subsidiary to conduct any line of business that it currently conducts, (ii) require any material investments of NORCAL or any NORCAL Subsidiary to be treated as non-admitted assets, (iii) requires divestiture of any material investments of NORCAL or any NORCAL Subsidiary, (iv) in any manner imposes any material requirements on NORCAL or any NORCAL Insurance Subsidiary in respect of risk based capital requirements that add to or otherwise modify the risk based capital requirements imposed under the Insurance Laws, (v) in any manner relates to the ability of NORCAL or any NORCAL Subsidiary to pay or declare dividends or distributions, or (vi) restricts in any material respect the conduct of the business, credit policies or management of NORCAL or any NORCAL Subsidiary (each, whether or not set forth in the NORCAL Disclosure Schedule, an “*NORCAL Regulatory Agreement*”), nor has NORCAL or any of its Subsidiaries been advised in writing or, to the Knowledge of NORCAL, orally by any Governmental Authority that it is considering issuing or requesting any such NORCAL Regulatory Agreement.

(c) Except as set forth in Section 5.15(c) of the NORCAL Disclosure Schedule, there is no pending or, to the Knowledge of NORCAL, threatened charge by any Governmental Authority that NORCAL or any NORCAL Subsidiary has violated any Applicable Laws (including any Insurance Laws), nor any pending or, to the Knowledge of NORCAL, threatened investigation by any Governmental Authority with respect to possible violations of any Applicable Laws (including any Insurance Laws).

(d) There are no material contracts (other than contracts relating to employment), real estate leases, loans, guarantees or other arrangements or transactions of any nature between NORCAL or any NORCAL Subsidiary, on the one hand, and any of their respective officers, directors, or affiliates (as such term is defined in Rule 405 of the SEC), on the other hand. NORCAL has not, since December 31, 2016, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of NORCAL or any NORCAL

Subsidiary. Section 5.15(d) of the NORCAL Disclosure Schedule identifies each loan or extension of credit maintained by NORCAL or any NORCAL Subsidiary to which the second sentence of Section 13(k)(1) of the Exchange Act applies.

(e) None of NORCAL, the NORCAL Subsidiaries and, to the Knowledge of NORCAL, any of their respective current or former officers or directors or current or former employees, agents or representatives have: (i) used any corporate funds for any illegal contributions, gifts, entertainment or other unlawful expenses relating to political activity, (ii) used any corporate funds for any direct or indirect unlawful payments to any foreign or domestic government officials or employees, (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, (iv) established or maintained any unlawful or unrecorded fund of corporate monies or other assets, (v) made any false or fictitious entries on the books and records of NORCAL or any NORCAL Subsidiary, (vi) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment of any nature, or (vi) made any material favor or gift which is not deductible for federal income tax purposes. To the Knowledge of NORCAL, no director or officer of NORCAL or any NORCAL Subsidiary has engaged in any “insider trading” in violation of Applicable Law with respect to any security issued by NORCAL.

#### **5.16 Certain Contracts.**

(a) Section 5.16(a) of the NORCAL Disclosure Schedule sets forth all contracts, agreements, arrangements, commitments, or understandings, whether written or oral, (other than insurance policies or contracts issued by NORCAL or a NORCAL Subsidiary) to which NORCAL or a NORCAL Subsidiary is a party to or bound by:

(i) with respect to the employment of any directors, officers or employees;

(ii) which, upon the consummation of the transactions contemplated by this Agreement will (either alone or upon the occurrence of any additional acts or events) result in any payment (whether of severance pay or otherwise) becoming due from NORCAL, PRA, or any of their respective Subsidiaries to any director, officer or employee thereof;

(iii) which is a “material contract” (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) to be performed after the date of this Agreement;

(iv) that concerns a partnership or joint venture that is not consolidated with NORCAL for financial reporting purposes;

(v) the purpose of which is to restrict the ability of NORCAL or any NORCAL Subsidiary to compete with respect to any product, service or territory;

(vi) that is in the nature of a collective bargaining agreement, employment agreement, consulting agreement or severance agreement that is not cancelable by NORCAL or any NORCAL Subsidiary without penalty or compensation on thirty (30) days’ notice or less;

(vii) that provides for the payment to an employee of NORCAL or any NORCAL Subsidiary any incentive or bonus compensation based on the productivity or performance of such employee or of NORCAL or any NORCAL Subsidiary;

(viii) that is with any Insurance Regulator and restricts (A) distributions or other payments to the Policyholders or any NORCAL Subsidiary, (B) the continued operation of NORCAL or any NORCAL Subsidiary, or (C) any other matter relating to NORCAL or any NORCAL Subsidiary and its affairs; or

(ix) any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement, or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement.

NORCAL has previously made available to PRA true and correct copies of all employment and deferred compensation agreements which are in writing and to which NORCAL or any NORCAL Subsidiary is a party. Each contract, agreement, arrangement, commitment, or understanding (whether written or oral) of the type described in Sections 5.16(a) of this Agreement, whether or not set forth in the NORCAL Disclosure Schedule, is referred to in this Agreement as an “**NORCAL Contract**”, and neither NORCAL nor any NORCAL Subsidiary has received written or, to the Knowledge of NORCAL, oral notice of any violation of any NORCAL Contract by any of the other parties thereto.

(b) Section 5.16(b) of the NORCAL Disclosure Schedule sets forth a list of, and NORCAL has made available to PRA correct and complete copies of, all written arrangements (or group of related written arrangements) from or to third parties, for the furnishing of services to, or receipt of services by, NORCAL or any NORCAL Subsidiary (including without limitation, legal and accounting services, risk management services, agency agreements, managing general agent agreements, reinsurance intermediary agreements and other distribution agreements, and agreements relating to the sale or servicing of medical professional liability insurance products offered by NORCAL or any NORCAL Subsidiary) under which payments were made during any calendar year since December 31, 2018 in excess of \$100,000 or that has a non-cancelable term in excess of one year (as to the latter, which is still in effect).

(c) With respect to each NORCAL Contract: Such NORCAL Contract is in full force and effect (except for contracts that have expired pursuant to the terms thereof) and (assuming due authorization, execution and delivery by each other party thereto) is legally valid, binding and enforceable in accordance with its terms against NORCAL or any relevant NORCAL Subsidiary (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and the availability of equitable remedies). There are no material defaults by NORCAL or any NORCAL Subsidiary, or, to the Knowledge of NORCAL, any other party, under such NORCAL Contract. Neither NORCAL nor any NORCAL Subsidiary has received written or, to the Knowledge of NORCAL, oral notice of any material default, offset, counterclaim or defense under such NORCAL Contract. No condition or event has occurred which with the passage of time or the giving of notice or both would constitute a material default or material breach by NORCAL or any NORCAL Subsidiary, or, to the Knowledge of NORCAL, any other party under the terms of such NORCAL Contract. All security deposits,

reserve funds, and other sums and charges that have become due and payable under such NORCAL Contract have been paid in full. To the Knowledge of NORCAL, no party has repudiated any provision of such NORCAL Contract.

#### **5.17 Investments and Interest Rate Risk Management Instruments.**

(a) Except as set forth in Section 5.17(a) of the NORCAL Disclosure Schedule, NORCAL and each NORCAL Subsidiary have good and valid title to all securities held by it (except securities sold under repurchase agreements or held in any fiduciary or agency capacity), free and clear of any Lien. Such securities are permissible investments under all Applicable Laws and are valued on the books of NORCAL or the applicable NORCAL Insurance Subsidiary in accordance with SAP. To the Knowledge of NORCAL, none of the securities are in default in the payment of principal, interest or dividends nor is impaired to any extent. NORCAL has provided to PRA a copy of the investment policies of NORCAL and the NORCAL Subsidiaries as of June 30, 2019. There has been no material change in investment policy of NORCAL and the NORCAL Subsidiaries or in the composition of the investments of NORCAL and the NORCAL Subsidiaries since June 30, 2019.

(b) Except as described in Section 5.17(b) of the NORCAL Disclosure Schedule, all interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements entered into for the account of NORCAL or its Subsidiaries were entered into in the ordinary course of business and, to the Knowledge of NORCAL, in accordance with business practices believed to be prudent by NORCAL management and Applicable Laws and with counterparties believed by NORCAL's management to be financially responsible at the time. All of such interest rate swaps, caps, floors and option agreements and other interest rate risk management arrangements are (assuming due authorization, execution and delivery by each other party thereto) legal, valid and binding obligations of NORCAL or its Subsidiaries enforceable in accordance with their terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and the availability of equitable remedies), and are in full force and effect. NORCAL and each NORCAL Subsidiary have duly performed in all material respects all of their material obligations thereunder to the extent that such obligations to perform have accrued; and, to the Knowledge of NORCAL, there are no material breaches, violations or defaults or allegations or assertions of such by any party thereunder.

#### **5.18 Intellectual Property/Social Media.**

(a) NORCAL or a NORCAL Subsidiary owns or has the right to use all Intellectual Property necessary for the operation of the businesses of NORCAL and the NORCAL Subsidiaries as presently conducted. Section 5.18(a)(i) of the NORCAL Disclosure Schedule lists all Intellectual Property that is registered or subject to a pending application filed with a Governmental Authority (collectively, the "***NORCAL Registered Intellectual Property***"), specifying as applicable to each: the title, mark, or design; the record owner, inventor(s), author(s) or assignees; the jurisdiction by or in which it has been issued, registered or filed; the patent number, serial number, application number, registration number or other designator assigned by the registering office; the filing date and the issue or registration date; and the current status of each item. Section 5.18(a)(ii) of the NORCAL Disclosure Schedule lists all material unregistered

trademarks, service marks, logos, trade names and corporate names owned by NORCAL and each NORCAL Subsidiary. With respect to all NORCAL Registered Intellectual Property, all assignments and other instruments necessary to establish, record, and perfect NORCAL's ownership interest in the NORCAL Registered Intellectual Property have been validly executed, delivered, and filed with the relevant Governmental Authorities and authorized registrar.

(b) To the Knowledge of NORCAL, neither NORCAL nor any NORCAL Subsidiary has interfered with, infringed upon, misappropriated or otherwise violated any Intellectual Property owned by third parties. None of NORCAL, the NORCAL Subsidiaries, and any of the directors, officers or employees with responsibility for intellectual property matters of NORCAL or any NORCAL Subsidiary has since December 31, 2016 received any written or, to the Knowledge of NORCAL, oral claim or notice alleging any such interference, infringement, misappropriation or violation. To the Knowledge of NORCAL, no third party has interfered with, infringed upon, misappropriated or otherwise violated any intellectual property rights of NORCAL or any NORCAL Subsidiary.

(c) Section 5.18(c) of the NORCAL Disclosure Schedule identifies each item of Intellectual Property material to the business that any third party owns and that NORCAL or any NORCAL Subsidiary uses pursuant to a license, sublicense, or other written agreement under which annual payments were made since December 31, 2018 in excess of \$100,000 (excluding off-the-shelf software license agreements). With respect to each such item of such Intellectual Property: (i) (assuming due authorization, execution and delivery by each other party thereto) is legal, valid, binding and enforceable against NORCAL and such NORCAL Subsidiary; (ii) to the Knowledge of NORCAL no party to the license, sublicense, agreement or permission is in breach or default, and no event of default has occurred which with notice or lapse of time, or both, would constitute a breach or default or permit termination, modification or acceleration thereunder; (iii) to the Knowledge of NORCAL no party to the license, sublicense, agreement or permission has repudiated any provision thereof; (iv) with respect to any sublicense, the representations and warranties set forth in (i) through (iii) above are true and correct with respect to the underlying license; and (v) neither NORCAL nor any NORCAL Subsidiary has granted any sublicense or similar right with respect to the license, sublicense, agreement or permission.

(d) To the Knowledge of NORCAL, all of the NORCAL Registered Intellectual Property is valid and enforceable, and all registrations for NORCAL Registered Intellectual Property are subsisting and in full force and effect. NORCAL has taken commercially reasonable steps to maintain and enforce the NORCAL Registered Intellectual Property. All required filings and fees related to the NORCAL Registered Intellectual Property have been timely submitted with and paid to the relevant Governmental Authorities and authorized registrars.

(e) Section 5.18(e) of the NORCAL Disclosure Schedules contains a correct, current and complete list of all social media accounts used in NORCAL's business. NORCAL has complied in all material respects with all terms of use, terms of service, or other agreements and all associated policies and guidelines relating to its use of any social media platforms, sites, or services (collectively, "***Social Media Terms of Use***"). There are no Actions, whether settled, pending, or, to the Knowledge of NORCAL, threatened, alleging any (A) breach or other violation of any Social Media Terms of Use by NORCAL; or (B) defamation, violation of publicity rights of any Person, or any other violation by NORCAL in connection with its use of social media.

## **5.19 Real Property; Environmental Liability.**

(a) Neither NORCAL nor any NORCAL Subsidiary owns any right, title or interest in any real property except as described on Section 5.19(a) of the NORCAL Disclosure Schedule (collectively, the “*NORCAL Real Property*”). Section 5.19(a) of the NORCAL Disclosure Schedule sets forth a complete and accurate list and general description of all material leases, subleases or other occupancy agreements for real property, together with all subordination, attornment, estoppel, non-disturbance or other ancillary agreements pertaining thereto, and all amendments to or modifications of any of the foregoing (collectively, the “*NORCAL Real Property Leases*”) to which NORCAL or any NORCAL Subsidiary is a party or by which any of them are bound. NORCAL or a NORCAL Subsidiary owns all right, title and interest in, and has good and marketable title to, the NORCAL Real Property, and NORCAL or a NORCAL Subsidiary has a valid leasehold interest under each NORCAL Real Property Lease, in each case free and clear of all Liens except for (i) rights of lessors, co-lessees or sublessees under each NORCAL Real Property Lease; (ii) taxes and assessments not yet due and payable; (iii) easements, covenants, conditions, restrictions and reservations of record, and such nonmonetary imperfections of title and encumbrances, if any, as do not materially detract from the value of or materially interfere with the present use of the subject property; (iv) matters which would be shown or disclosed by a current survey of the subject property; (v) all Applicable Laws, including zoning, building, use and life-safety laws, ordinances, codes, rules and regulations; and (vi) Permitted Liens. To the Knowledge of NORCAL, the activities of NORCAL and its Subsidiaries with respect to all NORCAL Real Property and NORCAL Real Property Leases used in connection with their operations are in all material respects permitted under applicable zoning laws, ordinances and regulations.

(b) NORCAL or its applicable Subsidiary enjoys peaceful and undisturbed possession under each NORCAL Real Property Lease, subject to the terms of such NORCAL Real Property Lease. NORCAL has made available to PRA complete and correct copies of all of the NORCAL Real Property Leases. Each NORCAL Real Property Lease is (assuming due authorization, execution and delivery by each other party thereto) in full force and effect and is legally valid, binding and enforceable against NORCAL and the applicable NORCAL Subsidiary in accordance with its terms (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and the availability of equitable remedies). There are no current outstanding monetary defaults and no current outstanding material nonmonetary defaults by NORCAL or any NORCAL Subsidiary, or, to the Knowledge of NORCAL, any other party, under any NORCAL Real Property Lease. Neither NORCAL nor any NORCAL Subsidiary has received written notice of any default, offset, counterclaim or defense under any NORCAL Real Property Lease which has not heretofore been cured or resolved. Except as set forth in Section 5.5(b)(ii)(y) of the NORCAL Disclosure Schedule, to the Knowledge of NORCAL, no condition or event has occurred which with the passage of time or the giving of notice or both would constitute a default or breach by NORCAL or any NORCAL Subsidiary, or any other party, under of the terms of any NORCAL Real Property Lease. All rent, security deposits, reserve funds, allowances and other sums and charges that have become due and payable under the NORCAL Real Property Leases have been paid in accordance with the terms of the NORCAL Real Property Leases, and no disputes with respect to the amount of payment thereof presently exist. Except as set forth on Section 5.19(b) of the NORCAL Disclosure Schedules, consummation of the transactions contemplated by this Agreement does not require any consent

or approval by any counterparty to any of the NORCAL Real Property Leases, and will not result in any breach or default under any of the NORCAL Real Property Leases.

(c) NORCAL and its Subsidiaries are and have been since December 31, 2016 in compliance in all material respects with all Environmental Laws and all Environmental Permits. There are no legal, administrative, arbitral or other proceedings, claims, actions, causes of action, private environmental investigations or remediation activities or governmental investigations of any nature pending or, to the Knowledge of NORCAL, threatened seeking to impose on NORCAL or any NORCAL Subsidiary, or that could reasonably be expected to result in the imposition on NORCAL or any NORCAL Subsidiary of, in each case, any liability or obligation arising under any Environmental Law which would have a Material Adverse Effect on NORCAL. To the Knowledge of NORCAL, there is no reasonable basis for any such proceeding, claim, action, investigation or remediation activity. Neither NORCAL nor any NORCAL Subsidiary is subject to any agreement, order, judgment, decree, letter or memorandum by or with any Governmental Authority or private Person imposing any liability or obligation under any Environmental Law that would reasonably be expected to have a Material Adverse Effect on NORCAL. For purposes of this 5.19, the terms “NORCAL” and “Subsidiaries” include any Person that is, in whole or in part, a predecessor of NORCAL or any of its Subsidiaries.

#### **5.20 Personal Property.**

(a) None of the material personal property owned by NORCAL or any NORCAL Subsidiary is subject to, or as of the Closing Date will be subject to, any Lien, except Permitted Liens.

(b) Section 5.20(b) of the NORCAL Disclosure Schedule lists each personal property lease to which NORCAL or any NORCAL Subsidiary is a party that is not cancelable upon ninety (90) or fewer days’ notice without penalty and has monthly rent that exceeds \$10,000 (collectively, the “**NORCAL Personal Property Leases**”). NORCAL has made available to PRA complete and correct copies of all of the NORCAL Personal Property Leases. Each NORCAL Personal Property Lease is (assuming due authorization, execution and delivery by each other party thereto) in full force and effect and is legally valid, binding and enforceable in accordance with its terms against NORCAL or the applicable NORCAL Subsidiary (except as may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the rights of creditors generally and the availability of equitable remedies). There are no material defaults by NORCAL or any NORCAL Subsidiary, or, to the Knowledge of NORCAL, any other party, under any NORCAL Personal Property Lease. Neither NORCAL nor any NORCAL Subsidiary has received written or, to the Knowledge of NORCAL, oral notice of any material default, offset, counterclaim or defense under any NORCAL Personal Property Lease. No condition or event has occurred which with the passage of time or the giving of notice or both would constitute a material default or breach by NORCAL or any NORCAL Subsidiary, or, to the Knowledge of NORCAL, any other party under of the terms of any NORCAL Personal Property Lease. All rent, security deposits, reserve funds, allowances and other sums and charges that have become due and payable under the NORCAL Personal Property Leases have been paid in accordance with the terms of the NORCAL Personal Property Leases, and no disputes with respect to the amount or payment thereof presently exist. To the Knowledge of NORCAL, there are no purchase contracts, options or other agreements of any kind whereby any Person has acquired or will have any basis to assert

any right, title or interest in, or right to the possession, use, enjoyment or proceeds of, any interest in the personal property subject to the NORCAL Personal Property Leases. Consummation of the transactions contemplated by this Agreement does not require any consent or approval by any lessor, lender or other counterparty to any of the NORCAL Personal Property Leases, and will not result in any breach or default under any of the NORCAL Personal Property Leases.

#### **5.21 Insurance Matters.**

(a) Since December 31, 2016, all benefits claimed by any Person under any policy, binder, slip, certificate or other agreement of insurance in effect as of the date hereof (including all applications, endorsements, supplements, endorsements, riders and ancillary agreements in connection therewith) issued by NORCAL or a NORCAL Insurance Subsidiary (the “*Insurance Contracts*”) have in all material respects been administered and paid (or provision for payment thereof has been made) in accordance with the terms of such Insurance Contract and the laws under which they arose.

(b) NORCAL has provided or made available to PRA true and complete copies of the current underwriting standards and guidelines utilized and rates and rating factors and criteria applied by NORCAL and the applicable NORCAL Insurance Subsidiaries.

(c) All policy and contract forms on which NORCAL or a NORCAL Insurance Subsidiary has issued currently effective Insurance Contracts or which are currently being used by NORCAL or any applicable NORCAL Insurance Subsidiary have, to the extent required by Applicable Law, been approved by all Insurance Regulators or filed with and not objected to by such Insurance Regulators within the period provided by Applicable Law for objection.

(d) Except as set forth in Section 5.21(d) of the NORCAL Disclosure Schedule, the Insurance Contracts have been marketed, sold and issued in material compliance with all Applicable Laws, including Applicable Laws relating to (i) the use of unfair methods of competition and deceptive acts or practices relating to the advertising, sale and marketing of insurance, (ii) all applicable disclosure, filing and other requirements with respect to any variation in premiums or other charges resulting from time to time at which such premiums or charges are paid and (iii) all applicable requirements regulating the underwriting, rating, nonrenewal, cancellation or replacement of insurance policies; and, in each case, all marketing materials, brochures, illustrations and certificates pertaining to the Insurance Contracts comply with the Insurance Laws in all material respects.

(e) Except as set forth in Section 5.21(e) of the NORCAL Disclosure Schedule, each agent, broker, service provider, managing general agent, third party administrator, adjuster, or other Person engaged by NORCAL or a NORCAL Insurance Subsidiary to provide claims management or other insurance services with respect to the Insurance Contracts requiring licensure was, to the Knowledge of NORCAL, at the time such Person provided such services (or within any permitted grace period), to the extent required by Applicable Law, duly licensed or exempt from licensure to provide each of the services provided by such Person in each case, in the particular jurisdiction in which (i) such Person performed such services, (ii) the applicable Policyholder of the Insurance Contract subject to such services resides and (iii) the loss under such Insurance Contract occurred. Except as set forth in Section 5.21(e) of the NORCAL Disclosure



Schedule, all agents agreements, brokers agreements, service contracts, third party administrator agreements, adjuster agreements and managing general agents agreements to which NORCAL or any NORCAL Subsidiary is a party comply with Applicable Law in all material respects. Except as set forth in Section 5.21(e) of the NORCAL Disclosure Schedule, to the Knowledge of NORCAL, no agent, broker, service provider, managing general agent, third party administrator, adjuster or other Person engaged by NORCAL or a NORCAL Insurance Subsidiary is in material violation, or has, since December 31, 2016, been in material violation, of any law applicable to such Person or the services provided by such Person to the extent relating to the services provided to NORCAL or a NORCAL Insurance Subsidiary. All agents, brokers and other representatives engaged by NORCAL have been engaged and duly appointed in accordance with applicable insurance laws.

(f) As to premium rates established by NORCAL or any NORCAL Insurance Subsidiary which are required to be filed with, approved or not objected to by any Insurance Regulators, the rates have been so filed, approved or not objected to, the premiums charged conform thereto, and such premiums comply with the Insurance Laws. Section 5.21(f) of the NORCAL Disclosure Schedule sets forth all increases in premium rates for medical professional liability insurance submitted by NORCAL and the NORCAL Insurance Subsidiaries which have been disapproved by any Insurance Regulators since December 31, 2016. Section 5.21(f) of the NORCAL Disclosure Schedule lists all written correspondence or written communications from any Insurance Regulator received by NORCAL or any NORCAL Insurance Subsidiary after December 31, 2016, that requests that its premium rates, if applicable, for professional liability insurance should be reduced below the current approved premium levels.

(g) Except as set forth in Section 5.21(g) of the NORCAL Disclosure Schedule, neither NORCAL nor any NORCAL Insurance Subsidiary has issued any participating Insurance Contracts or any retrospectively rated Insurance Contracts. NORCAL has not declared any policyholder dividend which has not been paid prior to the date of this Agreement.

(h) All reinsurance treaties or agreements, including retrocessional agreements, to which NORCAL or any NORCAL Insurance Subsidiary is a party or under which NORCAL or any NORCAL Insurance Subsidiary has any existing rights, obligations or liabilities are listed on Section 5.21(h) of the Disclosure Schedule (the “*NORCAL Reinsurance Treaties*”). NORCAL has provided PRA with correct and complete copies of all of such NORCAL Reinsurance Treaties and all such NORCAL Reinsurance Treaties are in full force and effect, and the consummation of the transactions contemplated by this Agreement will not result in any party having the right to terminate a NORCAL Reinsurance Treaty. The NORCAL Reserves at each of December 31, 2017 and December 31, 2018, as reflected in the NORCAL SAP Statements, are stated net of reinsurance ceded amounts. The NORCAL SAP Statements accurately reflect as of and for the dates indicated therein the extent to which, pursuant to Insurance Laws, NORCAL and/or the NORCAL Insurance Subsidiaries are entitled to take credit for reinsurance under the NORCAL Reinsurance Treaties. To the Knowledge of NORCAL, all reinsurance recoverable amounts reflected in the NORCAL SAP Statements are collectible, and NORCAL is unaware of any material adverse change in the financial condition of its reinsurers that might raise concern regarding their ability to honor their reinsurance commitments, except as set forth in Section 5.21(h) of the NORCAL Disclosure Schedule. No party to any of the NORCAL Reinsurance Treaties has given written or, to the Knowledge of NORCAL, oral notice to NORCAL or any NORCAL Insurance Subsidiary that

such party intends to terminate or cancel any of the NORCAL Reinsurance Treaties as a result of or following consummation of the Conversion and the transactions contemplated by this Agreement. Each NORCAL Reinsurance Treaty is (assuming due authorization, execution and delivery by each other party thereto) valid and binding on NORCAL and each NORCAL Insurance Subsidiary party thereto, and none of NORCAL, any NORCAL Insurance Subsidiary, and, to the Knowledge of NORCAL, any other party thereto, is in default in any material respect with respect to any NORCAL Reinsurance Treaty. No NORCAL Reinsurance Treaty contains any provision providing that the other party thereto may terminate the same by reason of the transactions contemplated by this Agreement, or contains any other provision which would be altered or otherwise become applicable by reason of such transactions. Since December 31, 2018 no NORCAL Reinsurance Treaty has been canceled and there has not been any change in the retention level under any of such NORCAL Reinsurance Treaty.

(i) Each of the NORCAL SAP Statements, as of the date thereof, sets forth all of the loss and loss adjustment expense reserves of NORCAL and the NORCAL Insurance Subsidiaries as of such date (collectively, the “**NORCAL Reserves**”). The NORCAL Reserves were determined in accordance with SAP in all material respects and generally accepted actuarial methods and standards, consistently applied except as set forth therein, and were fairly stated in all material respects in accordance with sound actuarial and statutory accounting principles. NORCAL has provided or made available to PRA copies of all internally prepared work papers used as the basis for establishing the NORCAL Reserves. Except for regular periodic assessments based on developments that are publicly known within the insurance industry, to the Knowledge of NORCAL, no claim or assessment is pending or threatened against NORCAL or any NORCAL Insurance Subsidiary which is peculiar or unique to NORCAL or such NORCAL Insurance Subsidiary by any state insurance guaranty association in connection with such association’s fund relating to insolvent insurers.

(j) Section 5.21(j) of the NORCAL Disclosure Schedule lists each actuary, independent or otherwise, that has reviewed, on behalf of NORCAL or any NORCAL Subsidiary, the reserves for losses and loss adjustment expenses of NORCAL or any of the NORCAL Insurance Subsidiaries and their premium rates for liability insurance in each of the years commencing after December 31, 2016 (collectively the “**NORCAL Actuaries**” and separately a “**NORCAL Actuary**”). Section 5.21(j) of the NORCAL Disclosure Schedule lists each and every actuarial report, and all attachments, supplements, addenda and modifications thereto prepared for or on behalf of NORCAL or any NORCAL Insurance Subsidiary by the NORCAL Actuaries, or delivered by the NORCAL Actuaries to NORCAL or any NORCAL Insurance Subsidiary, since December 31, 2016, in which a NORCAL Actuary has (i) either expressed an opinion on the adequacy of such reserves for losses and loss adjustment expenses or made recommendations as to either the amount of reserves for losses and loss adjustment expenses that should be maintained by NORCAL or any NORCAL Insurance Subsidiary, or (ii) expressed an opinion as to the adequacy of such premiums or made a recommendation as to the premiums that should be charged by NORCAL or any NORCAL Insurance Subsidiary for liability insurance (collectively, the “**NORCAL Actuarial Analyses**”). To the Knowledge of NORCAL the information and data furnished by NORCAL or any NORCAL Insurance Subsidiary to the NORCAL Actuaries in connection with the NORCAL Actuarial Analyses were accurate in all material respects. To the Knowledge of NORCAL, each NORCAL Actuarial Analysis was based upon an accurate inventory of policies in force for NORCAL and the NORCAL Insurance Subsidiaries, as the case

may be, at the relevant time of preparation, was prepared using appropriate modeling procedures accurately applied and in conformity with generally accepted actuarial principles consistently applied, and the projections contained therein were properly prepared in accordance with the assumptions stated therein. NORCAL has made available to PRA a true and correct copy of each of the NORCAL Actuarial Analyses.

(k) Except for the non-reviewed items set forth on Schedule 5.21(k) of the NORCAL Disclosure Schedule, the reserve analysis prepared by Milliman, dated October 3, 2019, contains reserve data for all NORCAL Insurance Subsidiaries that issue or have issued any Insurance Contracts.

(l) Except for assessments in the ordinary course of business, no material claim or material assessment is pending or, to the Knowledge of NORCAL, threatened in writing against NORCAL or a NORCAL Insurance Subsidiary by any state insurance guaranty association in connection with such association's fund relating to insolvent insurers, and neither NORCAL nor a NORCAL Insurance Subsidiary has, since December 31, 2016, received written notice of any such claim or assessment. NORCAL and each NORCAL Insurance Subsidiary, as applicable, has timely paid all guaranty fund assessments that are due to any state guaranty fund or association or other applicable Insurance Regulator.

(m) NORCAL has made available to PRA a true and correct copy of each filing submitted by NORCAL or an applicable NORCAL Insurance Subsidiary to any Insurance Regulator since December 31, 2016 relating to risk based capital calculations of NORCAL or the applicable NORCAL Insurance Subsidiary. Such reports are correct and complete in all material respects. Neither NORCAL nor any NORCAL Insurance Subsidiary has suffered a decrease in its risk based capital to the "Company Action Level."

(n) Neither NORCAL nor any NORCAL Insurance Subsidiary is "commercially domiciled" under the Applicable Laws of any jurisdiction or is otherwise treated as domiciled in a jurisdiction other than its jurisdiction of organization.

**5.22 No Investment Company.** Neither NORCAL nor any NORCAL Subsidiary is an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

**5.23 Privacy and Data Security.**

(a) NORCAL and each NORCAL Subsidiary, and, to the Knowledge of NORCAL, all vendors, processors, or other third parties acting for or on behalf of NORCAL or a NORCAL Subsidiary in connection with the Processing of Personal Information or that otherwise have been authorized to have access to Personal Information in the possession or control of NORCAL or any NORCAL Subsidiary comply and at all times in the past three years have complied, in all material respects with all of the following: (A) Privacy Laws; (B) the Payment Card Industry Data Security Standard; (C) NORCAL Privacy and Data Security Policies; and (D) all obligations or restrictions concerning the privacy, security, or Processing of Personal Information under any contracts or other written agreements, arrangements, commitments, or

understandings to which NORCAL or any NORCAL Subsidiary is a party or otherwise bound as of the date hereof.

(b) The execution, delivery, and performance of this Agreement and the consummation of the transactions contemplated hereby, including the transfer of all Personal Information in the possession or control of NORCAL or any NORCAL Subsidiary to PRA or its Subsidiaries, do not and will not: (A) conflict with or result in a material violation or breach of any Privacy Laws or NORCAL Privacy and Data Policies; or (B) require the consent of or notice to any Person concerning such Person's Personal Information.

(c) NORCAL and each NORCAL Subsidiary, in compliance with Privacy Laws in all material respects, has posted to each of their websites and mobile applications and published or otherwise made available in connection with any products or services offered by NORCAL, NORCAL Privacy and Data Policies. No disclosure or representation made or contained in any such policy has been materially inaccurate, misleading, deceptive, or in material violation of any Privacy Laws (including by containing any material omission), and the practices of NORCAL and the NORCAL Subsidiaries with respect to the Processing of Personal Information conform, and at all times in the past three years have conformed, to NORCAL Privacy and Data Policies that govern the use of such Personal Information in all material respects. NORCAL has delivered or made available to PRA true, complete, and correct copies of all NORCAL Privacy and Data Policies that are in effect as of the date hereof or have been in effect in the past three years.

(d) Except as set forth in Section 5.23(d) of the NORCAL Disclosure Schedules to the Knowledge of NORCAL, no Personal Information in the possession or control of NORCAL or any NORCAL Subsidiary, or held or Processed by any vendor, processor, or other third party for or on behalf of NORCAL or any NORCAL Subsidiary, has been subject to any data or security breach or unauthorized access, disclosure, use, loss, denial or loss of use, alteration, destruction, compromise, or Processing that NORCAL or any NORCAL Subsidiary is required to report to a Governmental Authority or other Person (a "*Security Incident*").

(e) Except as set forth in Section 5.23(e) of the NORCAL Disclosure Schedules, in the past three years, NORCAL and the NORCAL Subsidiaries have not received any written or, to the Knowledge of NORCAL, oral notice, request, claim, complaint, correspondence, or other communication from any Governmental Authority or other Person, and to the Knowledge of NORCAL there has not been any audit, investigation, enforcement action (including any fines or other sanctions), or other Action relating to, any actual, alleged, or suspected Security Incident or violation of any Privacy Law involving Personal Information in the possession or control of NORCAL or any NORCAL Subsidiary, or held or Processed by any vendor, processor, or other third party for or on behalf of NORCAL or any NORCAL Subsidiary, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(f) NORCAL and each NORCAL Subsidiary has at all times in the past three years implemented and maintained, and required all vendors that Process any Personal Information for or on behalf of NORCAL or any NORCAL Subsidiary to implement and maintain, commercially reasonable security measures, plans, procedures, controls, and programs, including written information security programs, designed to (A) identify and reasonably address internal

and external risks to the privacy and security of Personal Information in their possession or control; (B) implement and monitor reasonable and appropriate administrative, technical, and physical safeguards to protect the integrity and security of such Personal Information and their software, systems, applications, and websites involved in the Processing of Personal Information; and (C) provide notification in compliance in all material respects with applicable Privacy Laws in the case of any Security Incident.

(g) In the past three years NORCAL and each NORCAL Subsidiary has performed or obtained from a third party a security risk assessment and obtained an independent vulnerability assessment performed by a third-party security auditor or information security consultant, in each case to the extent required by applicable Privacy Laws. NORCAL and each NORCAL Subsidiary has used commercially reasonable efforts to address and remediate all critical or high risk threats and deficiencies identified in each such assessment. Section 5.23(g) of the NORCAL Disclosure Schedules sets forth a complete and accurate list of each such internal and external assessment.

(h) To the Knowledge of NORCAL, none of its policyholders or customers are located in the European Union.

**5.24 Non-Reliance.** Except for the representations and warranties set forth in this Article 5, neither NORCAL nor any other Person makes any express or implied representation or warranty with respect to NORCAL or any of the NORCAL Subsidiaries, their respective businesses or with respect to any other information provided to PRA in connection with the transactions contemplated hereby, and neither PRA nor any of its Affiliates has relied on any such representation or warranties or other information. Neither NORCAL nor any other Person will have or be subject to any liability or indemnification obligation to PRA or any other Person resulting from the distribution to PRA, or PRA's use of, any such information, including any information, documents, projections, forecasts of other material made available to PRA in "data rooms" or management presentations in expectation of the transactions contemplated hereby, unless, and to the extent that, any such information is expressly included in a representation or warranty contained in this Article 5. Notwithstanding anything to the contrary contained herein, neither NORCAL nor any other person makes any representation or warranty with respect to, and nothing contained in this Agreement or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby is intended or shall be construed to be a representation or warranty (express or implied) of NORCAL or any of its Affiliates, for any purpose of this Agreement or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby, with respect to: (i) the adequacy or sufficiency of any of the NORCAL Reserves, (ii) other than as set forth in Section 5.21(d), whether or not such NORCAL Reserves were determined in accordance with any actuarial, statutory or other standard, (iii) the future profitability of NORCAL or any NORCAL Subsidiary or (iv) the effect of the adequacy or sufficiency of such Reserves on any "line item" or asset, liability or equity amount. Furthermore, PRA acknowledges and agrees that no fact, condition, development or issue relating to the adequacy or sufficiency of Reserves may be used, directly or indirectly, to demonstrate or support the breach of any representation, warranty, covenant or agreement contained in this Agreement or any other agreement, document or instrument to be delivered in connection with the transactions contemplated hereby.

**ARTICLE 6**  
**REPRESENTATIONS AND WARRANTIES OF PRA**

Except as disclosed by PRA to NORCAL in accordance with Section 8.5 of this Agreement, PRA hereby represents and warranties to NORCAL, as of the date hereof or such other date as specified, as follows:

**6.1 Corporate Organization.**

(a) ProAssurance is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as now being conducted.

(b) PRA Professional is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the corporate power and authority to own or lease all of its properties and assets and to carry on its business as now being conducted.

**6.2 Authority; No Violation; Consents and Approvals.**

(a) ProAssurance has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly and validly approved by the PRA Board, and no other corporate proceedings on the part of ProAssurance (including any approval of the stockholders of ProAssurance) are necessary to approve this Agreement and to consummate the transactions contemplated by this Agreement. This Agreement has been duly and validly executed and delivered by ProAssurance and (assuming due authorization, execution and delivery by NORCAL and the receipt of all Requisite Regulatory Approvals) constitutes a valid and binding obligation of ProAssurance, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

(b) PRA Professional has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated by this Agreement have been duly and validly approved by the board of directors of PRA Professional, and no other corporate proceedings on the part of PRA Professional (including any approval of the stockholders of PRA Professional) are necessary to approve this Agreement and to consummate the transactions contemplated by this Agreement. This Agreement has been duly and validly executed and delivered by PRA Professional and (assuming due authorization, execution and delivery by NORCAL and the receipt of all Requisite Regulatory Approvals) constitutes a valid and binding obligation of PRA Professional, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, and subject, as to enforceability, to general principles of equity.

(c) Neither the execution and delivery of this Agreement by ProAssurance nor the consummation by ProAssurance of the transactions contemplated by this Agreement, nor compliance by ProAssurance with any of the terms or provisions of this Agreement, will (i) violate

any provision of the Certificate of Incorporation or Bylaws of ProAssurance or (ii) assuming that all Requisite Regulatory Approvals and all of the consents and approvals referred to in Section 5.5(c) of this Agreement are duly obtained, (x) violate any Applicable Law applicable to ProAssurance or any of its properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the properties or assets of ProAssurance under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which ProAssurance is a party, or by which it or any of its properties or assets may be bound or affected, except (in the case of clause (ii) above) for such violations, conflicts, breaches, terminations, cancellations, accelerations, Liens or defaults which, either individually or in the aggregate, would not have a Material Adverse Effect on ProAssurance.

(d) Neither the execution and delivery of this Agreement by PRA Professional nor the consummation by PRA Professional of the transactions contemplated by this Agreement, nor compliance by PRA Professional with any of the terms or provisions of this Agreement, will (i) violate any provision of the Certificate of Incorporation or Bylaws of PRA Professional or (ii) assuming that all Requisite Regulatory Approvals and all of the consents and approvals referred to in Section 5.5(c) of this Agreement are duly obtained, (x) violate any Applicable Law applicable to PRA Professional or any of its properties or assets, or (y) violate, conflict with, result in a breach of any provision of or the loss of any benefit under, constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, result in the termination of or a right of termination or cancellation under, accelerate the performance required by, or result in the creation of any Lien upon any of the properties or assets of PRA Professional under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, lease, agreement or other instrument or obligation to which PRA Professional is a party, or by which it or any of its properties or assets may be bound or affected, except (in the case of clause (ii) above) for such violations, conflicts, breaches, terminations, cancellations, accelerations, Liens or defaults which, either individually or in the aggregate, would not have a Material Adverse Effect on PRA Professional.

(e) Except for (i) the filing of applications, notices and forms with, and the obtaining of approvals from, the Insurance Regulators pursuant to the Insurance Laws, with respect to the transactions contemplated by this Agreement, (ii) the filing of a notification and report form (the “**HSR Act Report**”) with the Pre Merger Notification Office of the Federal Trade Commission and with the Antitrust Division of the Department of Justice (collectively, the “**Pre-Merger Notification Agencies**”) pursuant to the HSR Act, (iii) any consents, authorizations, clearances, orders and approvals required under the Securities Act, the Exchange Act, and the HSR Act, and (iv) the approval of this Agreement and the transactions contemplated by this Agreement by the requisite votes of the Record Date Policyholders, no consents or approvals of, or filings or registrations with any Governmental Authority or with any other Person by ProAssurance or any Subsidiary of PRA, including without limitation PRA Professional (the “**PRA Subsidiaries**”), are necessary in connection with the execution and delivery by ProAssurance and PRA Professional of this Agreement or the consummation by PRA or any PRA Subsidiary of the transactions contemplated by this Agreement.

### **6.3 SEC Reports; Financial Statements.**

(a) PRA has on a timely basis filed all forms, reports and documents required to be filed by it with the SEC since December 31, 2016. Section 6.3(a) of the PRA Disclosure Schedule lists, and PRA has delivered to NORCAL (except to the extent available in full without redaction on the SEC's web site through the Electronic Data Gathering, Analysis, and Retrieval database ("**EDGAR**") two days prior to the date of this Agreement) copies in the form filed with the SEC of (i) PRA's Annual Reports on Form 10-K for each fiscal year of PRA commencing after December 31, 2015, (ii) its Quarterly Reports on Form 10-Q for each of the first three fiscal quarters in each of the fiscal years of PRA commencing after December 31, 2015, (iii) all proxy statements relating to PRA's meetings of shareholders (whether annual or special) held, and all information statements relating to shareholder consents, since December 31, 2015, (iv) all certifications and statements required by (x) the SEC's Order dated June 27, 2002 pursuant to Section 21(a)(1) of the Exchange Act (File No. 4-460), (y) Rule 13a-14 or 15d-14 under the Exchange Act or (z) 18 U.S.C. §1350 (Section 906 of the Sarbanes-Oxley Act of 2002 ("**SOX**") with respect to any report referred to in clause (i) or (ii) of this sentence, (v) all other forms, reports, registration statements and other documents (other than preliminary materials if the corresponding definitive materials have been provided to NORCAL pursuant to this Section 6.3(a) filed by PRA with the SEC since December 31, 2015 (the forms, reports, registration statements and other documents referred to in clauses (i), (ii), (iii), (iv) and (v) of this sentence together with any and all amendments thereto are, collectively, the "**PRA SEC Reports**" and, to the extent available in full without redaction on the SEC's web site through EDGAR two days prior to the date of this Agreement, are, collectively, the "**PRA Filed SEC Reports**"), and (vi) all comment letters received by PRA from the staff of the SEC since December 31, 2015 and all responses to such comment letters by or on behalf of PRA.

(b) The PRA SEC Reports (i) were prepared in accordance with the requirements of the Securities Act and the Exchange Act, as the case may be, in all material respects, and (ii) did not at the time they were filed with the SEC, or if thereafter amended, at the time of such amendment, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. No Subsidiary of PRA is or has been required to file any form, report, registration statement or other document with the SEC. As used in this Section 6.3, the term "file" shall be broadly construed to include any manner in which a document or information is furnished, supplied otherwise made available to the SEC.

(c) The financial statements of PRA and its Subsidiaries included in the PRA SEC Reports (including the related notes) complied or will comply as to form, as of their respective dates of filing with the SEC, in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto (including, without limitation, Regulation S-X), were or will be prepared in accordance with GAAP during the periods and at the dates involved (except as may be indicated in the notes thereto and except, in the case of unaudited statements, to the extent permitted by Regulation S-X for Quarterly Reports on Form 10-Q), and fairly present in all material respects the consolidated financial condition of PRA and its Subsidiaries at the dates thereof and the consolidated results of operations and cash flows for the periods then ended. Except (x) as reflected in PRA's unaudited balance sheet at September 30, 2019, or liabilities described in any notes thereto (or liabilities for which neither accrual nor



footnote disclosure is required pursuant to GAAP) (the “*PRA Balance Sheet*”), or (y) for liabilities incurred in the ordinary course of business since September 30, 2019 consistent with past practice or in connection with this Agreement or the transactions contemplated hereby, neither PRA nor any PRA Subsidiary has any material liabilities or obligations of any nature.

**6.4 Broker’s Fees.** Except as set forth in Section 6.4 of the PRA Disclosure Schedule, none of PRA, the PRA Subsidiaries and their respective officers and directors, has employed any broker or finder or incurred any liability for any broker’s fees or commissions, or investment banker fees or commissions, or finder’s fees in connection with the transactions contemplated by this Agreement.

**6.5 Absence of Certain Changes or Events.** Since September 30, 2019, there has not been: (i) any change in the financial condition, assets, liabilities, prospects (financial and otherwise) or business of PRA or any PRA Subsidiary which, either individually or in the aggregate, has had or would have a Material Adverse Effect on PRA; or (ii) any material change in any method of accounting or accounting principles or practice by PRA, except as required by GAAP or SAP and disclosed in the notes to the consolidated financial statements of PRA and PRA Subsidiaries.

**6.6 Compliance with Applicable Law.**

(a) PRA and the PRA Subsidiaries have complied in all material respects with, and are not in default in any material respect under any, and have maintained and conducted their respective businesses in all material respects in compliance with, all Applicable Laws during the last three (3) years.

(b) Neither PRA nor any PRA Subsidiary is subject to any cease and desist or other order issued by, or is a party to any written agreement, consent agreement or memorandum of understanding with, or is a party to any commitment letter or similar written undertaking to, or is subject to any order or directive by, or has been a recipient of any supervisory letter from, or since that date, has adopted any board resolutions at the request of any Governmental Authority that: (i) materially limits the ability of PRA or any PRA Subsidiary to conduct any line of business that it currently conducts, (ii) require any material investments of PRA or any PRA Subsidiary to be treated as non-admitted assets, (iii) require divestiture of any material investments of PRA or any PRA Subsidiary, (iv) in any manner imposes any material requirements on PRA or any PRA Subsidiary in respect of risk based capital requirements that add to or otherwise modify the risk based capital requirements imposed under the Insurance Laws, (v) in any manner relate to the ability of PRA or any PRA Subsidiary to pay or declare dividends or distributions, or (vi) restricts in any material respect the conduct of the business, credit policies or management of PRA or any PRA Subsidiary (each, whether or not set forth in the PRA Disclosure Schedule, a “*PRA Regulatory Agreement*”), nor has PRA or any of its Subsidiaries been advised in writing or, to PRA’s Knowledge, orally by any Governmental Authority that it is considering issuing or requesting any such PRA Regulatory Agreement.

(c) Except as set forth in Section 6.6(c) of the PRA Disclosure Schedule, there is no pending or, to the Knowledge of PRA, threatened charge by any Governmental Authority that PRA or any PRA Subsidiary has violated any Applicable Laws (including any Insurance

Laws), nor any pending or, to the Knowledge of PRA, threatened investigation by any Governmental Authority with respect to possible violations of any Applicable Laws (including any Insurance Laws).

(d) Other than as disclosed in PRA's annual proxy statements, there are no material contracts (other than contracts relating to employment), real estate leases, loans, guarantees or other arrangements or transactions of any nature between PRA or any PRA Subsidiary, on the one hand, and any of their respective officers, directors, or affiliates (as such term is defined in Rule 405 of the SEC), on the other hand. PRA has not, since December 31, 2016, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of PRA or any PRA Subsidiary. Section 6.6(d) of the PRA Disclosure Schedule identifies each loan or extension of credit maintained by PRA or any PRA Subsidiary to which the second sentence of Section 13(k)(1) of the Exchange Act applies.

(e) None of PRA, the PRA Subsidiaries and, to the Knowledge of PRA, any of their respective current or former officers or directors or current or former employees, agents or representatives have: (i) used any corporate funds for any illegal contributions, gifts, entertainment or other unlawful expenses relating to political activity, (ii) used any corporate funds for any direct or indirect unlawful payments to any foreign or domestic government officials or employees, (iii) violated any provision of the Foreign Corrupt Practices Act of 1977, (iv) established or maintained any unlawful or unrecorded fund of corporate monies or other assets, (v) made any false or fictitious entries on the books and records of PRA or any PRA Subsidiary, (vi) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment of any nature, or (vi) made any material favor or gift which is not deductible for federal income tax purposes. To the Knowledge of PRA, no director or officer of PRA or any PRA Subsidiary has engaged in any "insider trading" in violation of Applicable Law with respect to any security issued by PRA.

(f) PRA has no reason to believe that any facts or conditions related to its identity or regulatory status are reasonably likely to impede its ability to promptly obtain the approvals and consents required to consummate the transactions contemplated by this Agreement.

**6.7 Financial Ability.** Other than the fulfillment or valid waiver of the conditions set forth in Section 9.1 and Section 9.2, the obligations of PRA hereunder are not subject to any conditions regarding PRA's ability to obtain financing for the consummation of the Offer transaction. PRA has, and at the Purchase Effective Time will have, sufficient immediately available funds to pay or cause to be paid the Fixed PRA Consideration and PRA's costs and expenses in connection with the transactions contemplated by this Agreement.

## **ARTICLE 7 COVENANTS**

### **7.1 Conduct of Businesses of NORCAL Prior to the Purchase Effective Time.**

(a) During the period between the date of this Agreement and the Purchase Effective Time, except as expressly contemplated or permitted by this Agreement, NORCAL shall, and shall cause each NORCAL Subsidiary to: (a) conduct its business in the ordinary course

consistent with past practice, (b) use commercially reasonable efforts to maintain and preserve intact its business organization and advantageous business relationships and retain the services of its key employees and agents, and (c) take no action which would adversely affect or delay the ability of any party to this Agreement to obtain any Requisite Regulatory Approval for the transactions contemplated by this Agreement or to perform such party's covenants and agreements under this Agreement.

(b) During the period between the date of this Agreement and the Purchase Effective Time, NORCAL shall permit PRA's senior officers to meet with the Chief Financial Officer and Controller of NORCAL and officers of NORCAL responsible for the financial statements, the internal controls, and disclosure controls and procedures of NORCAL to discuss such matters as PRA may deem reasonably necessary or appropriate for PRA to satisfy its obligations under Sections 302, 404 and 906 of SOX and any rules and regulations relating thereto.

(c) NORCAL agrees to consult with PRA with respect to material litigation against NORCAL and the NORCAL Subsidiaries and to provide information and updates requested by PRA on reserve policies and practices (including the levels of reserves) with respect to losses and loss adjustment expenses. PRA and NORCAL shall also consult with respect to the character, amount and timing of restructuring charges to be taken by each of them in connection with the transactions contemplated hereby. Notwithstanding anything herein to the contrary, nothing in this Section 7.1(c) shall require NORCAL or any of its Affiliates to provide PRA with any information the disclosure of which would reasonably be expected to jeopardize the attorney-client or other privilege of it or contravene any Applicable Law or contract in existence as of the date hereof.

**7.2 NORCAL Forbearances.** During the period from the date of this Agreement to the Purchase Effective Time, except as set forth in Section 7.2 of the NORCAL Disclosure Schedule, and, except as expressly contemplated or permitted by this Agreement, NORCAL shall not, and NORCAL shall not permit any NORCAL Subsidiary to, without the prior written consent of PRA (which consent will not be unreasonably withheld, conditioned or delayed):

(a) incur any indebtedness for borrowed money (other than short-term indebtedness incurred on commercially reasonable terms to refinance indebtedness of NORCAL or any of its Subsidiaries, on the one hand, to NORCAL or any of its Subsidiaries, on the other hand), or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other individual, corporation or other entity, or make any loan or advance (it being understood and agreed that incurrence of indebtedness in the ordinary course of business shall include entering into repurchase agreements and reverse repurchase agreements);

(b) redeem, repay, discharge or defease any surplus note, unless such redemption, repayment, discharge or defeasance is an express condition of any Requisite Regulatory Approval;

(c) grant any stock options or stock awards or stock appreciation rights or any other right with respect to the NORCAL Common Stock to be authorized under the Plan of Conversion;

(d) other than paying dividends that have been declared prior to the date hereof, make, declare or pay any dividend or make any other distribution on or with respect to insurance policies written by NORCAL or any NORCAL Subsidiary;

(e) sell, transfer, mortgage, encumber or otherwise dispose of any of its material properties or material assets to any Person other than a Subsidiary, or cancel, release or assign any material indebtedness of any such Person or any material claims held by any such Person, except (i) in the ordinary course of business consistent with past practice, or (ii) pursuant to contracts or agreements in force at the date of this Agreement;

(f) except pursuant to contracts or agreements in force at the date of this Agreement, make any material non-portfolio investment (by purchase of stock or securities, contributions to capital, property transfers, or purchase of any property or assets) in any Person other than a Subsidiary;

(g) increase in any manner the compensation of the employees of NORCAL and the NORCAL Subsidiaries, or pay any bonus or incentive compensation to such employees outside of the ordinary course of business consistent with past practice; provided that NORCAL and the NORCAL Subsidiaries may make annual increases in the salaries and wages of their employees in the ordinary course of business and consistent with past practice so long as the aggregate amount of such increases in compensation on an annualized basis does not exceed three percent (3%) of the aggregate amount of the compensation paid to the affected employees in the 12 months preceding the effective date of the increase in compensation;

(h) pay any pension or retirement allowance not required by any existing plan or agreement to any of its employees or become a party to, amend (except as may be required by law) or commit itself to any pension, retirement, profit sharing or welfare benefit plan or agreement or employment agreement with or for the benefit of any employee or accelerate the vesting of any stock options or other stock based compensation, other than pension funding in the normal course or as required by Applicable Law;

(i) settle any claim, action or proceeding involving money damages, except in the ordinary course of business consistent with past practice; provided, however, that prior to the settlement of any lawsuit, claim, action or proceeding against NORCAL or any NORCAL Subsidiary or otherwise in which NORCAL or any NORCAL Subsidiary is a named defendant involving a payment by NORCAL or any NORCAL Subsidiary in excess of \$250,000 or the settlement of any ECO, XPL or bad faith claim involving any insurance policy of NORCAL or any NORCAL Subsidiary involving a payment by NORCAL or any NORCAL Subsidiary in excess of \$250,000, NORCAL will notify PRA of the terms of the proposed settlement and will consult with PRA regarding the terms of the settlement, but shall not be required to obtain PRA's consent to the terms of the settlement (it being acknowledged and agreed that this proviso does not apply to the settlement of any claims involving any insurance policy of NORCAL or any NORCAL Subsidiary not involving ECO, XPL or bad faith claims);

(j) amend its Organizational Documents, except as provided for in the Plan of Conversion and this Agreement;

(k) other than in accordance with its current investment guidelines, restructure or materially change its investment securities portfolio through purchases, sales or otherwise, or the manner in which such portfolio is classified or reported;

(l) offer or sell insurance or reinsurance of any type in any jurisdiction other than such lines of insurance and reinsurance that it offers and sells on the date of this Agreement and other than in those jurisdictions where it offers and sells such lines of insurance and reinsurance on the date of this Agreement;

(m) take any action that is intended or may reasonably be expected to result in any of the conditions set forth in Article 9 of this Agreement not being satisfied, except, in every case, as may be required by Applicable Law;

(n) take any action that is intended or likely to adversely affect its ability to perform its covenants and agreements under this Agreement; or

(o) agree to, or make any commitment to, take any of the actions prohibited by this Section 7.2; provided, that except for and subject to Section 7.2(l), nothing in this Section 7.2 shall prohibit NORCAL or any NORCAL Insurance Subsidiary from issuing any insurance policy or contract or any rider or endorsement thereto in the ordinary course of business consistent with past practice.

**7.3 PRA Forbearances.** During the period from the date of this Agreement to the Purchase Effective Time, except as set forth in Section 7.3 of the PRA Disclosure Schedule, and, except as expressly contemplated or permitted by this Agreement, PRA shall not, and PRA shall not permit any PRA Subsidiary to, without the prior written consent of NORCAL:

(a) take any action that is intended or may reasonably be expected to result in any of the conditions set forth in Article 9 of this Agreement not being satisfied, except, in every case, as may be required by Applicable Law;

(b) take any action that is intended or likely to adversely affect its ability to perform its covenants and agreements under this Agreement; or

(c) agree to, or make any commitment to, take any of the actions prohibited by this Section 7.3.

**7.4 NORCAL Subsidiaries, Directors and Officers.** At PRA's request, NORCAL, to the extent it has the authority to do so, shall cause the officers and directors of the NORCAL Subsidiaries to resign effective as of the Closing Date and cause successor officers and directors to be appointed or elected effective as of the Closing Date.

## **ARTICLE 8 ADDITIONAL AGREEMENTS**

### **8.1 Regulatory Matters.**

(a) The parties shall promptly make all filings and notifications with, and shall use reasonable best efforts to promptly obtain all authorizations, consents, clearances, orders and approvals of all Governmental Authorities that may be or become necessary for their respective execution and delivery of, and the performance of their respective obligations pursuant to, and the consummation of the transactions contemplated by, this Agreement, including as set forth in Section 9.1(b) and Section 9.1(c) below, and shall take all actions as may be requested by any such Governmental Authorities to obtain such authorizations, consents, clearances, orders and approvals; *provided, however*, that in no event shall PRA or any of its Affiliates be required to agree to (i) (A) the divestiture of any business, line of business, or entity of PRA or its Subsidiaries or NORCAL or its Subsidiaries in each case except for such actions related to de minimis assets (with such assets measured on a scale relative to PRA and its Subsidiaries, taken as a whole) or (B) the imposition after the Closing Date of any restrictions to compete in any jurisdiction on PRA or any of its Affiliates or NORCAL or any of its Subsidiaries, in each case, which has or would reasonably be expected to have a Material Adverse Effect on PRA and its Subsidiaries (including NORCAL INC. and its Subsidiaries after the Closing Date), taken as a whole, or (ii) any requirement imposed by a Governmental Authority that would reasonably be expected to have a (A) Material Adverse Effect on NORCAL or any NORCAL Subsidiary, (B) material adverse effect on the aggregate financial benefits reasonably expected to be realized by PRA in connection with the transactions contemplated by this Agreement, or (C) Material Adverse Effect on PRA and its Subsidiaries (including NORCAL INC. and its Subsidiaries after the Closing Date), taken as a whole. Neither PRA nor NORCAL shall take any action that they should be reasonably aware would have the effect of delaying, impairing or impeding the receipt of any required clearances or approvals.

(b) In connection with the solicitation of approval of the Conversion by the Eligible Policyholders and Commissioner, as contemplated by this Agreement, NORCAL will prepare, with PRA's assistance at NORCAL's reasonable request, and file with the Department the Plan of Conversion, any supporting documents required by CA Insurance Code Section 4097.02(b) (the "**Supporting Documents**"), and any information statement relating to the Plan of Conversion, the Supporting Documents, the transactions contemplated by this Agreement, and PRA's tender offer solicitation materials in accordance with the Insurance Laws, if applicable (the "**Information Statement**"). NORCAL and PRA, as applicable, will prepare the Plan of Conversion in accordance with Section 2.1 hereof and the provisions of CA Insurance Code Section 4097.04. NORCAL shall use reasonable best efforts to (i) obtain and furnish (with the reasonable cooperation of PRA) the information (x) required to be included in the Plan of Conversion by the Conversion Statutes, (y) required to be submitted to the Commissioner as Supporting Documents by CA Insurance Code Section 4097.02(b) and (z) agreed to by the parties to be included in the Information Statement, and (ii) to obtain the approval of the Commissioner of the Plan of Conversion. PRA and NORCAL will use all reasonable efforts to respond to the comments of the staff of the Department with respect to the Plan of Conversion, Supporting Documents and Information Statement as promptly as practicable. As soon as reasonably practicable after the date hereof, NORCAL shall mail or deliver the Plan of Conversion, Supporting Documents and Information Statement to the Policyholders. Each of NORCAL and PRA agrees that the information provided and to be provided by NORCAL or PRA, as the case may be, specifically for use in the Plan of Conversion, Supporting Documents and Information Statement shall not, with respect to the information supplied by such party (i) on the date upon which the Plan of Conversion, Supporting Documents and Information Statement is mailed to

Eligible Policyholders, (ii) on the commencement date of the Offer, (iii) on the last date on which Record Date Policyholders are entitled to vote on the Proposal, (iv) during the solicitation period for the Offer, (v) at the Offer Expiration Time, and/or (vi) on the date of the Closing, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. No less than ten (10) days prior to the filing of the Plan of Conversion, Supporting Documents and Information Statement with the Commissioner, NORCAL shall provide PRA a draft of the Plan of Conversion, Supporting Documents and Information Statement and an opportunity to comment on such drafts. Each of PRA and NORCAL agree to promptly correct any such information provided by it which shall have become false or misleading in any material respect as of the dates described in clauses (i) – (vi) above and to take all steps necessary to file with the Department and obtain approval of the Commissioner for any amendment or supplement to the Plan of Conversion, Supporting Documents, and Information Statement, and to cause the Plan of Conversion, Supporting Documents, and Information Statement so corrected to be distributed to the Eligible Policyholders to the extent required by Applicable Law.

(c) NORCAL shall prepare consolidated financial statements of NORCAL and the NORCAL Subsidiaries in accordance with GAAP for the years ended December 31, 2017, December 31, 2018 and December 31, 2019 and each quarterly period thereafter (the “**GAAP Financial Statements**”), which financial statements shall include balance sheets at the end of each period, and statements of policyholders’/shareholders’ equity, earnings and cash flow for each of said periods, and notes thereto (except in the case of interim financial statements). NORCAL shall cause the annual GAAP Financial Statements to be audited by KPMG US LLP or such other independent public accounting firm as may be reasonably acceptable to PRA; provided that such accounting firm shall as part of its engagement agree to consent to the use of its report on the GAAP Financial Statements in a PRA registration statement if and to the extent required by SEC regulations.

(d) Pursuant to the HSR Act, PRA and NORCAL will promptly prepare and file, or cause to be filed, the HSR Act Report with the Pre-Merger Notification Agencies in respect of the transactions contemplated by this Agreement, which filing shall comply as to form with all requirements applicable thereto and all of the data and information reported therein shall be accurate and complete in all material respects. Each of PRA and NORCAL will promptly comply with all requests, if any, of the Pre-Merger Notification Agencies for additional information or documentation in connection with the HSR Act Report forms filed by or on behalf of each of such parties pursuant to the HSR Act, and all such additional information or documentation shall comply as to form with all requirements applicable thereto and shall be accurate and complete in all material respects.

(e) [Reserved].

(f) In furtherance of, and without limitation to, the foregoing, PRA shall (i) prepare and make its Form A filings with the Department and all other applicable Governmental Authorities (the “**Form A Filings**”) and file any required Form E pre-acquisition notices with an Insurance Regulator in any U.S. jurisdiction requiring that Form E pre-acquisition notices be filed with respect to NORCAL or a NORCAL Insurance Subsidiary (“**Form E Filings**”) and all other documentation to effect all necessary notices, reports, applications and other filings, as soon as

practicable following the date hereof and (ii) respond promptly to any reasonable request by the Department or any other Insurance Regulator, for any additional information and documentary material in connection therewith.

(g) The parties hereto shall cooperate with each other and use their commercially reasonable efforts to promptly prepare and file all necessary documentation, to effect all applications, notices, petitions and filings, to obtain as promptly as practicable all permits, consents, clearances, approvals and authorizations of all third parties and Governmental Authorities which are necessary or advisable to consummate the transactions contemplated by this Agreement (including the Plan of Conversion), and to comply with the terms and conditions of all such permits, consents, approvals and authorizations of all such Governmental Authorities. As permitted by Applicable Law, each party agrees to provide a draft of all applications, notices, petitions and filings (and each amendment or supplement thereto), including the Plan of Conversion and any Form A or Form E, submitted to Governmental Authorities pursuant to this Section 8.1 to the other party and to allow the other party three (3) Business Days to review such and to consult with the drafting party regarding any issues arising as a result of its review, application, notice, petition and filing (and each amendment or supplement thereto) prior to the submission by the drafting party of such application, notice, petition and filing (and each amendment or supplement thereto) to the Insurance Regulator. In addition, PRA and NORCAL shall have the right to review in advance, and, to the extent practicable, each will consult the other on, in each case subject to Applicable Laws relating to the exchange of information, all the information relating to PRA or its Subsidiaries or NORCAL or its Subsidiaries, as the case may be, which appear in any filing made with, or written materials submitted to, any third party or any Governmental Authority in connection with the transactions contemplated by this Agreement. The cooperation and coordination of each party required under this Section 8.1 shall include giving timely (to the extent permitted by Applicable Law): (i) notices to the other party with respect to any meeting, hearing, discussion, appearance or contact with any Governmental Authority in connection with any such material filing (including the Plan of Conversion and Form A), with such notice being sufficient to provide the other party with the opportunity to attend and participate in such meeting, discussion, appearance or contact; and (ii) public notice of any public hearings regarding the transactions contemplated by this Agreement, and having the other party's representatives attend and testify at such public hearings. In addition, each of the parties hereto shall act reasonably and as promptly as practicable. The parties hereto agree that they will consult with each other with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other apprised of the status of matters relating to completion of the transactions contemplated by this Agreement. Notwithstanding anything herein to the contrary, nothing in this Agreement shall require NORCAL or any of its Affiliates to provide PRA with any information the disclosure of which would reasonably be expected to jeopardize the attorney-client or other privilege of it or contravene any Applicable Law or contract in existence as of the date hereof.

(h) Each party shall provide to the other, on its request, (i) promptly after filing thereof, copies of all statements, applications, correspondence or forms filed by such party prior to the Closing Date with the Insurance Regulators, the SEC and any other Governmental Authority in connection with the transactions contemplated by this Agreement and (ii) promptly after delivery to, or receipt from, such authorities, all written communications, letters, reports or other



documents relating to the transactions contemplated by this Agreement; provided, however, nothing contained in this Section 8.1 shall require NORCAL to provide PRA with any presentations, board books, work papers or other materials prepared in support of any appraisal or other valuation analysis of NORCAL; provided, further that the party sharing such filing or materials may redact from such filing and communications any competitively sensitive information of such party and its Affiliates.

(i) PRA and NORCAL shall, upon request, furnish each other with all information concerning themselves, their Subsidiaries, directors, officers and shareholders/policyholders and such other matters as may be reasonably necessary or advisable in connection any statement, filing, notice or application made by or on behalf of PRA, NORCAL or any of their respective Subsidiaries to any Governmental Authority in connection with the Conversion and the other transactions contemplated by this Agreement. NORCAL and the NORCAL Subsidiaries on the one hand, and PRA on the other, shall reasonably cooperate with each other and each other's agents, including public accounting firms, in connection with the preparation of GAAP financial statements of NORCAL and the NORCAL Subsidiaries with respect to periods prior to the Closing Date.

(j) PRA and NORCAL shall consult with each other with respect to the obtaining of all approvals of Governmental Authorities necessary, proper or advisable to consummate the transactions contemplated by this Agreement, and each of them shall keep the other apprised on a prompt basis of the status of matters relating to such approvals, including the receipt of any communication from any Governmental Authority whose consent or approval is required for consummation of the transactions contemplated by this Agreement.

## **8.2 Access to Information; Financial Reporting.**

(a) Upon reasonable prior notice and subject to Applicable Laws relating to the exchange of information and to the Confidentiality Agreement, dated July 16, 2018, respectively (the "***Confidentiality Agreement***") which is hereby incorporated into this Agreement by reference and shall continue in full force and effect until Closing, NORCAL shall afford to the officers, employees, accountants, counsel and other representatives of PRA, (i) access, during normal business hours during the period prior to the Closing Date, to all its properties, books, contracts, commitments and records and (ii) make available such officers and employees whose assistance and expertise is reasonably necessary to assist PRA in connection with PRA's preparation to integrate NORCAL's and its Subsidiaries' business and operations into PRA's organization following the Closing Date; provided, however, that such access does not unreasonably interfere with the operation of the businesses of PRA and the PRA Subsidiaries or NORCAL and the NORCAL Subsidiaries, as applicable; provided, further, that the independent accountants of PRA or NORCAL, as applicable, shall not be obligated to make any working papers available to NORCAL and its representatives or PRA and its representatives, as applicable, unless and until PRA and its relevant representatives or NORCAL and its relevant representatives, as applicable, has signed a customary confidentiality and hold harmless agreement relating to such access to working papers in form and substance reasonably acceptable to such independent accountants. During such period, each of PRA (and its Subsidiaries) and NORCAL (and its Subsidiaries) shall make available to the other party a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of federal

securities laws or Insurance Laws (other than reports or documents which PRA or NORCAL, as the case may be, is not permitted to disclose under Applicable Law or by agreement). Neither PRA (or its Subsidiaries) nor NORCAL (or its Subsidiaries) shall be required to provide access to or to disclose information where such access or disclosure would violate or prejudice the rights of PRA or NORCAL, as the case may be, or their respective customers, jeopardize the attorney-client and work product privileges of the entity in possession or control of such information or contravene any Applicable Law, order, judgment, decree, fiduciary duty or binding agreement entered into prior to the date of this Agreement. The parties hereto will make appropriate substitute disclosure arrangements under circumstances in which the restrictions of the preceding sentence apply.

(b) Each of PRA and NORCAL agrees to keep confidential, and not divulge to any other party or Person (other than employees of, and attorneys, accountants, financial advisors and other representatives for, any said party who agree to be bound by the terms of the Confidentiality Agreement), any non-public documents, information, records or financial statements received from the other and, in addition, any and all reports, information or financial information of the other party obtained through audits or other reviews conducted pursuant to this Agreement (unless readily ascertainable from public or published information, or trade sources, or already known or subsequently developed by a party independently of any investigation or received from a third party not under an obligation to the other party to keep such information confidential), and to use the same only in connection with the transactions contemplated by this Agreement; and if the transactions contemplated by this Agreement are not consummated for any reason, each party agrees to promptly return to the other party all written materials furnished by the other party, and all copies thereof, and to destroy all documents and records in its possession containing extracts or summaries of any such non-public information.

(c) As soon as practicable, but in any event within ninety (90) days following the end of each calendar quarter which is completed prior to the Closing Date, commencing with the quarter ending December 31, 2019, NORCAL shall cause to be delivered to PRA the “*Quarter End Report*” prepared by NORCAL with respect to such quarter, which report shall include (x) a SAP balance sheet of NORCAL as of the end of such quarter and (y) a SAP statement of earnings and policyholders’/shareholders’ equity of NORCAL for the year-to-date period ending the end of such quarter, prepared in a manner consistent with, and in a format comparable to, the statements of earnings and policyholders’/shareholders’ equity referred to in Section 5.7(a) hereof.

(d) NORCAL shall provide to PRA a monthly report setting forth each claim, action or proceeding settled in excess of applicable policy limits, including any ECO, XPL or bad faith claim settled in excess of applicable policy limits.

(e) If this Section 8.2 conflicts with any provision of the Confidentiality Agreement, the provisions of this Agreement shall control.

### **8.3 Special Meeting of, and Recommendation to, Eligible Policyholders.**

(a) After the setting of the public hearing with respect to the Conversion and the Plan of Conversion by the Commissioner, NORCAL acting through the NORCAL Board, shall in accordance with Applicable Law and the NORCAL Organizational Documents, duly call, give notice of (as required by Applicable Law), convene and hold a Special Meeting for the purpose of

considering and acting upon the approval and adoption of the Plan of Conversion, including the adoption of the Articles of Incorporation and Bylaws. NORCAL shall consider in good faith the request of PRA to postpone the Special Meeting to allow additional time to solicit the Eligible Policyholders in accordance with Section 8.3 below.

(b) NORCAL shall solicit proxies from the Record Date Policyholders for approval of the Plan of Conversion at the Special Meeting. In connection with the solicitation of proxies from the Eligible Policyholders, NORCAL shall, in accordance with Section 8.1(b) hereof, prepare the Plan of Conversion, Supporting Documents and Information Statement in accordance with the requirements of Applicable Law subject to review and comment by PRA prior to furnishing the Plan of Conversion, Supporting Documents and Information Statement to the Department and the Eligible Policyholders. Unless prohibited by Applicable Law or by the Regulatory Authority, the Plan of Conversion, Supporting Documents and Information Statement shall include the following:

(i) the form of proxy solicited from Eligible Policyholders will provide that each Eligible Policyholder shall have the preemptive right to acquire his or her proportionate part of the NORCAL Common Stock within a reasonable time period, and each Eligible Policyholder not applying the foregoing preemptive right will elect (or be deemed to elect pursuant to Section 4097.04(c) of the Code) to receive one of the following in the Conversion: (A) a contribution certificate as provided in Section 2.1(e)(i); or (B) an amount of cash in accordance with Section 2.1(e)(ii);

(ii) that each Eligible Policyholder will be afforded an opportunity to elect to receive one of the following in the Conversion: (A) a contribution certificate as provided in Section 2.1(e)(i); (B) an amount of cash in accordance with Section 2.1(e)(ii); or (C) a number of shares of NORCAL Common Stock in accordance with Section 2.1(d);

(iii) that each Eligible Policyholder who is a Stock Subscriber will be afforded an opportunity to elect to sell all of such Policyholder's shares of NORCAL Common Stock to PRA in exchange for the PRA Consideration;

(iv) the recommendation of the NORCAL Board that the Record Date Policyholders vote in favor of the Plan of Conversion (unless the NORCAL Board determines in its good faith judgment after consultation with its advisors and any Insurance Regulators that a change in the recommendation is required in order for the NORCAL Board to comply with its fiduciary obligations);

(v) that the NORCAL Board will recommend that the Eligible Policyholders elect to receive shares of NORCAL Common Stock in the Conversion and tender such shares of NORCAL Common Stock pursuant to the terms of the Stock Offer (unless the NORCAL Board determines in its good faith judgment after consultation with its advisors and any Insurance Regulators that a change in the recommendation is required in order for the NORCAL Board to comply with its fiduciary obligations); and

(vi) that NORCAL and PRA shall have the right to mutually agree to postpone the Special Meeting, to extend the solicitation period and to allow Eligible Policyholders to revoke their elections prior to the Special Meeting.

**8.4 Exemption from Registration of NORCAL Common Stock.** NORCAL and PRA understand and agree that the NORCAL Common Stock to be issued pursuant to the Plan of Conversion and this Agreement will not be registered under the Securities Act or applicable state securities laws in reliance on exemptions from such registration. NORCAL and PRA shall use commercially reasonable efforts to cause the NORCAL Common Stock to be issued pursuant to available exemptions from registration under the Securities Act and state securities laws. PRA shall take no action that would require any such exemption to become unavailable.

**8.5 Closing Date Disclosure Schedule.** PRA shall update the PRA Disclosure Schedule (the "*Closing Date PRA Disclosure Schedule*") to a date that is no earlier than ten (10) Business Days prior to the Closing Date and no later than seven (7) Business Days prior to the Closing Date and shall deliver the Closing Date PRA Disclosure Schedule to NORCAL not less than three (3) Business Days prior to the Closing Date. NORCAL shall update the NORCAL Disclosure Schedule (the "*Closing Date NORCAL Disclosure Schedule*") to a date that is no earlier than ten (10) Business Days prior to the Closing Date and no later than seven (7) Business Days prior to the Closing Date and shall deliver the Closing Date NORCAL Disclosure Schedule to PRA not less than three (3) Business Days prior to the Closing Date. The obligation of PRA to deliver to NORCAL the Closing Date PRA Disclosure Schedule as provided above shall be a material obligation for purposes of Section 9.3(a) hereof, and the obligation of NORCAL to deliver to PRA the Closing Date NORCAL Disclosure Schedule shall be a material obligation for purposes of Section 9.2(a) hereof. The provisions of this Section 8.5 and any notices by PRA on the one hand, and NORCAL on the other, shall not be deemed in any way to constitute a waiver by the counterparty of the conditions set forth in Article 9 hereof or any of its remedies under Article 10 hereof, nor shall any such notices cure any breach of any representation or warranty which is inaccurate.

**8.6 Additional Agreements.**

(a) In the event that any further action is necessary or desirable to carry out the purposes of this Agreement or to vest PRA or any of its Subsidiaries with full title to all properties, assets, rights, approvals, immunities and franchises of any of the parties to this Agreement including the Plan of Conversion, the proper officers and directors of each party to this Agreement shall take all such necessary action as may be reasonably requested by, and at the sole expense of, PRA.

(b) Prior to the Closing Date, except in connection with the acquisition of shares or interests in mutual funds or exchange-traded funds, NORCAL shall not acquire, directly or indirectly, beneficial or record ownership of any shares of PRA common stock or other equity securities of PRA, or any securities convertible into or exercisable for any shares of PRA common stock or other equity securities of PRA.

**8.7 Negotiations with Other Parties.**

(a) So long as this Agreement remains in effect and no notice of termination has been given under this Agreement, NORCAL shall not authorize or knowingly permit any of its representatives, directly or indirectly, to initiate, entertain, solicit, encourage, engage in, or participate in, negotiations with any Person or any group of Persons other than the other party to this Agreement or any of its Affiliates concerning any Acquisition Proposal (as herein defined) other than as expressly provided in this Agreement. NORCAL will promptly inform PRA of any serious, bona fide inquiry it receives with respect to any Acquisition Proposal and shall furnish to PRA a description of the terms of a possible transaction, if any (but need not identify the Person, or group of Persons, making the offer).

(b) Nothing contained in this Agreement shall prohibit the NORCAL Board from either furnishing information to, or entering into discussions or negotiations with, any Person or group of Persons regarding any Acquisition Proposal, or approving and recommending to the Eligible Policyholders of NORCAL an Acquisition Proposal from any Person or group of Persons, if the NORCAL Board determines in good faith that such action is appropriate in furtherance of the best interests of the Policyholders and in order for the NORCAL Board to comply with its fiduciary obligation. In connection with any such determination: (i) NORCAL shall direct its representatives, officers and other appropriate personnel to cooperate with and be reasonably available to consult with any such Person, or group of Persons; (ii) NORCAL will disclose to PRA that it is furnishing information to, or entering into discussions or negotiations with, such Person or group of Persons, which disclosure shall describe the terms thereof (but need not identify the Person, or group of Persons making the offer); (iii) prior to furnishing such information to such Person or group of Persons, NORCAL shall enter into a written agreement with such Person or group of Persons which provides for, among other things, (A) the furnishing to such Person or group of Persons of information regarding NORCAL that is relevant to its ability to finance and otherwise perform its obligations under its Acquisition Proposal, (B) the confidentiality of all non-public information furnished to such Person or group of Persons by NORCAL, and (C) procedures reasonably satisfactory to NORCAL that are designed to restrict or limit the provision of information regarding NORCAL that could be used to the competitive disadvantage of NORCAL; (iv) NORCAL will not furnish any non-public information regarding PRA or the transactions contemplated hereby; and (v) NORCAL will keep PRA informed of the status of any such discussions or negotiations (provided that NORCAL shall not be required to disclose to PRA confidential information concerning the business or operations of such Person or group of Persons).

(c) As used in this Agreement, “*Acquisition Proposal*” means (i) any proposal pursuant to which any Person or group of Persons, other than PRA or NORCAL, would acquire or participate in a merger, consolidation, or other business combination involving NORCAL, directly or indirectly; (ii) any proposal by which any Person or group of Persons, other than PRA or NORCAL, would acquire a substantial equity interest in NORCAL, including the right to vote 10% or more of the capital stock (following a reorganization or conversion) of NORCAL entitled to vote thereon for the election of directors; (iii) any acquisition of 10% or more of the assets of NORCAL, other than in the ordinary course of business; (iv) any acquisition in excess of 10% of the outstanding capital stock (following a reorganization or conversion) of NORCAL, other than as contemplated by this Agreement; (v) any acquisition of control (as defined under the Insurance Laws) of NORCAL; or (vi) any transaction similar to the foregoing.

## **8.8 Directors' and Officers' Indemnification and Insurance.**

(a) NORCAL shall use its commercially reasonable efforts, immediately prior to the Closing, to purchase a single payment, run-off policy or policies of directors' and officers' liability insurance covering current and former officers and directors of NORCAL and the NORCAL Subsidiaries on terms and conditions, including limits, at least as favorable as their respective directors and officers liability insurance policy in effect on the date of this Agreement, such policy or policies to become effective at the Purchase Effective Time and remain in effect for a period of six years after the Purchase Effective Time or the period of the applicable statute of limitation, if longer (the "**Tail Policy**"). If NORCAL is unable to obtain the Tail Policy prior to Closing, PRA shall use its best efforts to cause the individuals serving as officers and directors of NORCAL and the NORCAL Subsidiaries prior to the Purchase Effective Time to be covered for a period of six years from the Purchase Effective Time (or the period of the applicable statute of limitations, if longer) by the directors' and officers' liability insurance policy maintained by PRA (provided that PRA may substitute therefore policies of the same or greater coverage and amounts containing terms and conditions which are at least as favorable as their respective directors and officers liability insurance policy in effect on the date of this Agreement) with respect to acts or omissions occurring on or prior to the Purchase Effective Time which were committed by such officers and directors in their capacity as such; provided, however, that in no event shall the annual premium for any such insurance be more than 300% of the current annual amount expended by NORCAL or the NORCAL Subsidiary (the "**Insurance Premium Amount**"); and provided further, that if PRA is unable to maintain or obtain the insurance called for by this Section 8.8, PRA shall use its best efforts to obtain as much comparable insurance as available for the Insurance Premium Amount.

(b) In addition to the obligations set forth in Section 8.8(a), PRA shall, and shall cause NORCAL and each NORCAL Subsidiary to, indemnify, defend and hold harmless each person who is now, or who has been at any time before the date hereof or who becomes before the Purchase Effective Time, an officer, director or employee of NORCAL or a NORCAL Subsidiary (the "**Indemnified Parties**") against all losses, claims, damages, costs, expenses (including attorney's fees), liabilities or judgments or amounts that are paid in settlement of or in connection with any claim, action, suit, proceeding or investigation, whether civil, criminal, or administrative (each a "**Claim**"), in which an Indemnified Party is, or is threatened to be made, a party or witness in whole or in part on or arising in whole or in part out of the fact that such person is or was a director, officer or employee of NORCAL or a NORCAL Subsidiary if such Claim pertains to any matter of fact arising, existing or occurring at or before the Purchase Effective Time (including, without limitation, the Conversion and the other transactions contemplated hereby), regardless of whether such Claim is asserted or claimed before, or after, the Purchase Effective Time, to the fullest extent NORCAL is permitted under Applicable Law and consistent with NORCAL's or any NORCAL Subsidiary's Organizational Documents as in effect on the date hereof. PRA shall pay expenses in advance of the final disposition of any such action or proceeding to each Indemnified Party to the full extent provided in NORCAL's or any NORCAL Subsidiary's Organizational Documents or under any agreement of any Indemnified Party with NORCAL or any NORCAL Subsidiary, in each case in effect as of the date of this Agreement, or under Applicable Law. The Indemnified Parties may retain counsel reasonably satisfactory to them; provided, however, that (A) unless the Indemnified Party reasonably concludes that PRA has a conflict of interest with respect to the Claim, PRA shall have the right to assume the defense thereof, provided that PRA

shall not effect any settlement without the consent of the Indemnified Party unless the settlement requires solely the payment of money by PRA, NORCAL or any NORCAL Subsidiary and the settlement unconditionally releases the Indemnified Party from all liability with respect to the Claim, (B) PRA shall be obligated pursuant to this paragraph to pay for only one firm of counsel for all Indemnified Parties except to the extent representation by a single firm or attorney is, in the absence of an informed consent by the Indemnified Party, prohibited in the judgment of such firm by ethical rules relating to lawyers' conflicts of interest, in which case PRA shall be obligated to pay for counsel for each Indemnified Party, as applicable, (C) PRA shall not be liable for any settlement effected without its prior written consent (which consent shall not be unreasonably withheld), (D) PRA shall have no obligation hereunder to any Indemnified Party when and if a court of competent jurisdiction shall ultimately determine, and such determination shall have become final and nonappealable, that indemnification of such Indemnified Party in the manner contemplated by this Agreement is prohibited by Applicable Law and (E) PRA shall have no obligation hereunder to any Indemnified Party for which and to the extent payment is actually and unqualifiedly made to such Indemnified Party under any insurance policy, any other agreement for indemnification or otherwise. Any Indemnified Party wishing to claim indemnification under this Section 8.8, upon learning of any such claim, action, suit, proceeding or investigation, shall notify PRA thereof, provided that the failure to so notify shall not affect the obligations of PRA under this Section 8.8 except to the extent such failure to notify materially prejudices PRA. PRA's obligations under this Section 8.8 continue in full force and effect for a period of six years from the Purchase Effective Time (or the period of the applicable statute of limitations, if longer); provided, however, that all rights to indemnification in respect of any Claim asserted or made within such period shall continue until the final disposition of such Claim. If PRA or any of its respective successors or assigns (x) consolidates with or merges into any other Person and is not the continuing or surviving corporation or entity of such consolidation or merger or (y) transfers or conveys all or substantially all its properties and assets, then, and in each case, PRA shall ensure that such surviving corporation or entity or the transferees of such properties or assets assume the obligations set forth in this Section 8.8. The rights of each Indemnified Party under this Section 8.8 shall be in addition to any rights such Indemnified Party may have under Organizational Documents of NORCAL or any NORCAL Subsidiary or under any agreement of any Indemnified Party with NORCAL or any NORCAL Subsidiary, in each case in effect as of the date of this Agreement, or under Applicable Law. These rights shall survive consummation of the Conversion and the other transactions contemplated by this Agreement and are intended to benefit, and shall be enforceable by, each Indemnified Party.

**8.9 [Reserved].**

**8.10 Employee Plans.**

(a) From and after the Purchase Effective Time, the NORCAL Benefit Plans in effect as of the date of this Agreement and at the Purchase Effective Time shall remain in effect with respect to the current and former employees of NORCAL and the NORCAL Subsidiaries (the "***NORCAL Employees***") covered by such NORCAL Benefit Plans at the Purchase Effective Time, until such time as PRA shall otherwise determine. PRA agrees that it will honor all NORCAL Benefit Plans in accordance with their terms as in effect at the Purchase Effective Time, subject to any amendment or termination thereof that may be required or permitted by the plans or Applicable Law. PRA will review all NORCAL Benefit Plans to determine whether to maintain, terminate or

continue such plans; provided, however, that PRA will not amend or terminate a NORCAL Benefit Plan with an effective amendment or termination date prior to January 1, 2021, will not amend or terminate the Medi-Gap Health Coverage for Officers or other retiree medical benefit arrangements for retirees or officers receiving such post-retirement medical benefit arrangements immediately prior to Closing (provided, however, that for purposes of clarity, nothing in this Section 8.10 shall obligate PRA or NORCAL (following the Closing) to continue to offer Medi-Gap Health Coverage to any officers or other retirees who are not receiving or eligible to receive such benefits as of the Closing Date), and will not stop payment on bonus or incentive compensation that (1) is earned for calendar year 2020 pursuant to a formal written incentive plan that has been disclosed to PRA and (2) has not been paid prior to January 1, 2021, other than as may be required by Applicable Law; provided that in any event no incentive compensation described herein shall be due or payable to any NORCAL employee who is not an employee of PRA, NORCAL, or a NORCAL Subsidiary at the time such compensation ordinarily would be paid in March 2021. In the event employee compensation and/or benefits as currently provided by NORCAL or any NORCAL Subsidiary are changed or terminated by PRA, in whole or in part, PRA shall provide any NORCAL Employees who continue in employment with PRA or any of its Subsidiaries (“*Continuing Employees*”) with compensation and benefits that are, in the aggregate, substantially similar to the compensation and benefits provided to similarly situated employees of PRA or applicable PRA Subsidiary (as of the date any such compensation or benefit is provided). In the event of any termination of any NORCAL health plan, or consolidation of any health plan with any PRA health plan, any coverage limitation under the PRA health plan due to any pre-existing condition shall be waived by the PRA health plan to the degree that such condition was covered by the NORCAL health plan and such condition would otherwise have been covered by the PRA health plan in the absence of such coverage limitation. All NORCAL employees who cease participating in a NORCAL health plan and become participants in a comparable PRA health plan during any plan year shall receive credit toward the applicable deductible under the PRA health plan for any amounts paid by the employee under NORCAL’s health plan during the applicable plan year, upon substantiation, in a form satisfactory to PRA, that such payments have been made.

(b) Employees of NORCAL or any NORCAL Subsidiary who become participants in an Employee Plan of PRA shall, for purposes of determining eligibility for and for any applicable vesting periods of such employee benefits only (and not for benefit accrual purposes unless specifically set forth herein) be given credit for meeting eligibility and vesting requirements in such plans for service as an employee of NORCAL or any predecessor thereto prior to the Purchase Effective Time; provided, however, that credit for benefit accrual purposes will be given only for purposes of PRA vacation policies or programs. In the event of any termination or consolidation of any NORCAL health plan with any PRA health plan, PRA shall make available to Continuing Employees and their dependents employer-provided health coverage on substantially the same basis as it provides such coverage to PRA employees. Unless a Continuing Employee affirmatively terminates coverage under a NORCAL health plan prior to the time that such Continuing Employee becomes eligible to participate in the PRA health plan, or unless a Continuing Employee and/or a dependent of a Continuing Employee has an event which, under the terms of the NORCAL health plan, results in a loss of coverage (which may include a sale or other disposition of a NORCAL Subsidiary or substantially all of the business operations thereof), no coverage of any of the Continuing Employees or their dependents shall terminate under any of the NORCAL health plans prior to the time such Continuing Employees and their dependents



become eligible to participate in the health plans, programs and benefits common to all employees of PRA and their dependents. In the event of a termination or consolidation of any NORCAL health plan, terminated NORCAL employees and qualified beneficiaries will have the right to continued coverage under group health plans of PRA in accordance with Code Section 4980B(f).

(c) Nothing in this Section 8.10 shall be interpreted as preventing PRA from terminating the employment of any individual or from amending, modifying or terminating any Employee Plans of PRA, or any NORCAL Benefit Plans, or any benefits under any Employee Plans of PRA or any NORCAL Benefit Plans, or any other contracts, arrangements, commitments or understandings, in accordance with their terms and Applicable Law.

(d) The parties agree that the transactions contemplated by this Agreement shall not constitute a separation, termination or severance of employment of any employee of NORCAL or any of the NORCAL Subsidiaries, including for purposes of any benefit or compensation arrangement, plan, policy, contract or practice that provides for separation, termination or severance benefits. The parties further agree that the employment of each employee of NORCAL and the NORCAL Subsidiaries who was such an employee immediately prior to the Closing shall continue, uninterrupted, immediately after the Closing; provided, however, that this Section 8.10(d) shall not apply to executives or other employees of NORCAL or a NORCAL Subsidiary if the executive or employee is a party to an agreement that provides certain benefits upon a change in control of NORCAL that occurs upon Closing. The rights and obligations set forth in this Section 8.10(d) shall inure solely to the benefit of the parties hereto and shall not create any rights in any employee as a third-party beneficiary.

(e) Except as described in Section 8.10(d), if within the first ninety (90) days of the Closing Date (the “**Post-Closing Employment Period**”) PRA terminates without cause the employment of an employee who was employed by NORCAL or any NORCAL Subsidiary immediately prior to the Closing, PRA shall pay and/or provide to such terminated employee compensation and benefits to which such employee was entitled for a period equal to the number of days remaining in the Post-Closing Employment Period from the date of such termination (the “**Post-Closing Severance**”); provided, however, that if such terminated employee is eligible to receive severance in accordance with the severance plan set forth in Section 8.10(e) of the NORCAL Disclosure Schedule (the “**NORCAL/PRA Severance Plan**”), such terminated employee shall receive severance in accordance with the NORCAL/PRA Severance Plan and shall not receive any Post-Closing Severance if the NORCAL/PRA Severance Plan provides greater benefits than the Post-Closing Severance. Notwithstanding the foregoing, (i) nothing herein is intended to prevent the termination of any employee for misconduct and (ii) PRA shall not, and shall cause NORCAL and the NORCAL Subsidiaries not to, take any action within the Post-Closing Employment Period that could result in WARN Act liability.

**8.11 ProAssurance Board of Directors.** NORCAL may nominate two individuals (the “**NORCAL Nominees**”), at least one of whom is a physician, for election as directors of ProAssurance. The NORCAL Nominees shall be vetted by the ProAssurance Nominating Corporate Governance Committee and in the event either or both of such individuals does not satisfy the criteria for service on the PRA Board in the reasonable judgment of the ProAssurance Nominating Corporate Governance Committee then NORCAL may nominate alternative individuals as NORCAL Nominees who satisfy such criteria. ProAssurance shall cause the

NORCAL Nominees to be elected as directors of ProAssurance promptly after the Closing Date. In accordance with the Bylaws of ProAssurance, the NORCAL Nominees will be slotted into one of the three director classes and will serve on the PRA Board for the remainder of the term of the class into which he or she has been slotted (the “*Initial Term*”); provided, however, that at least one of the NORCAL Nominees shall have an Initial Term of at least two (2) years following the Closing Date. After the Initial Term, each NORCAL Nominee shall be eligible for nomination for a term of three (3) years, provided that he or she (i) consents to being named as a director in the proxy statement of ProAssurance for such annual meeting and to serving as a director of ProAssurance, (ii) provides such information relating to him or her as is required to be disclosed in such proxy statement under Regulation 14A of the Exchange Act, and (iii) qualifies as an independent director under the policy established by the PRA Board for determining director independence. If the NORCAL Nominees are nominated for election to a three-year term, the PRA Board shall recommend to the stockholders of ProAssurance that they vote for the election of the NORCAL Nominees as directors of ProAssurance in the proxy statement for the meeting of stockholders at which the election will occur. The NORCAL Nominees may serve additional three-year terms subject to the rules and nomination procedures generally applicable to all ProAssurance directors.

## **ARTICLE 9 CONDITIONS PRECEDENT**

**9.1 Conditions to Each Party’s Obligation.** The respective obligation of each party to consummate the transactions contemplated by the Plan of Conversion and this Agreement shall be subject to the satisfaction of the following conditions:

(a) The Plan of Conversion, including the Articles of Incorporation and Bylaws and the issuance of the NORCAL Common Stock as herein contemplated, shall have been approved and adopted by at least two-thirds of the NORCAL Board and by at least two-thirds affirmative vote of the Record Date Policyholders of NORCAL entitled to vote thereon.

(b) All Requisite Regulatory Approvals and all approvals referred to in Section 5.5(c) of this Agreement shall have been obtained and shall remain in full force and effect and all statutory waiting periods in respect thereof shall have expired or been terminated.

(c) No order, injunction or decree issued by any Governmental Authority of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Plan of Conversion or any of the transactions contemplated by this Agreement shall be in effect. No statute, rule, regulation, order, injunction or decree shall have been enacted, entered, promulgated or enforced by any Governmental Authority which prohibits, materially restricts or makes illegal consummation of the Plan of Conversion, including the transactions contemplated by this Agreement.

(d) NORCAL has been converted from a mutual insurance company to a stock insurance company in accordance with the Applicable Law of the State of California, including the Conversion Statute and the shares of NORCAL Common Stock issued in connection with the Conversion shall be duly authorized and validly issued.

**9.2 Conditions to Obligation of PRA.** The obligation of PRA to consummate the transactions contemplated by the Plan of Conversion and this Agreement is also subject to the satisfaction or waiver by PRA of the following conditions:

(a) NORCAL shall have performed in all material respects all material obligations required to be performed by it under this Agreement at or prior to the Closing Date, and PRA shall have received a certificate signed on behalf of NORCAL by the Chief Executive Officer and Chief Financial Officer of NORCAL to such effect.

(b) (i) The representations and warranties of NORCAL (other than in Section 5.1(a), Section 5.2(a) and (c), Section 5.4, Section 5.5(a) and (d) and Section 5.8) contained in Article 5 of this Agreement shall be true and correct on and as of the Closing Date without giving effect to any limitation as to “materiality”, “in all material respects”, “in any material respect” or “Material Adverse Effect” set forth in such representations and warranties as if made on and as of such date (except to the extent that any such representation or warranty has by its terms been made as of a specific date in which case such representation and warranty shall have been true and correct as of such specific date), except where the failure of such representations and warranties to be so true and correct would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on NORCAL, and (ii) the representations and warranties of NORCAL set forth in Section 5.1(a), Section 5.2(a) and (c), Section 5.4, Section 5.5(a) and (d) and Section 5.8 shall be true and correct on and as of the Closing Date. The Chief Executive Officer and Chief Financial Officer of NORCAL shall deliver, on behalf of NORCAL, a certificate to PRA to such effect.

(c) NORCAL shall not have suffered a Material Adverse Effect and there shall have been no occurrence, circumstance or combination thereof (whether arising on or after the date hereof), which, as of the Closing Date, is reasonably likely to result in a Material Adverse Effect on NORCAL and PRA shall have received a certificate signed on behalf of NORCAL by the Chief Executive Officer and Chief Financial Officer of NORCAL to such effect.

(d) The Offer Conditions set forth in Section 3.1(b)(ii) and (iii) shall have been satisfied.

(e) NORCAL shall have deposited the items required to be deposited by it in trust with the Exchange Agent for the benefit of the Policyholders as required by Section 4.4(a) of this Agreement.

**9.3 Conditions to Obligation of NORCAL.** The obligation of NORCAL to consummate the transactions contemplated by the Plan of Conversion and this Agreement is also subject to the satisfaction or waiver by NORCAL of the following conditions:

(a) PRA shall have performed in all material respects all material obligations required to be performed by it under this Agreement at or prior to the Closing Date, and NORCAL shall have received a certificate signed on behalf of PRA by the Chief Executive Officer and the Chief Financial Officer of PRA to such effect.

(b) PRA shall have deposited the items required to be deposited by it in trust with the Exchange Agent for the benefit of the Policyholders and Selling Stockholders, as applicable, as required by Section 4.4(b) of this Agreement.

(c) The representations and warranties of PRA contained in Article 6 of this Agreement shall be true and correct on and as of the Closing Date without giving effect to any limitation as to “materiality”, “in all material respects”, “in any material respect” or “Material Adverse Effect” set forth in such representations and warranties as if made on and as of such date (except to the extent that any such representation or warranty has by its terms been made as of a specific date in which case such representation and warranty shall have been true and correct as of such specific date), except where the failure of such representations and warranties to be so true and correct would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on PRA. NORCAL shall have received a certificate signed on behalf of PRA by the Chief Executive Officer and Chief Financial Officer of PRA to such effect.

## **ARTICLE 10 TERMINATION AND AMENDMENT**

**10.1 Termination.** This Agreement may be terminated at any time prior to the Closing Date, whether before or after approval of the matters presented in connection with the Plan of Conversion by the Record Date Policyholders of NORCAL:

(a) by mutual consent of PRA and NORCAL in a written instrument, if the PRA Board and the NORCAL Board so determine to terminate this Agreement by an affirmative vote of a majority of the members of the PRA Board or the NORCAL Board, as the case may be;

(b) by either PRA or NORCAL if (i) any Governmental Authority which must grant a Requisite Regulatory Approval has denied approval of the Plan of Conversion or approval of the Form A as herein contemplated, and such denial has become final and nonappealable or any Governmental Authority of competent jurisdiction shall have issued a final nonappealable order permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, and (ii) the PRA Board or the NORCAL Board, as the case may be, decides to terminate this Agreement by an affirmative vote of a majority of the directors of PRA or a majority of the members of the NORCAL Board, as the case may be;

(c) by either PRA or NORCAL (provided that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in this Agreement) if (i) (x) there shall have been a breach of any of the representations and warranties set forth in this Agreement on the part of the other party (without giving effect to any limitation as to “materiality” or “Material Adverse Effect” set forth in such representations and warranties), which breach is not cured within forty-five (45) days following written notice to the party committing such breach, or which breach, by its nature or timing, cannot be cured prior to the date specified in Section 10.1(i), and (y) such material breach or breaches of the representations and warranties, individually or in the aggregate, has resulted in a Material Adverse Effect on such party and its Subsidiaries taken as a whole and (ii) the non-breaching party decides to terminate this Agreement by an affirmative vote of a majority of the members of its entire board of directors;

(d) by PRA upon written notice to NORCAL if (i) the NORCAL Board shall indicate in writing to PRA that the NORCAL Board is unwilling or unable (other than in connection with the failure to satisfy the conditions set forth in Sections 9.1(b) and (c) hereof) to adopt the Plan of Conversion; (ii) the NORCAL Board is unwilling or unable (other than in connection with the failure to satisfy the conditions set forth in Sections 9.1(b) and (c) hereof) to recommend to its Record Date Policyholders that they approve and adopt the Plan of Conversion; (iii) the NORCAL Board is unwilling or unable (other than in connection with the failure to satisfy the conditions set forth in Sections 9.1(b) and (c) hereof) to recommend to the Eligible Policyholders the Stock Offer; or (iv) after recommending that its Record Date Policyholders approve and adopt the Plan of Conversion or recommending the Stock Offer to the Eligible Policyholders, the NORCAL Board shall have withdrawn, modified or amended such recommendation in any respect materially adverse to PRA, without PRA's prior written consent (each an "**NORCAL Recommendation Event**"); provided that any such notice of termination must be provided to NORCAL not later than ten (10) Business Days after the later of the date PRA shall have been advised by NORCAL in writing of a NORCAL Recommendation Event, or such later date as may be agreed upon by PRA and NORCAL in writing;

(e) by PRA upon written notice to NORCAL, if a NORCAL Acquisition Event (as herein defined) has occurred;

(f) by either PRA or NORCAL if (i) a meeting of the Record Date Policyholders has been duly held for purposes of voting on the Plan of Conversion and the transactions contemplated by this Agreement, and (ii) approval of the Record Date Policyholders required for the consummation of the Plan of Conversion shall not have been obtained by reason of the failure to obtain the required vote at such duly held meeting of Record Date Policyholders or at any adjournment or postponement thereof;

(g) by PRA if the condition set forth in Section 3.1(b)(iii) is not satisfied;

(h) by PRA if on the Closing Date the NORCAL Disclosure Schedule discloses any Material Adverse Effect on NORCAL or any change from the NORCAL Disclosure Schedules which has, or is reasonably likely to have, a Material Adverse Effect on NORCAL;

(i) by written notice from NORCAL to PRA, or from PRA to NORCAL, if the Closing does not occur on or before the two-year anniversary of the date of this Agreement (the "**Outside Date**") for any reason other than breach of this Agreement by the party giving such notice; provided, however, that if the Offer extends beyond the two-year anniversary of the date of this Agreement pursuant to Section 3.1(d), then the Outside Date shall be extended until the expiration of the Offer; or

(j) by NORCAL upon the occurrence of a NORCAL Acquisition Event or NORCAL Recommendation Event.

**10.2 Effect of Termination.** In the event of termination of this Agreement by either PRA or NORCAL as provided in Section 10.1 of this Agreement, (i) this Agreement shall forthwith become void and have no effect, except that Sections 8.2(b) (Access to Information), 10.2 (Effect of Termination), 10.5 (Liquidated Damages; Termination Fee), 11.1 (Non-survival of

Representations, Warranties and Agreements), 11.2 (Expenses), 11.3 (Notices), 11.5 (Assignment; No Third Party Beneficiaries), 11.6 (Presumptions) 11.7 (Exhibits and Schedules), 11.8 (Interpretation), 11.10 (Entire Agreement), 11.11 (Governing Law), 11.12 (Severability), and 11.13 (Publicity) of this Agreement shall survive any termination of this Agreement, and (ii) neither PRA or NORCAL, nor any of their respective Subsidiaries or any of the officers or directors of any of them shall have any liability of any nature whatsoever under this Agreement, or in connection with the transactions contemplated by this Agreement, except as otherwise provided in Section 10.5 of this Agreement; provided, however, that notwithstanding anything to the contrary contained in this Agreement, neither PRA nor NORCAL shall be relieved or released from any liabilities or damages arising out of its willful breach of any provision of this Agreement.

**10.3 Amendment.** This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto. Subject to the previous sentence and in compliance with Applicable Law, this Agreement may be amended by the parties hereto, by action taken or authorized by the PRA Board and the NORCAL Board, at any time before or after approval of the matters presented in connection with the Plan of Conversion and this Agreement by the Eligible Policyholders of NORCAL; *provided, however,* that after any approval of the Plan of Conversion and transactions contemplated by this Agreement by the Eligible Policyholders of NORCAL, there may not be, without further approval of such Eligible Policyholders, any amendment of this Agreement which changes or otherwise modifies or amends the amount or the form of the Conversion Consideration or the PRA Consideration other than as contemplated by this Agreement.

**10.4 Extension; Waiver.** At any time prior to the Closing Date, the parties to this Agreement may, to the extent permitted by Applicable Law, (a) extend the time for the performance of any of the obligations or other acts of the other parties to this Agreement, (b) waive any inaccuracies in the representations and warranties contained in this Agreement or in any document delivered pursuant hereto, or (c) waive compliance with any of the agreements or conditions contained in this Agreement; *provided, however,* that after any approval of the Plan of Conversion and the transactions contemplated by this Agreement by the Eligible Policyholders of NORCAL, there may not be, without further approval of such Eligible Policyholders, any extension or waiver of this Agreement or any portion thereof which reduces the amount or changes the form of the Conversion Consideration or the PRA Consideration other than as contemplated by this Agreement. Any agreement on the part of a party to this Agreement to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party, but such extension or waiver or failure to insist on strict compliance with an obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

**10.5 Liquidated Damages; Termination Fee.** Notwithstanding anything to the contrary contained in this Agreement, in the event that any of the following events or circumstances shall occur, NORCAL shall, within ten (10) Business Days after notice of the occurrence thereof by PRA, pay to PRA the sum equal to the Termination Fee (which the parties agree and stipulate as reasonable and full liquidated damages and reasonable compensation for the involvement of PRA in the transactions contemplated in this Agreement and is not a penalty or forfeiture): (i) PRA shall terminate this Agreement pursuant to Section 10.1(d) or (e) (other than, for the avoidance of doubt, a termination relating to the conditions set forth in Sections 9.1(b) and

(c) not being satisfied); (ii) NORCAL shall terminate this Agreement pursuant to Section 10.1(j) (other than, for the avoidance of doubt, a termination relating to the conditions set forth in Sections 9.1(b) and (c) not being satisfied); or (iii) if the Record Date Policyholders of NORCAL fail to hold the Special Meeting as required by Section 8.3 of this Agreement within 120 days after the Commissioner issues his decision and order approving the Plan of Conversion. For purposes of this Agreement a “**NORCAL Acquisition Event**” shall mean that NORCAL shall have authorized, recommended, approved, or entered into an agreement with any Person (other than any of the parties to this Agreement) to effect an Acquisition Proposal. Upon the making and receipt of such payment under this Section 10.5, NORCAL shall have no further obligation of any kind under this Agreement and PRA shall not have any further obligation of any kind under this Agreement, except in each case under Section 10.2 of this Agreement, and no party shall have any liability for any breach or alleged breach by such party of any provision of this Agreement.

## **ARTICLE 11 GENERAL PROVISIONS**

**11.1 Non-survival of Representations, Warranties and Agreements.** None of the representations, warranties, covenants and agreements of NORCAL or PRA in this Agreement or in any instrument delivered by NORCAL or PRA pursuant to this Agreement shall survive the Closing Date, except as otherwise provided in Section 10.2 of this Agreement and except for those covenants and agreements contained in this Agreement and in any such instrument which by their terms apply in whole or in part after the Closing Date.

**11.2 Expenses.** Except as otherwise expressly provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such expense; provided, however, that (a) NORCAL shall pay all expenses relating to the approval of the Plan of Conversion by the Commissioner, (b) PRA shall pay all expenses in connection with the approval of the Form A as contemplated by this Agreement by the Commissioner, and any other required filings with any Insurance Regulator, and (c) the cost of the HSR Act filing fee shall be borne 70% by PRA and 30% by NORCAL.

**11.3 Notices.** All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, by facsimile or email (with confirmation) followed by delivery of an original via overnight courier service, mailed by registered or certified mail (return receipt requested) or delivered by an overnight courier service (with confirmation) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

if to PRA, to:

ProAssurance Corporation  
100 Brookwood Place  
Birmingham, Alabama 35209  
Attention: Chief Executive Officer, copy to Corporate  
Secretary

Fax: (205) 877-4405  
Email: edwardrand@proassurance.com

with copies to:

Burr & Forman LLP  
420 N. 20th Street, Suite 3400  
Birmingham, Alabama 35203  
Attention: Edward R. Christian, Esq.  
Fax: (205) 458-5100  
Email: echristian@burr.com

and

if to NORCAL, to:

NORCAL Mutual Insurance Company  
575 Market Street, Suite 1000  
San Francisco, CA 94105  
844.4NORCAL  
Attention: Chief Executive Officer  
Fax: (415) 520-5570  
Email: sdiener@norcal-group.com

with copies to:

McDermott Will & Emery LLP  
444 West Lake Street, Suite 4000  
Chicago, Illinois 60606  
Attention: Robert K. Clagg  
Fax: 312-277-1936  
Email: rclagg@mwe.com

**11.4 Further Assurances.** Prior to the Closing, at the reasonable request of any party to this Agreement, the other parties shall execute, acknowledge and deliver such other documents and/or instruments as may be reasonably required by the requesting party to carry out the purposes of this Agreement. In the event any party to this Agreement shall be involved in litigation, threatened litigation or government inquiries with respect to a matter covered by this Agreement, every other party to this Agreement shall also make available to such party, at reasonable times and subject to the reasonable requirements of its own businesses, such of its personnel as may have information relevant to such matters; provided that such party shall reimburse the providing party for its reasonable costs for employee time incurred in connection therewith if more than one (1) Business Day is required.

**11.5 Assignment; No Third Party Beneficiaries.** Neither this Agreement nor any of the rights, interests or obligations, shall be assigned by any of the parties to this Agreement



(whether by operation of law or otherwise) without the prior written consent of the other parties to this Agreement. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Except as otherwise expressly set forth herein, including, without limitation, Section 8.8, this Agreement (including the documents and instruments referred to in this Agreement) is not intended to confer upon any person other than the parties to this Agreement any rights or remedies under this Agreement.

**11.6 Presumptions.** It is expressly acknowledged and agreed that all parties have been represented by counsel and have participated in the negotiation and drafting of this Agreement, and that there shall be no presumption against any party on the ground that such party was responsible for preparing this Agreement or any part of it.

**11.7 Exhibits and Schedules.** Each of the Exhibits and Schedules referred to in, and/or attached to, this Agreement is an integral part of this Agreement and is incorporated in this Agreement by this reference.

**11.8 Interpretation.** When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. References to “funds,” “US dollar,” “dollars,” “US\$” or “\$” in this Agreement are to the lawful currency of the United States of America. No provision of this Agreement shall be construed to require PRA, NORCAL or any of their respective Subsidiaries or Affiliates to take any action which would violate any Applicable Law, rule or regulation.

**11.9 Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart. A signed copy of this Agreement delivered by facsimile, email or other means of electronic transmission shall be deemed to have the same legal effect as delivery of the original signed copy of this Agreement.

**11.10 Entire Agreement.** This Agreement (including the documents and the instruments referred to in this Agreement) constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement.

**11.11 Governing Law; Submission to Jurisdiction.**

(a) This Agreement shall be governed and construed in accordance with the laws of the State of Delaware, without regard to any applicable conflicts of law principles, except that the Plan of Conversion shall be effected in accordance with and governed by the laws of the

State of California, and the insurance laws of the State of California as they relate to NORCAL shall govern to the extent the application of such laws would be inconsistent with or in contravention of the laws of the State of Delaware.

(b) Each of the parties hereto irrevocably agrees that any Action with respect to this Agreement and the rights and obligations arising hereunder, or for recognition and enforcement of any judgment in respect of this Agreement and the rights and obligations arising hereunder brought by any other party hereto or its successors or assigns shall be brought and determined exclusively in the Court of Chancery of the State of Delaware, or in the event (but only in the event) that such court does not have subject matter jurisdiction over such Action, in the federal courts located within the State of Delaware. Notwithstanding anything herein to the contrary, each of the parties hereto irrevocably agrees that any Action with respect to any act of the Commissioner or any other Governmental Authority concerning or arising out of the Plan of Conversion or any amendment thereto shall be brought and determined exclusively in the state courts of the State of California in accordance with the Insurance Laws of the State of California. Each of the parties hereto agrees that mailing of process or other papers in connection with any such Action in the manner provided in Section 11.3 or in such other manner as may be permitted by Applicable Laws, will be valid and sufficient service thereof. Each of the parties hereto hereby irrevocably submits with regard to any such Action for itself and in respect of its property, generally and unconditionally, to the personal jurisdiction of the aforesaid courts and agrees that it will not bring any action relating to this Agreement or any of the transactions contemplated by this Agreement in any court or tribunal other than the aforesaid courts. Each of the parties hereto hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim, or otherwise, in any Action with respect to this Agreement and the rights and obligations arising hereunder, or for recognition and enforcement of any judgment in respect of this Agreement and the rights and obligations arising hereunder: (a) any claim that it is not personally subject to the jurisdiction of the above named courts for any reason other than the failure to serve process in accordance with this Section 11.11(b); (b) any claim that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise); and (c) to the fullest extent permitted by the Applicable Law, any claim that (i) the suit, action, or proceeding in such court is brought in an inconvenient forum, (ii) the venue of such suit, action, or proceeding is improper, or (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

**11.12 Severability.** Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

**11.13 Publicity.** PRA and NORCAL shall develop a joint communications plan and each party shall (i) ensure that all press releases and other public statements and communications (including any communications that would require a filing under Rule 425, Rule 165 and Rule 166 under the 1933 Act or Rule 14a-2, Rule 14a-12 or Rule 14e-2 under the Exchange Act) with respect

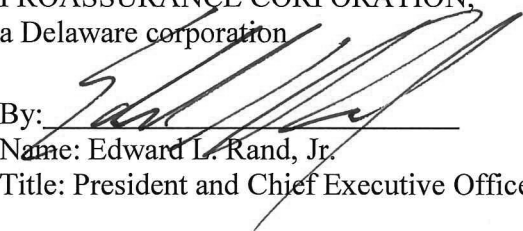
to this Agreement and the transactions contemplated hereby shall be consistent with such joint communications plan and (ii) unless otherwise required by Applicable Law or by obligations pursuant to any listing agreement with or rules of the NYSE, consult with each other for a reasonable time before issuing any press release or otherwise making any public statement or communication (including any communications that would require a filing with the SEC), and mutually agree upon any such press release or any such public statement or communication, with respect to this Agreement or the transactions contemplated hereby. In addition to the foregoing, except to the extent disclosed in the proxy statement, unless otherwise required by Applicable Law or by obligations pursuant to any listing agreement with or rules of the NYSE, neither PRA nor NORCAL shall issue any press release or otherwise make any public statement or disclosure concerning the other party or the other party's business, financial conditions or results of operations without the consent of the other party.

**11.14 Specific Performance.** Subject to Section 10.5, each party hereto hereby agrees that, in the event of breach of this Agreement, damages would be difficult, if not impossible, to ascertain, that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached and that money damages or other legal remedies would not be an adequate remedy for any such breach. It is accordingly agreed that, in addition to and without limiting any other remedy or right it may have, each party shall be entitled to seek an injunction or other equitable relief in any court of competent jurisdiction, without any necessity of proving damages or any requirement for the posting of a bond or other security, enjoining any such breach, and enforcing specifically the terms and provisions of this Agreement.

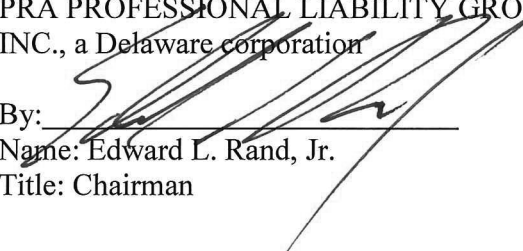
**[SIGNATURES ON FOLLOWING PAGE]**

IN WITNESS WHEREOF, PRA and NORCAL have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

PROASSURANCE CORPORATION,  
a Delaware corporation

By:   
Name: Edward L. Rand, Jr.  
Title: President and Chief Executive Officer

PRA PROFESSIONAL LIABILITY GROUP,  
INC., a Delaware corporation

By:   
Name: Edward L. Rand, Jr.  
Title: Chairman

NORCAL MUTUAL INSURANCE COMPANY,  
a California mutual insurance company

By: \_\_\_\_\_  
Name: Theodore Scott Diener  
Title: President and Chief Executive Officer

IN WITNESS WHEREOF, PRA and NORCAL have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

PROASSURANCE CORPORATION,  
a Delaware corporation

By: \_\_\_\_\_  
Name: Edward L. Rand, Jr.  
Title: President and Chief Executive Officer

PRA PROFESSIONAL LIABILITY GROUP,  
INC., a Delaware corporation

By: \_\_\_\_\_  
Name: Edward L. Rand, Jr.  
Title: Chairman

NORCAL MUTUAL INSURANCE COMPANY,  
a California mutual insurance company

By:   
Name: Theodore Scott Diener  
Title: President and Chief Executive Officer

**EXHIBIT A**

**KNOWLEDGE OF NORCAL**

Julie L. Burns

Theodore Scott Diener

Mark D. Johnson

Ronald C. Rumin

**EXHIBIT B**

**KNOWLEDGE OF PRA**

Edward L. Rand, Jr.

Dana S. Hendricks

Michael L. Boguski

Jeffrey P. Lisenby

Noreen Dishart

Robert D. Francis

## **EXHIBIT C**

### **DIRECTORS AND OFFICERS OF NORCAL**

#### **Directors**

Edward L. Rand, Jr.

Dana S. Hendricks

Michael L. Boguski

Jeffrey P. Lisenby

Robert D. Francis

#### **Officers**

Edward L. Rand, Jr. – Chairman

Michael L. Boguski – President

Dana S. Hendricks – Treasurer

Kathryn A. Neville – Secretary

Jeffrey P. Lisenby – Assistant Treasurer and Assistant Secretary

Robert D. Francis – Executive Vice President

Lawrence K. Cochran – Vice President



**ANNEX C**

**AMENDED AND RESTATED ARTICLES**

**AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
NORCAL MUTUAL INSURANCE COMPANY**

The undersigned hereby certify that:

**ONE:** They are the duly elected and acting President and Chief Executive Officer, and Senior Vice President, Chief Legal Officer, Corporate Secretary and Chief Compliance Officer, respectively, of Norcal Mutual Insurance Company, a California corporation (the “*Corporation*”).

**TWO:** The Amended and Restated Articles of Incorporation of this Corporation are hereby amended and restated to read as follows:

**ARTICLE I**

The name of the corporation is **NORCAL INSURANCE COMPANY** (the “*Corporation*”).

**ARTICLE II**

These Amended and Restated Articles of Incorporation shall be effective at 12:01 a.m. on [●] [●], 2021.

A. The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California, other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

B. The business of the Corporation is to be an insurer subject to the provisions of the California Insurance Code (the “*Code*”).

C. The Corporation is authorized to transact within California, subject to the provisions of its California Certificate of Authority, the following classes of insurance: Fire, Marine, Plate Glass, Liability, Boiler and Machinery, Burglary, Sprinkler, Team and Vehicle, Automobile, and Miscellaneous, as such classes are now or may hereafter be defined in the Code.

**ARTICLE III**

The Corporation is authorized to issue only one class of shares, to be designated “*Common Stock*.” The total number of shares of Common Stock that the Corporation shall have authority to issue is [8,800,000] at a par value of \$[●] per share.

**ARTICLE IV**

A. The liability of the directors of the Corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

B. The Corporation shall indemnify and hold harmless any officer, director or agent of the Corporation to the fullest extent permissible under California law.

C. Any repeal or modification of the foregoing provisions of this Article IV by the shareholders of the Corporation shall not adversely affect any right or protection of any officer, director or agent of the Corporation existing at the time of such repeal or modification.

## ARTICLE V

The ownership interest of each member of the Corporation shall be extinguished upon the effective date of the conversion of the Corporation from a mutual insurance corporation to a stock insurance corporation, as consented to by the Insurance Commissioner of the State of California.

**THREE:** These Amended and Restated Articles of Incorporation of the Corporation have been duly approved by the board of directors of the Corporation.

**FOUR:** These Amended and Restated Articles of Incorporation of the Corporation have been duly approved by the required vote of the members of the Corporation in accordance with Section 4097.02(c) of the Code.

*[signature page follows]*

We further declare under penalty of perjury under the laws of the State of California that the matters set out in the foregoing Amended and Restated Articles of Incorporation are true and correct of our own knowledge.

Dated: \_\_\_\_\_, 2021

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Theodore Scott Diener, President and Chief  
Executive Officer

---

Kellie N. Sorenson, Senior Vice President, Chief  
Legal Officer, Corporate Secretary and Chief  
Compliance Officer

**ANNEX D**

**AMENDED AND RESTATED BYLAWS**

**AMENDED AND RESTATED BYLAWS  
OF  
NORCAL INSURANCE COMPANY**

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# AMENDED AND RESTATES BYLAWS OF NORCAL INSURANCE COMPANY

## ARTICLE I OFFICES

**Section 1.01 PRINCIPAL EXECUTIVE OFFICE AND PRINCIPAL BUSINESS OFFICE.** The principal executive office of **NORCAL INSURANCE COMPANY** (the “**Corporation**”) shall be located at such place within or without the State of California as shall be fixed from time to time by the board of directors, and if no place is fixed by the board of directors, such place as shall be fixed by the president.

**Section 1.02 OTHER OFFICES.** The board of directors may establish branch offices of the Corporation both in and outside the State of California.

## ARTICLE II SHAREHOLDERS

**Section 2.01 PLACE OF MEETING.** Meetings of the shareholders shall be held at any place within or without the State of California designated by the board of directors. Absent such designation, meetings shall be held at the principal executive office. The board of directors may, in its discretion and subject to any guidelines and procedures it may adopt, authorize shareholders not physically present, in person or proxy, at a meeting of shareholders, whether held at a designated place or held solely by electronic transmission by and to the Corporation or by electronic video screen communication, to participate in and vote at the meeting by electronic transmission by and to the Corporation or by electronic video screen communication and such shareholders shall be considered present in person or by proxy.

**Section 2.02 ANNUAL MEETING.** An annual meeting of shareholders shall be held on such date and at such time as may be designated from time to time by the board of directors for the purpose of electing directors and transacting any other business that is within the power of the shareholders and allowed by law.

**Section 2.03 SPECIAL SHAREHOLDERS' MEETINGS.** Special meetings of the shareholders may be called by the board of directors, the chair of the board, the president, or by shareholders entitled to cast not less than 10% of the votes at the meeting. Any person entitled to call a special meeting of shareholders (other than the board of directors) shall make a written request to the president or secretary, specifying the general purpose of such meeting and the date, time, and place of the meeting, which date shall be not less than 35 days and not more than 60 days after the receipt by such officer of the request. Within 20 days after receipt of the request, the officer receiving such request shall cause notice to be given to the shareholders entitled to vote at such meeting, stating that a meeting will be held on the date and at the time and place requested by the person(s) requesting the meeting and stating the general purpose of the meeting. If such notice is not given within 20 days after receipt of the request, the person(s) requesting the

meeting may give such notice. No business shall be transacted at a special meeting unless its general nature shall have been specified in the notice of such meeting.

**Section 2.04 NOTICE OF SHAREHOLDERS' MEETING.** Written notice stating the place, day, and hour of the meeting, shall be given not less than 10 days (or, if sent by third class mail, 30 days) and not more than 60 days before the meeting. In the case of an annual meeting, the notice shall state the matters the board of directors intends, at the time the notice is given, to present to the shareholders for action; provided, however, that unless the notice of the meeting, or the waiver of notice of such meeting, sets forth the general nature of any proposal to (a) approve or ratify a transaction in which a director has a material financial interest under Section 310 of the California Corporations Code, (b) amend the articles of incorporation of this Corporation (the “**Articles of Incorporation**”) under Section 902 of the California Corporations Code, (c) approve a conversion or reorganization or elect to wind up and dissolve under Sections 1152, 1201, or 1900 of the California Corporations Code, or (d) effect a plan of distribution upon liquidation inconsistent with the liquidation rights of the preferred shares under Section 2007 of the California Corporations Code, no such proposal may be approved at an annual meeting other than by unanimous approval by those entitled to vote. In the case of a special meeting, the notice shall state the general nature of the business to be transacted. If directors are to be elected at a meeting, the notice shall include the names of the intended nominees at the time the notice is given. If remote participation in a meeting is authorized by the board of directors, the notice shall state the means of electronic transmission by and to the Corporation or electronic video screen communication by which shareholders may participate.

Proof of notice by mail or electronic transmission may be made by affidavit of the secretary or assistant secretary or the Corporation's transfer agent, and, if made, shall be filed as part of the minutes of the meeting.

Notice shall be given by personal delivery, by electronic transmission consented to by the shareholder, or by mail, by or at the direction of the secretary or the officer or person calling the meeting, to each shareholder entitled to vote at the meeting. If a shareholder has not provided an address, notice may be given as provided by Section 601 of the California Corporations Code.

Notice by mail shall be deemed to have been given when deposited in the United States mail addressed to the shareholder at the shareholder's address as it appears on the share transfer records of the Corporation, with postage thereon prepaid. Notice by electronic transmission shall be deemed to have been given when:

- (a) Transmitted to a facsimile number provided by the shareholder for the purpose of receiving notice.
- (b) Transmitted to an electronic mail address provided by the shareholder for the purpose of receiving notice.
- (c) Posted on an electronic network, with a separate notice to the shareholder of the posting.
- (d) Delivered to by any other form of electronic communication consented to by the shareholder.

Notice shall not be given by electronic transmission to a shareholder after either (i) the Corporation is unable to deliver two consecutive notices to such shareholder by such means or (ii) the inability to deliver such notices to such shareholder becomes known to any person responsible for giving such notices.

A shareholder may waive notice of a meeting by providing the secretary, in writing, either before or after the time of the meeting, waiver of notice, consent to holding the meeting, or approval of the minutes of the meeting. The attendance of a shareholder at a meeting constitutes waiver of notice, unless the shareholder objects, at the beginning of the meeting, to the transaction of any business at the meeting because the meeting was not lawfully called or objects, at the meeting, to the consideration of any business that was required to be, but was not, included in the notice of the meeting.

**Section 2.05 FIXING THE RECORD DATE.** For the purpose of determining the shareholders entitled to notice of and to vote at any meeting of the shareholders, to give written consent to any action taken without a meeting, to receive payment of any dividend or other distribution or allotment of rights, or to exercise any other rights, the board of directors may fix a date as the record date for any such determination.

A record date fixed under this Section may not be more than 60 days or less than 10 days before the meeting or more than 60 days before any other action. If any meeting of the shareholders is adjourned for more than 45 days from the date set for the original meeting, the board shall fix a new record date for determining the shareholders entitled to notice of and to vote at such adjourned meeting.

If no record date has been fixed, then (a) the record date for determining shareholders entitled to notice of and to vote at a shareholders' meeting shall be the business day before the day on which notice is given, or, if notice is properly waived, the business day before the day on which the meeting is held, (b) the record date for determining shareholders entitled to give written consent to action taken without a meeting, where no prior board action was taken, shall be the day on which the first written consent is given, and (c) the record date for determining shareholders for any other purpose shall be the later of (i) the day on which the board of directors adopts the resolution relating thereto or (ii) the 60th day prior to the date of the action.

**Section 2.06 QUORUM OF AND ACTION BY SHAREHOLDERS.** The presence in person or by proxy of the holders of a majority of the shares entitled to vote constitutes a quorum for a meeting of the shareholders. Except as otherwise provided by the California Corporations Code or the Articles of Incorporation:

(a) The affirmative vote of a majority of the shares represented at a meeting at which a quorum is present shall be the act of the shareholders.

(b) The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of any number of shareholders that leaves less than a quorum; provided that any action taken, other than adjournment, shall be approved by at least a majority of the shares required to constitute a quorum.

If a quorum is not present, the meeting may be adjourned by the vote of a majority of the shares present in person or by proxy.

**Section 2.07 ADJOURNED MEETINGS AND NOTICE THEREOF.** Any shareholders' meeting may be adjourned from time to time by a vote of the majority of the shares present, in person or proxy. If the meeting is adjourned for more than 45 days, or if the board of directors fixes a new record date for the adjourned meeting, notice of the adjourned meeting shall be given to each shareholder of record, as of the new record date, entitled to notice of the adjourned meeting. If the meeting is adjourned for not more than 45 days, and the board of directors does not fix a new record date for the adjourned meeting, notice need not be given of the adjourned meeting if the time and place (or the means of electronic transmission or electronic video screen communication, if any, by which shareholders may participate) of the meeting are announced at the meeting at which the adjournment is taken, and any business may be transacted at the adjourned meeting that might have been transacted at the original meeting.

**Section 2.08 CONDUCT OF MEETINGS.** The board of directors may adopt by resolution such rules and regulations for the conduct of meetings of the shareholders as it shall deem appropriate. At every meeting of the shareholders, the president, or in his or her absence or inability to act, a director or officer designated by the board of directors shall serve as the chair of the meeting. The secretary or, in his or her absence or inability to act, the person whom the presiding officer of the meeting shall appoint secretary of the meeting, shall act as secretary of the meeting and keep the minutes thereof.

The chair of the meeting shall determine the order of business and, in the absence of a rule adopted by the board of directors, shall establish rules for the conduct of the meeting. The chair of the meeting shall announce the close of the polls for each matter voted upon at the meeting, after which no ballots, proxies, votes, changes, or revocations will be accepted. Polls for all matters before the meeting will be deemed to be closed upon final adjournment of the meeting.

**Section 2.09 INSPECTORS OF ELECTION.** Before any meeting of shareholders, the board of directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are appointed, or if any person appointed fails to appear or refuses to act, the chair of the meeting may, and on the request of any shareholder or his or her proxy shall, appoint inspectors of election at the meeting. One or three inspectors may be appointed; provided that, if inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares present in person or proxy shall determine whether one or three inspectors are to be appointed.

The inspectors of election shall:

(a) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies.

(b) Receive votes, ballots, or consents.

- (c) Hear and determine challenges and questions in connection with voting rights.
- (d) Count and tabulate all votes or consents.
- (e) Determine when the polls shall close.
- (f) Determine the result.
- (g) Do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

**Section 2.10 VOTING OF SHARES.** Each outstanding share, regardless of class or series, shall be entitled to one vote on each matter submitted to a vote of the shareholders, except as otherwise provided herein and to the extent that the Articles of Incorporation provide for more or less than one vote per share or limit or deny voting rights to the holders of the shares of any class or series.

A shareholder entitled to vote on any matter may vote part of such shares in favor of the proposal and refrain from voting the remaining shares or, other than in elections of directors, vote the remaining shares against the proposal. If a shareholder fails to specify the number of shares the shareholder is voting affirmatively, the shareholder will be deemed to have affirmatively voted all shares the shareholder is entitled to vote.

In any election of directors, each shareholder entitled to vote shall, subject to the satisfaction of all statutory conditions precedent to the exercise of such rights, have the right to cumulate the number of votes equal to the number of directors to be elected multiplied by the number of votes to which such shareholder's shares are entitled, and distribute those votes among one or more candidates. This right may be exercised by giving written notice of intent to cumulate those votes to any officer of the Corporation before the meeting or to the presiding officer at the meeting at any time before the election of directors.

The directors receiving the highest number of votes of the shares entitled to vote in the election, up to the number of director positions to be filled, shall be elected.

**Section 2.11 CONSENT OF ABSENTEES.** The transactions of any meeting of shareholders, however called or noticed, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the minutes thereof. The waiver, notice, or consent need not specify the business transacted or purpose of the meeting, except as required by Section 601 of the California Corporations Code. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

**Section 2.12 VOTING BY PROXY OR NOMINEE.** A shareholder may vote either in person or by written proxy executed by the shareholder or the shareholder's attorney in fact and filed with the secretary of the Corporation. A proxy is not valid after the expiration of 11

months from the date of its execution, unless otherwise provided in the proxy. A proxy continues in full force and effect until revoked, either by a written revocation delivered to the Corporation, by a subsequent proxy presented to the meeting, or by attending a meeting of the shareholders and voting the shares in person. A proxy is revocable unless the proxy states that it is irrevocable and the proxy is coupled with an interest. A proxy is not revoked by the death or incapacity of the shareholder appointing the proxy unless the Corporation receives written notice of such death or incapacity before the vote by proxy is counted.

**Section 2.13 ACTION BY SHAREHOLDERS WITHOUT A MEETING.** Any action required or permitted to be taken at an annual or special meeting of the shareholders may be taken without a meeting and without prior notice if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes necessary to authorize or take such action at a meeting at which all shares are entitled to vote thereon were present and voted; provided, however, that unless the consents of all shareholders entitled to vote have been solicited in writing, notice shall be given (in the same manner as notice of meetings is to be given and within the time limits prescribed by law) of such action to all shareholders entitled to vote who did not consent in writing to such action; and provided further, that directors may be elected by written consent only if such consent is unanimously given by all shareholders entitled to vote, except that action taken by shareholders to fill one or more vacancies on the board other than a vacancy created by the removal of a director, may be taken by written consent of a majority of the outstanding shares entitled to vote.

### **ARTICLE III DIRECTORS**

**Section 3.01 NUMBER OF DIRECTORS.** The authorized number of directors shall be not less than three (3) nor more than five (5); provided that the minimum number or maximum number, or both, may be increased or decreased from time to time by an amendment to these Bylaws duly adopted in accordance with these Bylaws, Section 212 of the California Corporations Code, and other applicable law. The exact number of authorized directors shall be fixed, within the limits set forth in this Section, by the shareholders or board of directors; provided, that the exact number of authorized directors shall initially be five (5).

**Section 3.02 POWERS; QUALIFICATIONS.** All corporate powers of the Corporation shall be exercised, and the business and affairs of the Corporation shall be managed, by or under the direction of the board of directors, except such powers expressly conferred upon or reserved to the shareholders, and subject to any limitations set forth by law, by the Articles of Incorporation or by these Bylaws. Directors must be natural persons 18 years of age or older.

**Section 3.03 TERM OF OFFICE.** At the first annual meeting of the shareholders and at each annual meeting thereafter, the shareholders entitled to vote in the election of directors shall elect directors, each of whom shall hold office until the next annual meeting of the shareholders or until the director's earlier death, resignation, disqualification, or removal. Despite the expiration of a director's term, the director shall continue to serve until the director's successor is elected and qualified.

**Section 3.04 VACANCIES AND NEWLY CREATED DIRECTORSHIPS.** A vacancy on the board of directors occurs upon of any of the following events:

- (a) The death, resignation, or removal of any director.
- (b) The removal or declaration of vacancy by the board of directors of a director who has been declared of unsound mind by an order of court or convicted of a felony.
- (c) The authorized number of directors is increased.
- (d) At any meeting of the shareholders at which directors are elected, the shareholders fail to elect the full authorized number of directors to be elected at the meeting.

Vacancies in the board of directors, other than vacancies created by removal of a director, may be filled by the board of directors in accordance with Section 305 of the California Corporations Code. The shareholders may, at any time and in accordance with Section 305 of the California Corporations Code, elect a director to fill any vacancy not filled by the directors. A director elected to fill a vacancy shall hold office until the next annual meeting and until the director's successor is elected and qualified (or until the director's earlier death, resignation, disqualification, or removal). If any resignation of a director will take effect at a future time, a successor may be elected to take office when the resignation becomes effective. A reduction of the authorized number of directors does not remove any director prior to the expiration of the director's term of office.

**Section 3.05 REMOVAL.** The board of directors may declare vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or otherwise in a manner provided by law.

Any or all of the directors may be removed from office at any time with or without cause by a vote of the shareholders entitled to elect them. If one or more directors are so removed at a meeting of shareholders, the shareholders may elect new directors at the same meeting. If less than the entire board of directors is removed, no director may be removed by the shareholders if the votes cast against removal would be sufficient to elect the director if cumulatively voted at an election of all of the directors (as of the date of the director's most recent election) at which the same total number of votes were cast.

**Section 3.06 RESIGNATION.** A director may resign by providing written notice to the president, the secretary, or the board of directors. The resignation shall be effective upon the later of the date of receipt of the notice or the effective date specified in the notice.

**Section 3.07 MEETINGS OF DIRECTORS.**

A regular meeting of the newly-elected board of directors shall be held without other notice immediately following and at the place of each annual meeting of shareholders, at which meeting the board shall elect officers and transact any other business as shall come before the meeting. Regular meetings of the board of directors shall be held at such other times and places

as may from time to time be fixed by resolution of the board of directors and, unless the Articles of Incorporation provide otherwise, regular meetings may be held without notice of the date, time, place, or purpose of the meeting.

Meetings of the board of directors, including special meetings, may be called by the president, the secretary, or any two directors.

Notice of the time and place of special meetings shall be given to each director. If notice is mailed, it shall be deposited in the United States mail, addressed to the director at the address shown on the records of the Corporation, at least four days before the time of the meeting. If notice is delivered personally, by telephone, or by electronic transmission, it shall be delivered at least 48 hours before the time of the meeting. The notice need not specify the purpose of the meeting.

Meetings of the board of directors may be held at any place within or without the State of California that is designated in the notice of the meeting. If no place is stated in the notice, meetings shall be held at the principal executive office of the Corporation unless another place has been designated by a resolution duly adopted by the board of directors.

**Section 3.08 ELECTRONIC PARTICIPATION.** Members of the board of directors may participate in a meeting through conference telephone, electronic video screen communication, or electronic transmission by and to the Corporation. Participation in a meeting by conference telephone or electronic video screen communication constitutes presence in person if all participating directors can hear one another. Participation by electronic transmission by and to the Corporation (other than conference telephone or electronic video screen communication) constitutes presence in person if each participating director can communicate concurrently with all other participating directors and each director has the means to participate in all matters before the board, including the ability to propose or object to a specific action proposed to be taken.

**Section 3.09 QUORUM OF AND ACTION BY DIRECTORS.** A majority of the authorized number of directors constitutes a quorum of the board of directors for the transaction of business. Any act approved by a majority of the directors present at a duly held meeting at which a quorum is present is the act of the board of directors, unless the California Corporations Code or the Articles of Incorporation require a greater number. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of directors leaving less than a quorum, if any action is approved by at least a majority of the directors who constitute the required quorum for the meeting. A majority of the directors present, even if less than a quorum, may adjourn a meeting to another time and place. If a meeting is adjourned for more than 24 hours, notice of the adjournment to another time and place shall be given before the adjourned meeting to each director not present at the time of the adjournment.

**Section 3.10 COMPENSATION.** Directors shall receive compensation for their services as directors in such amount as may be fixed, from time to time, by resolution of the board of directors. The board of directors may, by resolution, authorize payment of a fixed fee and expenses of attendance, if any, for attendance at any meeting of the board of directors or committee thereof. A director who is an officer or employee of the Corporation (or an affiliate



of the Corporation) shall not be entitled to compensation or payment pursuant to the preceding two sentences of this Section unless otherwise determined by resolution of the board of directors. A director shall not be precluded from serving the Corporation in any other capacity and receiving compensation for services in that capacity.

**Section 3.11 ACTION BY DIRECTORS WITHOUT A MEETING.** Any action required or permitted to be taken by the board of directors or any committee thereof may be taken without a meeting if all of the directors or committee members consent to the action in writing, and the number of directors or committee members then serving constitutes a quorum. The written consents shall be filed with the minutes of the proceedings of the board of directors or committee thereof.

**Section 3.12 COMMITTEES OF THE BOARD OF DIRECTORS.** The board of directors, by resolution adopted by a majority of the authorized number of directors, may designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the board of directors and to exercise the authority of the board of directors to the extent provided in the resolution establishing the committee and as permitted by the provisions of the California Corporations Code.

No committee of the board of directors shall have the authority to:

- (a) Approve actions that require shareholder approval.
- (b) Fill vacancies on the board or on any committee.
- (c) Fix the compensation of the directors for serving on the board or on any committee.
- (d) Amend or repeal bylaws or adopt new bylaws.
- (e) Amend or repeal any resolution of the board of directors that by its terms is not so amendable or repealable.
- (f) Make distributions to shareholders, except at a rate, in a periodic amount, or within a range set forth in the Articles of Incorporation or determined by the board of directors.
- (g) Appoint other committees of the board of directors or the members thereof.

The board of directors, by vote of a majority of the authorized number of directors, may designate one or more directors as alternate members of any committee who may replace any absent member at any meeting of the committee.

The designation of a committee of the board of directors and the delegation thereto of authority shall not operate to relieve the board of directors, or any member thereof, of any responsibility imposed by law.

## **ARTICLE IV OFFICERS**

**Section 4.01 POSITIONS AND ELECTION.** The officers of the Corporation shall be elected by the board of directors and shall be a chair of the board, a president, one or more vice presidents, a secretary, and a chief financial officer (who shall also be the treasurer if the board of directors does not designate another officer to hold that office). The Corporation may have such other officers, including but not limited to assistant vice presidents, a treasurer, and one or more assistant secretaries, as deemed necessary by the board of directors, with such authority as may be specifically delegated to such officers by the board of directors or these Bylaws. Any two or more offices may be held by the same person.

Officers shall be elected annually at the meeting of the board of directors held after each annual meeting of the shareholders. Each officer shall serve until a successor is elected and qualified or until the earlier death, resignation, or removal of that officer. Vacancies or new offices shall be filled at the next regular or special meeting of the board of directors.

**Section 4.02 REMOVAL AND RESIGNATION.** Any officer elected or appointed by the board of directors may be removed with or without cause by the affirmative vote of the majority of the board of directors. Removal shall be without prejudice to the contract rights, if any, of the officer so removed.

Any officer may resign at any time by giving written notice to the Corporation. Unless a different time is specified in the notice, the resignation shall be effective upon its receipt by the chair of the board, the president, the secretary, or the board of directors.

**Section 4.03 CHAIR OF THE BOARD.** The chair of the board shall preside at all meetings of the shareholders and the board of directors and shall perform all other duties as the board of directors shall assign. If the board of directors does not appoint a president, the chair of the board shall also be the chief executive officer and general manager of the Corporation.

**Section 4.04 PRESIDENT.** The president (who shall also be the chief executive officer and general manager of the Corporation) shall, subject to the direction of the board of directors, have general supervision and executive management over the business and affairs of the Corporation. The president shall see that all orders and resolutions of the board of directors are carried out, and shall perform all other duties as the board of directors shall assign. If the board of directors does not appoint a chair of the board, the president shall preside at all meetings of the shareholders and the board of directors.

**Section 4.05 SECRETARY AND ASSISTANT SECRETARIES.** The secretary shall attend all meetings of the shareholders and the board of directors and shall record all votes and the minutes of all proceedings, shall perform like duties for the standing committees when required, and shall authenticate all records of the Corporation. The secretary shall give or cause to be given notice of all meetings of the shareholders, the board of directors, and committees thereof and shall perform all other duties as the board of directors or president shall assign.

The secretary shall keep, or cause to be kept, at the principal executive office of the Corporation or such other place as the board of directors may direct, a minute book of all meetings of the

shareholders and the board of directors. The secretary shall keep, or cause to be kept, at the principal executive office of the Corporation, or at the office of the Corporation's transfer agent, a share register or a duplicate share register showing the names of the shareholders and their addresses, the number and classes of shares held by each, and the number and date of cancellation of every certificate surrendered for cancellation.

Each assistant secretary may, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary, and shall perform all other duties as the board of directors or the secretary shall assign.

In the absence of the secretary or an assistant secretary, the minutes of all meetings of the shareholders and the board of directors shall be recorded by the person designated by the board of directors or president.

**Section 4.06 CHIEF FINANCIAL OFFICER/TREASURER.** The chief financial officer (who shall also be the treasurer if the board of directors does not designate another officer to hold that office) shall have the custody of the corporate funds and securities, shall keep full and accurate accounts of receipts and disbursements of the Corporation, shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in the depositories designated by the board of directors, and shall perform all other duties as the board of directors or president shall assign.

The chief financial officer shall disburse the funds of the Corporation as may be ordered by the board of directors, taking proper vouchers for the disbursements. The chief financial officer shall keep and maintain the Corporation's books of account and shall render to the president and board of directors an account of all of his or her transactions as chief financial officer and of the financial condition of the Corporation and exhibit the books, records, and accounts to the president or board of directors at any time.

The assistant or assistants to the chief financial officer may, in the absence or disability of the chief financial officer, perform the duties and exercise the powers of the chief financial officer, and shall perform all other duties as the board of directors or president shall prescribe.

## **ARTICLE V INDEMNIFICATION OF DIRECTORS AND OFFICERS**

**Section 5.01 Indemnification.** The Corporation shall indemnify its directors, officers and agents for liabilities arising out of the performance of their duties to the maximum extent permitted by the California General Corporation Law.

## **ARTICLE VI SHARE CERTIFICATES AND TRANSFER**

**Section 6.01 SHARE CERTIFICATES.** The shares of the Corporation shall be uncertificated shares. The Corporation shall, within a reasonable time after the issuance or transfer of uncertificated shares, send to the registered owner of the uncertificated shares a written notice containing the information required to be set forth or stated on share certificates as

required by law or the Articles of Incorporation. No share shall be issued until the consideration therefor, fixed as provided by law, has been fully paid.

**Section 6.02 TRANSFERS OF SHARES.** Shares of the Corporation shall be transferable in the manner prescribed by law and in these Bylaws. Transfers of shares of the Corporation shall be made on the books of the Corporation only by the registered holder thereof or by such other person as may under law be authorized to endorse such shares for transfer, or by such shareholder's attorney thereunto authorized by power of attorney duly executed and filed with the secretary or transfer agent of the Corporation. No transfer of shares shall be valid as against the Corporation for any purpose until it shall have been entered in the share transfer records of the Corporation by an entry showing from and to what person those shares were transferred.

**Section 6.03 REGISTERED SHAREHOLDERS.** The Corporation may treat the holder of record of any shares issued by the Corporation as the holder in fact thereof, for purposes of voting those shares, receiving distributions thereon or notices in respect thereof, transferring those shares, exercising rights of dissent with respect to those shares, exercising or waiving any preemptive right with respect to those shares, entering into agreements with respect to those shares in accordance with the laws of the State of California, or giving proxies with respect to those shares.

## **ARTICLE VII CORPORATE RECORDS AND INSPECTION**

**Section 7.01 RECORDS.** The Corporation shall maintain adequate and correct books and records of account, minutes of the proceedings of the shareholders, board of directors, and committees of the board of directors, and a record of its shareholders, including names and addresses of all shareholders and the number and class of shares held, along with any other records required by law. The Corporation shall keep such record of its shareholders at its principal executive office, as fixed by the board of directors from time to time, or at the office of its transfer agent or registrar. The Corporation shall keep its books and records of account and minutes of the proceedings of the shareholders, board of directors, and committees of the board of directors at its principal executive office, or such other location as shall be designated by the board of directors from time to time.

**Section 7.02 INSPECTION OF BOOKS AND RECORDS.** The Corporation's accounting books and records and minutes of proceedings of the shareholders, board of directors, and committees of the board of directors shall, to the extent provided by law, be open to inspection of directors, shareholders, and voting trust certificate holders, in the manner provided by law.

**Section 7.03 COPY OF BYLAWS.** The Corporation shall furnish to any shareholder, on written request, a copy of these Bylaws as amended or otherwise altered to date.

## **ARTICLE VIII MISCELLANEOUS**

**Section 8.01 CHECKS, DRAFTS, ETC.** All checks, drafts, or other instruments for payment of money or notes of the Corporation shall be signed by an authorized officer or officers or any other person or persons as shall be determined from time to time by the board of directors.

**Section 8.02 FISCAL YEAR.** The fiscal year of the Corporation shall be as determined by the board of directors.

**Section 8.03 CONFLICT WITH APPLICABLE LAW OR ARTICLES OF INCORPORATION.** Unless the context requires otherwise, the general provisions, rules of construction, and the definitions of the California General Corporation Law shall govern the construction of these Bylaws. These Bylaws are adopted subject to any applicable law and the Articles of Incorporation. Whenever these Bylaws may conflict with any applicable law or the Articles of Incorporation, such conflict shall be resolved in favor of such law or the Articles of Incorporation.

**Section 8.04 INVALID PROVISIONS.** If any one or more of the provisions of these Bylaws, or the applicability of any provision to a specific situation, shall be held invalid or unenforceable, the provision shall be modified to the minimum extent necessary to make it or its application valid and enforceable, and the validity and enforceability of all other provisions of these Bylaws and all other applications of any provision shall not be affected thereby.

**Section 8.05 REPORTS.** During any time that the Corporation has fewer than 100 shareholders of record, the Corporation expressly waives the requirement set forth in Section 1501 of the California Corporations Code of sending an annual report to the shareholders; provided, that the board of directors may issue annual or other reports at its discretion. Upon the request of any shareholder made more than 120 days after the close of the Corporation's fiscal year, the Corporation shall, within 30 days, deliver to such shareholder the financial statements required by Section 1501 of the California Corporations Code to be included in an annual report to shareholders.

## **ARTICLE IX AMENDMENT OF BYLAWS**

**Section 9.01 AMENDMENT BY SHAREHOLDERS.** Unless otherwise provided by the Articles of Incorporation, these Bylaws, or the California Corporations Code, the shareholders may adopt, amend, or repeal bylaws.

**Section 9.02 AMENDMENT BY DIRECTORS.** Subject to the rights of shareholders under, and any limitations imposed by, the California Corporations Code, the board of directors may adopt, amend, or repeal bylaws.

## ANNEX E

### **LIST OF OFFICERS AND DIRECTORS**

#### Directors

Edward L. Rand, Jr.

Dana S. Hendricks

Michael L. Boguski

Jeffrey P. Lisenby

Robert D. Francis

#### Officers

Edward L. Rand, Jr. – Chairman

Michael L. Boguski – President

Dana S. Hendricks – Treasurer

Kathryn A. Neville – Secretary

Jeffrey P. Lisenby – Assistant Treasurer and Assistant Secretary

Robert D. Francis – Executive Vice President

Lawrence K. Cochran – Vice President

**ANNEX F**

**CERTIFIED BOARD RESOLUTIONS**

## SECRETARY'S CERTIFICATE

The undersigned, being the Secretary of the NORCAL Mutual Insurance Company (NORCAL), HEREBY CERTIFIES that attached hereto as Exhibit A is a true and correct copy of the resolutions adopted by the NORCAL Board of Directors at its meeting of February 18, 2020.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand and affixed the corporate seal of NORCAL this 30<sup>th</sup> day of March 2020.



A handwritten signature in cursive script that reads "Kellie N. Sorenson".

---

Kellie N. Sorenson, SVP, Chief Legal Officer,  
Corporate Secretary and Chief Compliance Officer

Attachment



EXCERPTED

MINUTES OF THE  
BOARD OF DIRECTORS MEETING  
NORCAL MUTUAL INSURANCE COMPANY

February 18, 2020

**Vote:** Mr. MacDonald reminded the Board that this would be the final vote regarding the transaction. Dr. Beretta polled Directors as to whether they had read the proposed resolutions that were distributed with the agenda materials for today's meeting and all Directors affirmed that they had done so. Following these discussions, a motion to adopt and approve the proposed resolutions was duly made by Mr. Syphax and seconded by Dr. Hayashi. The Board unanimously approved and adopted the following resolutions:

WHEREAS, NORCAL Mutual Insurance Company, a California mutual insurance company (the "Company") has negotiated with ProAssurance Corporation, a Delaware corporation ("PRA") a proposed business transaction pursuant to which, among other items, (1) the Company will convert from a mutual insurance company to a stock insurance company pursuant to Section 4097 of the California Insurance Code (the "Conversion"), (2) the Company will amend and restate the Articles of Incorporation of the Company (the "A&R Articles") to, among other items, authorize the issuance of [1,000,000] shares of common stock, par value \$[2.60], which represent all of the duly authorized shares of common stock of the Company authorized to be issued in connection with the Demutualization (the "Authorized Stock"), (3) pursuant to Section 4097.04 of the California Insurance Code, eligible members of the Company shall be entitled to receive in exchange for the extinguishment of their membership interest in the Company consideration in the form of a cash payment, contribution certificate or the Authorized Stock, all as more fully set forth in the Plan of Conversion (the "Plan of Conversion"), a copy of which has been reviewed by the Board, and (4) pursuant to the Agreement and Plan of Acquisition by and among the Company and PRA (the "Acquisition Agreement"), a copy of which has been reviewed by the Board, eligible members of the Company electing to receive Authorized Stock shall be entitled to tender the Authorized Stock to PRA (the "Stock Tender"), and eligible members electing to receive or deemed to have elected to receive a contribution certificate may be entitled to tender the contribution certificate to PRA (the "Contribution Certificate Tender", and together with the Stock Tender, collectively, the "Tender Offer"), in exchange for aggregate consideration of up to \$450 million payable at the consummation of the Conversion and the transactions contemplated by the Acquisition Agreement and additional consideration based on loss and reserve development through December 31, 2023 of up to \$150 million, all as more fully set forth in the Acquisition Agreement (collectively, the Conversion and the other transactions contemplated by the Plan of Conversion together with the transactions contemplated by the Acquisition Agreement, collectively, the "Transactions").

WHEREAS, the Tender Offer, if consummated, will result in the Company becoming a controlled subsidiary of PRA,

WHEREAS, pursuant to Section 4097.04 of the California Insurance Code and with the approval of the Commissioner of the California Department of Insurance (the “Commissioner”) as required by Section 4097.04 of the California Insurance Code, the Board has engaged Boenning & Scattergood, Inc. (“Boenning”) to serve as a qualified disinterested firm to conduct an appraisal of the fair value of the Company (the “Appraisal”),

WHEREAS, in conducting the Appraisal, Boenning has considered the assets and liabilities of the Company and any other factors bearing on the value of the Company as Boenning considered appropriate in its experience and judgment and as required by Section 4097.04 of the California Insurance Code,

WHEREAS, Boenning has delivered a report to the Board on the Appraisal (the “Appraisal Report”), pursuant to which Boenning has determined the eligible members’ collective equity in the Company being \$440,000,000 (the “Appraised Value”),

WHEREAS, Boenning has delivered a report to the Board that reviews the allocation formula (the “Allocation Formula”) to be used by the Company to determine the rights in surplus to each eligible member pursuant to Section 4097.04 of the California Insurance Code (the “Allocation Report”) and which concludes that Boenning has determined that, in their opinion, the methodology and underlying assumptions for the Allocation Formula are reasonable and appropriate,

WHEREAS, the Board has considered, among other things:

- the historical and projected financial condition, results of operation and cash flows of the Company and the Company’s current and projected liquidity position,
- the presentation by the Company’s senior management regarding the current and future prospects for the Company’s businesses, including the availability of appropriate strategic and acquisition opportunities, and the Company’s long-term strategy, the Company’s competitive position, the current outlook for the MPL industry, and general economic conditions,
- the Board’s knowledge of the Company’s businesses, assets, financial condition, results of operations and prospects (as well as the risks involved in achieving those prospects), the nature of the Company’s businesses and the MPL industry,
- the Company’s position and prospects as an independent company in the present and anticipated competitive environment for MPL insurers,
- the Company’s financial and strategic plan and the initiatives and the potential execution risks associated with such plan, and the effects of the economy on the Company specifically, and on the MPL industry generally,
- the current condition of the financial markets, including the availability of committed financing (subject to limited restrictions) for the Transactions, and the risk, in the future, of deterioration in such conditions,

- the Board’s belief, based on the factors described above, that the cash consideration offered to the members in connection with the Transaction would result in greater value to the Company’s members than the available alternatives,
- the Board’s belief, based on the factors described above, that the Transactions would result in greater value to the Company’s members than the available alternatives,
- the fact that the consideration to be paid pursuant to the Acquisition Agreement would be all cash, which would provide certainty and immediate value to the Company’s members,
- the presentation by the Piper Sandler Companies (“Piper Sandler”) to the Board and its opinion (the “Fairness Opinion”) as to the fairness of the aggregate consideration to be received by the Company’s members pursuant to the Acquisition Agreement from a financial point of view,
- the presentation by Boenning to the Board and its Appraisal Report and Allocation Report,
- the fact that the consideration and negotiation of the Acquisition Agreement was conducted through arm’s-length negotiations in a competitive bid situation under the oversight of the Board,
- the view of the Board that, given the due diligence that PRA has completed, PRA’s financial position and PRA’s history of successfully acquiring and integrating mutual insurance companies, PRA could successfully consummate the Tender Offer,
- the likelihood that the Transactions will be completed, including the fact that conditions to closing the Transactions require the Company’s member approval, receipt of regulatory approvals or expiration of waiting periods without objections from various state insurance regulators and federal antitrust authorities, the Company not having suffered a material adverse effect, and other customary closing conditions, and the likelihood that the foregoing approvals and/or expiration of waiting periods necessary to complete the Transactions will be obtained or occur, and
- the fact that, under specified circumstances, the Company will be required to pay to PRA a termination fee equal to \$15,000,000 upon termination of the Acquisition Agreement;

WHEREAS, the Board has concluded:

- the Transactions will help enhance the competitiveness of the Company and will generate greater efficiencies and significant opportunities for improved financial performance,
- the Transactions will enhance the Company’s ability to pursue its strategic objectives,

- the Transactions will create meaningful economies of scale and will provide the Company with greater resources to back its obligations to policyholders, support the growth of the Company's business and product lines and take advantage of investment and acquisition opportunities,
- the Transactions will benefit both the short-term and long-term interests of the Company and its policyholders,
- PRA has a history of successfully integrating the mutual insurance and stock insurance companies it has acquired and investing substantial resources in such companies, resulting in the steady growth and expansion of such insurers over time,
- the Transactions will enhance the Company's strategic and financial flexibility and will provide the members who own policies in effect on the date the Plan of Conversion is approved and on the date the Plan of Conversion becomes effective with their respective share of the consideration from the Transactions, and
- that the Transactions are advisable and in the best interests of the Company and its members and represent the best alternative for the Company's members among the alternatives reasonably available to the Company;

**NOW, THEREFORE, BE IT:**

**Plan of Conversion, Appraised Value and Allocation Formula**

**RESOLVED**, that, based upon, among other things, the presentation of Boenning and the Appraisal Report and the Allocation Report and other factors heretofore discussed at previous meetings and at this meeting, the Board hereby approves the terms of the Plan of Conversion (including the A&R Articles), in substantially the form attached hereto as Exhibit A, and determines that the Conversion and the other Transactions contemplated by the Plan of Conversion are advisable and in the best interests of the Company and its members on the terms and conditions set forth therein, that the Board accepts, approves, authorizes and adopts the Plan of Conversion on the terms and conditions substantially as set forth therein,

**RESOLVED**, that based upon, among other things, the presentation of Boenning and the Appraisal Report and other factors heretofore discussed at previous meetings and at this meeting, the Board hereby adopts and accepts the Appraised Value as set forth in the Plan of Conversion as representing the Company's members' collective equity in the Company,

**RESOLVED**, that based upon, among other things, the presentation of Boenning and the Allocation Report and other factors heretofore discussed at previous meetings and at this meeting, the Board has determined that the Allocation Formula is fair, just and equitable to the Company's members and hereby adopts and accepts the Allocation Formula as set forth in the Plan of Conversion,

### Acquisition Agreement and Tender Offer

RESOLVED, that, based upon, among other things, the presentation of Piper Sandler and the Fairness Opinion and other factors heretofore discussed at previous meetings and at this meeting, the Board hereby approves the terms of the Acquisition Agreement, in substantially the form attached hereto as Exhibit B, and determines that the Tender Offer and the other Transactions contemplated by the Acquisition Agreement are advisable and in the best interests of the Company and its members on the terms and conditions set forth therein, that the Board accepts, approves, authorizes and adopts the Acquisition Agreement on the terms and conditions substantially as set forth therein,

### Transaction Authorizations

FURTHER RESOLVED, that the Acquisition Agreement, the Plan of Conversion and the Transactions, on the terms and conditions substantially as set forth therein, be, and they hereby are, expressly accepted, approved, authorized and adopted in all respects, and that the Board expressly approves the Company entering into the Acquisition Agreement and the Transactions, on the terms and conditions substantially as set forth therein and in the Plan of Conversion,

FURTHER RESOLVED, that each of the Chief Executive Officer and President of the Company and each other duly authorized officer of the Company (each, an “Authorized Officer”) be, and each of them hereby is, authorized and directed to execute and deliver, in the name and on behalf of the Company, the Acquisition Agreement in the form presented to the Board and discussed by counsel at this meeting,

FURTHER RESOLVED, that the Authorized Officers are each hereby authorized and directed to negotiate, execute and deliver, in the name and on behalf of the Company, any agreements, undertakings, documents, instruments or certificates, and to file any registrations, notices or statements, that any such Authorized Officer may deem necessary, advisable or appropriate in order to comply with applicable law in connection with the Transactions, provided, however, that the information statement and other materials to be distributed by the Company to the members with respect to the Transactions shall be submitted to the Board with a reasonable time and opportunity for review prior to their distribution to the members,

### Regulatory Approvals; Other Filings, Consents and Actions

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Company, to prepare and effect all necessary U.S. and foreign regulatory and governmental filings (including any amendments or supplements thereto), including a Pre-Transaction Notification and Report Form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and documents related thereto, and to perform all such other actions that such Authorized Officer deem necessary or advisable to comply with the applicable laws of any U.S. or foreign jurisdiction and with any consent, notice, approval or other authorization or requirement in connection with the consummation of the Transactions,

**FURTHER RESOLVED**, that the Plan of Conversion, including the A&R Articles, be submitted to the Commissioner for review,

**FURTHER RESOLVED**, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed, in the name and on behalf of the Company, to take any and all action which he or she may deem necessary, advisable or appropriate in order to effect the registration or qualification (or exemption therefrom) of the Transactions under the Blue Sky or any state securities laws or any other jurisdiction, domestic or foreign, and in connection therewith to execute, acknowledge, verify, deliver, file or cause to be published any applications, reports, consents to service of process, appointments of attorneys to receive service of process and other papers and instruments or notices which may be required under such laws, and to take any and all further action which any such Authorized Officer may deem necessary, advisable or appropriate in order to maintain any such registration or qualification (or exemption therefrom) for as long as such Authorized Officer deems necessary or as required by law; and that the Board hereby adopts the form of any resolution required to be filed in connection with any applications, consents to service, powers of attorney, issuer's covenants or other documents or instruments if in the opinion of the Authorized Officer so acting the adoption of such resolution is necessary, advisable or appropriate, which shall thereupon be deemed to be adopted by the Board and incorporated in such minutes as a part of this resolution as if made hereunder;

**FURTHER RESOLVED**, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Company, to prepare and effect all filings (including any amendments or supplements thereto) and to obtain all permits, consents, approvals and authorizations of all third parties necessary to consummate the Transactions, and to cause any such required filings (including any amendments or supplements thereto) to become effective or otherwise approved,

**FURTHER RESOLVED**, that the Authorized Officers be, and each of them hereby is, authorized and directed to take all such action, in the name and on behalf of the Company, to obtain any necessary authorizations, consents, waivers or approvals of any third party and take any such other action as such Authorized Officer may deem necessary, appropriate or advisable in order to effect the Transactions and comply with the terms of the Acquisition Agreement,

#### Board Recommendation

**FURTHER RESOLVED**, that the Board hereby (i) determines that the terms of the Plan of Conversion and the Acquisition Agreement and the consummation of the Transactions are advisable and in the best interests of the Company and its members, (ii) approves, adopts and declares advisable the execution, delivery and performance of the Plan of Conversion and the Acquisition Agreement and the consummation of the Transactions, and (iii) recommends that the members of the Company approve and adopt the Plan of Conversion, including the A&R Articles, the Acquisition Agreement and the consummation of the Transactions, including the Tender Offer,

### Meeting of Members

FURTHER RESOLVED, that, upon approval of the Plan of Conversion, including the A&R Articles, by the Commissioner, that the Plan of Conversion, including the A&R Articles, and the Acquisition Agreement be submitted to the members of the Company for adoption and approval at a special meeting of members (the “Special Meeting”), and, that the Board hereby recommends that the members of the Company vote for the approval and adoption of the Plan of Conversion, including the A&R Articles and the Acquisition Agreement, and, if so approved by the requisite members at the Special Meeting, the Authorized Officers be, and each of them hereby is, authorized and directed to execute and deliver, in the name and on behalf of the Company, the Plan of Conversion and the A&R Articles and to consummate the transactions contemplated thereby as soon as practicable following date hereof,

FURTHER RESOLVED, that the Executive Committee of the Board is hereby authorized, empowered and directed, for and on behalf of the Board, to call the Special Meeting and to fix the record date for determining the members of record of the Company who shall be entitled to receive notice of and to vote at the Special Meeting;

FURTHER RESOLVED, that, the Authorized Officers be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Company, to appoint and engage a proxy solicitor in connection with the Special Meeting, and the Authorized Officers are each hereby authorized, empowered and directed to negotiate, execute and deliver all such agreements or other documents, and to pay all such fees and expenses, as such Authorized Officer may deem necessary to facilitate such appointment; and

FURTHER RESOLVED, that, subject to the approval of the California Insurance Commissioner, the Executive Committee is hereby authorized, empowered and directed, for and on behalf of the Board, to appoint the Inspectors of Election for the Special Meeting in accordance with Section 11528 of the California Insurance Code;

### Other Fees and Expenses

FURTHER RESOLVED, that the Authorized Officers are hereby authorized and directed, in the name and on behalf of the Company, to pay all necessary and reasonable fees incurred by the Company in connection with the Transactions, including, but not limited to, printing expenses, fees and expenses of legal counsel, accountants and advisors, and filing fees.

### Ratification of Certain Actions

FURTHER RESOLVED, that all actions heretofore taken by any of the directors, officers, employees, representatives or agents of the Company for or on behalf of the Company or any of its affiliates in connection with the Transactions or otherwise referred to in the foregoing resolutions be, and each of the same hereby is, ratified, confirmed and approved in all respects as the act and deed of the Company.

General

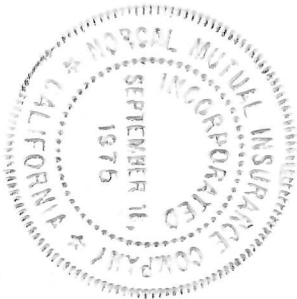
**FURTHER RESOLVED**, that any officer of the Company is hereby authorized and directed to do, perform or cause to be done and performed, all such acts and things and to make, execute and deliver, or cause to be made, executed and delivered, all such agreements, undertakings, documents, instruments or certificates in the name and on behalf of the Company or otherwise as any such officer may deem necessary or appropriate to effectuate or carry out fully the purpose and intent of the foregoing resolutions, and that all such actions so taken be and hereby are ratified, approved, confirmed and adopted.



## SECRETARY'S CERTIFICATE

The undersigned, being the Secretary of the NORCAL Mutual Insurance Company (NORCAL), HEREBY CERTIFIES that attached hereto as Exhibit A is a true and correct copy of the resolutions adopted by the NORCAL Board of Directors via Unanimous Written Consent dated February 10, 2021.

IN WITNESS WHEREOF, the undersigned has hereunto set her hand and affixed the corporate seal of NORCAL this 11<sup>th</sup> day of February 2021.



A handwritten signature in cursive script that reads "Kellie N. Sorenson".

---

Kellie N. Sorenson, SVP, Chief Legal Officer,  
Corporate Secretary and Chief Compliance Officer

Attachment

**NORCAL MUTUAL INSURANCE COMPANY**

**BOARD OF DIRECTORS**

**ACTION BY UNANIMOUS WRITTEN CONSENT OF DIRECTORS  
IN LIEU OF MEETING**

**RESOLUTION**

**February 10, 2021**

The following actions are being taken by unanimous written consent of all of the members of the board of directors (the "Board") of NORCAL Mutual Insurance Company (the "Company") pursuant to California Corporations Code Section 307 without a meeting.

WHEREAS, on February 18, 2020, the Company approved a proposed transaction (the "Transaction") with ProAssurance Corporation, a Delaware corporation ("PRA"), pursuant to which, among other items, the Board approved the conversion of the Company from a mutual insurance company to a stock insurance company pursuant to Section 4097 of the California Insurance Code (the "Conversion") pursuant to the terms of the Plan of Conversion, dated February 18, 2020 (the "Original Plan"),

WHEREAS, pursuant to Section 4097.04 of the California Insurance Code and with the approval of the Commissioner of the California Department of Insurance (the "Commissioner") as required by Section 4097.04 of the California Insurance Code, the Board engaged Boenning & Scattergood, Inc. ("Boenning") to serve as a qualified disinterested firm to conduct an appraisal of the fair value of the Company (the "Appraisal"),

WHEREAS, Boenning delivered a report to the Board on the Appraisal prior to February 18, 2020 (the "Original Appraisal Report"), pursuant to which Boenning determined the eligible members' collective equity in the Company to be \$440,000,000 (the "Appraised Value"),

WHEREAS, in connection with the review of the Transaction by the California Department of Insurance (the "CDI"), the CDI requested certain revisions to the Original Plan and the Original Appraisal Report,

WHEREAS, in connection with such revisions, the Company prepared an Amended and Restated Plan of Conversion (the "Amended and Restated Plan of Conversion"), a copy of which has been reviewed by the Board, and Boenning delivered a revised and restated report on the Appraisal on August 25, 2020 (the "Revised and Restated Appraisal Report"), a copy of which has been reviewed by the Board, pursuant to which Boenning affirmed the Appraised Value,

WHEREAS, Boenning delivered a report to the Board dated September 18, 2020 (the "Allocation Report") that reviews the allocation formula set forth in the Amended and Restated Plan of Conversion (the "Allocation Formula") to be used by the Company to determine the allocation of rights in surplus to each eligible member pursuant to Section 4097.04 of the

California Insurance Code and which concludes that Boenning has determined that, in their opinion, the methodology and underlying assumptions for the Allocation Formula are reasonable and appropriate,

WHEREAS, pursuant to Section 3.2(d) of that certain Agreement and Plan of Acquisition by and among the Company, PRA and PRA Professional Liability Group, Inc., dated February 20, 2020 (the “Acquisition Agreement”), the Company is entitled to appoint a committee comprised of three individuals (the “NORCAL Committee”) to act for and on behalf of the Company in connection with the review and dispute (if any) of the determination of the amount (if any) of the Contingent PRA Consideration (as defined in the Acquisition Agreement), and

WHEREAS, the Board has considered the Amended and Restated Plan of Conversion, the Revised and Restated Appraisal Report, the Allocation Report and the Allocation formula, has received input and guidance thereon from the Company’s financial and legal advisors, and has engaged in thoughtful discussions and deliberations with respect thereto and the implications thereof on the Company and its members.

NOW, THEREFORE, BE IT:

Amended and Restated Plan of Conversion, Revised and Restated Appraisal Report, Appraised Value and Allocation Formula

RESOLVED, that the Board hereby approves the terms of the Amended and Restated Plan of Conversion, in substantially the form attached hereto as Exhibit A, and determines that the Conversion and the other transactions contemplated by the Amended and Restated Plan of Conversion are advisable and in the best interests of the Company and its members on the terms and conditions set forth therein, that the Board accepts, approves, authorizes and adopts the Amended and Restated Plan of Conversion on the terms and conditions substantially as set forth therein,

FURTHER RESOLVED, that based upon, among other things, the Revised and Restated Appraisal Report and other factors heretofore discussed at previous meetings and at the January 28, 2021 Board meeting, the Board hereby adopts and accepts the Appraised Value as set forth in the Amended and Restated Plan of Conversion as representing the Company’s members’ collective equity in the Company,

FURTHER RESOLVED, that based upon, among other things, the Allocation Report and other factors heretofore discussed at previous meetings and at the January 28, 2021 Board meeting, the Board has determined that the Allocation Formula is fair, just and equitable to the Company’s members and hereby adopts and accepts the Allocation Formula as set forth in the Amended and Restated Plan of Conversion, and

NORCAL Committee

RESOLVED, that, based upon, among other things, the discussions and consideration of the Board and other factors heretofore discussed at previous meetings and at the January 28, 2021 Board meeting, the Board hereby appoints Sandra L. Beretta, MD; M. Diane Koken, and Alice H. Gannon to the NORCAL Committee, and

### Transaction Authorizations

RESOLVED, that the Amended and Restated Plan of Conversion, on the terms and conditions substantially as set forth therein, be, and is hereby, expressly accepted, approved, authorized and adopted in all respects, and that the Board expressly approves the Company entering into the Amended and Restated Plan of Conversion and consummating the transactions contemplated thereby, on the terms and conditions substantially as set forth therein and in the Amended and Restated Plan of Conversion,

FURTHER RESOLVED, that each of the Chief Executive Officer and President of the Company and each other duly authorized officer of the Company (each, an “Authorized Officer”) be, and each of them hereby is, authorized and directed to execute and deliver, in the name and on behalf of the Company, the Amended and Restated Plan of Conversion in substantially the form presented to the Board,

FURTHER RESOLVED, that the Authorized Officers are each hereby authorized and directed to negotiate, execute and deliver, in the name and on behalf of the Company, any agreements, undertakings, documents, instruments or certificates, and to file any registrations, notices or statements, that any such Authorized Officer may deem necessary, advisable or appropriate in order to comply with applicable law in connection with the Conversion and the transactions contemplated by the Amended and Restated Plan of Conversion, and

### Regulatory Approvals; Other Filings, Consents and Actions

RESOLVED, that the Amended and Restated Plan of Conversion, including all exhibits thereto, be submitted to the CDI for review,

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized, empowered and directed, for and on behalf of the Company, to prepare and effect all filings (including any amendments or supplements thereto) and to obtain all permits, consents, approvals and authorizations of all third parties necessary to consummate the transactions contemplated by the Amended and Restated Plan of Conversion, and to cause any such required filings (including any amendments or supplements thereto) to become effective or otherwise approved,

FURTHER RESOLVED, that the Authorized Officers be, and each of them hereby is, authorized and directed to take all such action, in the name and on behalf of the Company, to obtain any necessary authorizations, consents, waivers or approvals of any third party and take any such other action as such Authorized Officer may deem necessary, appropriate or advisable in order to effect the Conversion and the transactions contemplated by the Amended and Restated Plan of Conversion and comply with the terms of the Amended and Restated Plan of Conversion, and

### Board Recommendation

RESOLVED, that the Board hereby (i) determines that the terms of the Amended and Restated Plan of Conversion and the consummation of the Conversion and the other transactions contemplated by the Amended and Restated Plan of Conversion and the Acquisition Agreement

are advisable and in the best interests of the Company and its members, (ii) approves, adopts and declares advisable the execution, delivery and performance of the Amended and Restated Plan of Conversion and the consummation of the Conversion and the other transactions contemplated by the Amended and Restated Plan of Conversion and the Acquisition Agreement, and (iii) recommends that the members of the Company approve and adopt the Amended and Restated Plan of Conversion, and

#### Meeting of Members

RESOLVED, that, upon approval of the Amended and Restated Plan of Conversion by the CDI, the Amended and Restated Plan of Conversion, including the Amended and Restated Articles of Incorporation, be submitted to the members of the Company for adoption and approval at a special meeting of members to be held virtually on April 12, 2021 (the “Special Meeting”), and, that the Board hereby recommends that the members of the Company vote for the approval and adoption of the Amended and Restated Plan of Conversion, including the Amended and Restated Articles of Incorporation attached thereto,

FURTHER RESOLVED, that, subject to approval thereof by the requisite members at the Special Meeting, the Authorized Officers be, and each of them hereby is, authorized and directed to execute and deliver, in the name and on behalf of the Company, the Amended and Restated Plan of Conversion and the Amended and Restated Articles of Incorporation and to consummate the transactions contemplated thereby as soon as practicable following date hereof,

FURTHER RESOLVED, pursuant to Section 8 of Article III of the Bylaws of the Company, that the Board hereby declares February 11, 2021 to be the record date of the Special Meeting (the “Record Date”), and that the Record Date shall be used by the Company to determine the members entitled to notice of and to vote at the Special Meeting,

FURTHER RESOLVED, that the Secretary of the Board is directed to send to the members of the Company a notice of the Special Meeting as required by the Bylaws of the Company,

FURTHER RESOLVED, that the Secretary of the Board is directed to send to each member an information statement and proxy to be solicited on behalf of the Board, and the information statement and proxy submitted to the Special Meeting are approved, subject to any changes as may be approved by the Authorized Officers of the Company and the Secretary of the Board,

FURTHER RESOLVED, that Sandra L. Beretta, MD, Chair, and Steven Packer, MD, Secretary of the Board, are designated as the persons whose names shall be inserted as the proxies for members to be solicited by the Board for the Special Meeting,

FURTHER RESOLVED, that Kellie N. Sorenson, Corporate Secretary, is appointed as the Inspector of Election for the Special Meeting, and

Ratification of Certain Actions

RESOLVED, that all actions heretofore taken by any of the directors, officers, employees, representatives or agents of the Company for or on behalf of the Company or any of its affiliates in connection with the transactions contemplated by the Amended and Restated Plan of Conversion or otherwise referred to in the foregoing resolutions be, and each of the same hereby is, ratified, confirmed and approved in all respects as the act and deed of the Company, and

General

RESOLVED, that any officer of the Company is hereby authorized and directed to do, perform or cause to be done and performed, all such acts and things and to make, execute and deliver, or cause to be made, executed and delivered, all such agreements, undertakings, documents, instruments or certificates in the name and on behalf of the Company or otherwise as any such officer may deem necessary or appropriate to effectuate or carry out fully the purpose and intent of the foregoing resolutions, and that all such actions so taken be and hereby are ratified, approved, confirmed and adopted.

IN WITNESS WHEREOF, the undersigned have executed this Unanimous Written Consent of the Board of Directors as of the date first written above.

*Sandra Beretta*

Sandra L. Beretta  
Feb 10, 2021 1:58 PM PST

*Diane Koken*

M. Diane Koken  
Feb 10, 2021 7:53 PM EST

*Fabiola Cobarrubias*

Fabiola Cobarrubias  
Feb 11, 2021 7:59 AM PST

*Steven J. Packer*

Steven Packer  
Feb 10, 2021 4:37 PM PST

*Scott Diener*

Scott Diener  
Feb 10, 2021 2:45 PM PST

*RJ Patchin*

Rebecca J. Patchin  
Feb 10, 2021 3:37 PM PST

*Alice Gannon*

Alice H. Gannon  
Feb 10, 2021 10:27 PM MST

*Scott Syphax*

Scott C. Syphax  
Feb 10, 2021 3:04 PM PST

*Rm Hayashi*

Roger M. Hayashi  
Feb 11, 2021 8:15 AM PST

**ANNEX G**

**THREE-YEAR PRO FORMA FINANCIAL STATEMENTS**

### THREE-YEAR *PRO FORMA* FINANCIAL STATEMENTS

| NORCAL Group (\$ Millions)            | 2019            | 2020           | 2021           | 2022           |
|---------------------------------------|-----------------|----------------|----------------|----------------|
| Direct Written Premium                | \$370.8         | \$335.4        | \$337.3        | \$344.8        |
| Net Written Premium                   | 358.6           | 323.4          | 323.1          | 329.3          |
| <b>Net Earned Premium</b>             | <b>342.1</b>    | <b>341.0</b>   | <b>323.2</b>   | <b>326.2</b>   |
| Coverage Year Losses & LAE            | 352.2           | 331.2          | 286.7          | 269.9          |
| Prior Year Development                | 147.9           | -              | (10.0)         | (20.0)         |
| <b>Calendar Year Losses &amp; LAE</b> | <b>500.1</b>    | <b>331.2</b>   | <b>276.7</b>   | <b>249.9</b>   |
| Commissions & Other Acq Costs         | 30.5            | 29.9           | 31.0           | 32.8           |
| Premium Taxes & Other TLFs            | 7.6             | 6.7            | 6.7            | 6.9            |
| Fixed Underwriting Overhead           | 51.1            | 50.6           | 50.0           | 51.5           |
| Premium Deficiency Reserve            | 17.3            | -              | (4.0)          | (8.0)          |
| <b>Total Underwriting Expenses</b>    | <b>106.6</b>    | <b>87.1</b>    | <b>83.8</b>    | <b>83.1</b>    |
| <b>Underwriting Gain (Loss)</b>       | <b>-\$264.6</b> | <b>-\$77.3</b> | <b>-\$37.2</b> | <b>-\$6.9</b>  |
| Interest & Dividend Income            | 41.5            | 37.5           | 37.5           | 37.5           |
| Realized Gains (Losses)               | (11.3)          | 12.0           | 12.0           | 12.0           |
| Other Expenses (Income)               | (2.6)           | -              | -              | -              |
| Federal Income Taxes (Benefit)        | (20.4)          | (5.8)          | 2.6            | 8.9            |
| <b>Net Income (Loss)</b>              | <b>-\$211.3</b> | <b>-\$22.0</b> | <b>\$9.7</b>   | <b>\$33.7</b>  |
| <b>Policyholder Surplus</b>           | <b>\$575.5</b>  | <b>\$553.5</b> | <b>\$563.2</b> | <b>\$596.8</b> |
| <b>Coverage Year Ratios</b>           |                 |                |                |                |
| Loss Ratio                            | 100.5%          | 97.1%          | 88.7%          | 82.7%          |
| Expense Ratio                         | 29.7%           | 26.9%          | 25.9%          | 25.2%          |
| <b>Combined Ratio</b>                 | <b>130.3%</b>   | <b>124.1%</b>  | <b>114.6%</b>  | <b>108.0%</b>  |
| <b>Calendar Year Ratios</b>           |                 |                |                |                |
| Loss Ratio                            | 146.2%          | 97.1%          | 85.6%          | 76.6%          |
| Expense Ratio                         | 29.7%           | 26.9%          | 25.9%          | 25.2%          |
| <b>Combined Ratio</b>                 | <b>175.9%</b>   | <b>124.1%</b>  | <b>111.5%</b>  | <b>101.9%</b>  |



**ANNEX H**

**PLAN OF OPERATIONS**

EXHIBIT H

**CONFIDENTIAL AND PROPRIETARY**  
**This document and all attachments to it contain**  
**information that is confidential, proprietary, trade secret and commercially sensitive.**

### **Plan of Operations of NORCAL Insurance Company**

This Plan of Operations is submitted as an exhibit to the Form A Statement seeking approval of the proposed acquisition of control (the “Proposed Acquisition”) of NORCAL Insurance Company, a California domestic stock insurer (“NORCAL”), by ProAssurance Corporation, a Delaware corporation (“PAC”), and PRA Professional Liability Group, Inc., a Delaware corporation (“PRA PLG” and, together with PAC, “ProAssurance”). NORCAL, formerly known as NORCAL Mutual Insurance Company, a California domestic mutual insurer, was or is in the process of being converted from a mutual insurer to a stock insurer pursuant to California Insurance Code § 4097 *et seq.* Thus, references to NORCAL herein shall mean NORCAL both before and after such conversion, as appropriate. Any capitalized term used herein without definition shall have the same meaning assigned to such term in the Form A Statement.

#### **Background**

NORCAL provides medical professional liability insurance (“MPLI”) to physicians and other healthcare providers in 41 states on an admitted basis and in the remaining states on an excess and surplus lines basis. ProAssurance, through its direct and indirect insurer subsidiaries, transacts MPLI in all states. The 2019 written premium by state for both ProAssurance and NORCAL is set forth in **Appendix A** hereto.

Instead of maintaining the separate operations of both NORCAL and ProAssurance in each of the subject states post-closing, in the future, as discussed below, ProAssurance intends to combine the operations of the two groups over time. This will be accomplished primarily by renewing NORCAL’s policies in the appropriately licensed ProAssurance insurer and integrating certain aspects of NORCAL’s operations and distribution channels (*i.e.*, insurance producers) with and into ProAssurance’s platform. NORCAL will then run-off its existing book. This integration avoids, among other things, maintaining then multiple ProAssurance insurers operating in the same state with separate operations, underwriting rules, rates and forms, and should provide general cost-savings associated with not having to maintain duplicative services, books and financials for both the ProAssurance and NORCAL insurers as well as more efficient use of state regulatory resources as a result of having fewer insurers to monitor.

As concerns the timing as to when the transition will occur, ProAssurance cannot transition NORCAL’s business to its other insurance subsidiaries until it is able to acquire all of the NORCAL stock and provide for the Contribution Certificates issued in the conversion. The timing of the transition is, therefore, largely dependent upon the number of NORCAL policyholders who elect to receive and hold NORCAL stock upon its conversion and those who elect to receive Contribution Certificates. Because of those (and other) variables, the timing for the transition is somewhat uncertain. ProAssurance will need to continue to operate NORCAL for the benefit of all shareholders to fulfill its fiduciary duties to those policyholders that hold NORCAL shares and

Contribution Certificates.

## **Products**

Presently, NORCAL writes approximately \$300 million annually in MPLI, with approximately one-third of that business being written in California. Policies are primarily written on a claims-made basis, however occurrence coverage is available on a limited basis. Coverage for extended reporting endorsements or “tail coverage” is also offered. Once the Proposed Acquisition is completed, no material changes are expected to the type of policies currently available to NORCAL’s policyholders when these policies are offered through ProAssurance. Please also refer to the “Competition” and “Sales – Insurance Producers” sections below for further information regarding additional product offerings.

## **Competition**

As shown in Appendix A, NORCAL Group currently writes approximately 14% of the MPLI business in California and, as stated above, approximately one-third of its premium is derived from California. In terms of competition, NORCAL Group will continue to offer superior customer service and value to existing policyholders. Post-close, NORCAL Group will have additional products available in ProAssurance’s hospital, facility and senior care facility products to offer new and existing policyholders as more fully described under the “Sales – Insurance Producers” section below.

## **Transition of Business from NORCAL to ProAssurance**

The rationale for redirecting the book of business to ProAssurance includes:

- ***Operational Synergies*** – Combining functional departments, such as underwriting, claims, risk management, and actuarial, will provide one set of rules, rates, forms, guidelines, and procedures for each state and will reduce internal operating and regulatory costs and allow for gains in efficiency, responsiveness to insureds, and consistency throughout the organization, which, in turn, will be beneficial for insureds and agents.
- ***Non-Functional Areas*** – Areas such as accounting, treasury, compliance, human resources, information technology, legal, facilities and internal audit functions will be consolidated and managed from and mostly relocated to ProAssurance’s home office located in Birmingham, Alabama.

## **Sales - Insurance Producers**

NORCAL has approximately 280 independent insurance producers that sell its products throughout the United States. While most of NORCAL’s significant producers are already appointed by ProAssurance, ProAssurance will seek to enter into arrangements with and appoint certain of those producers who are not currently appointed with ProAssurance in order to transition the business without disruption.

Following the closing of the Proposed Acquisition, sales and producer management functions

(including supervision and training of producers) will continue being conducted by NORCAL employees. Producers will be paid commissions pursuant to existing producer agreements which will vary depending on, among other matters, the state, program, whether a manager is involved and whether the policies consist of new or renewal business.

In addition, the producer integration will make ProAssurance's product portfolio more accessible to NORCAL's policyholders, which includes making available a national platform for hospitals and health care facilities, a full range of products for allied healthcare professionals, and alternative risk solutions through ProAssurance's offshore captive (Inova Re Ltd, S.P.C., a Cayman Islands Segregated Portfolio Company) for larger accounts that desire to participate in a part of their own risk. That, combined with the medical technology and life sciences liability insurance products offered through ProAssurance's affiliate, Medmarc Casualty Insurance Company, will offer NORCAL's policyholders (both in and outside California) additional solutions for most of their healthcare liability-related insurance needs.

### **Advertising**

Following the closing of the Proposed Acquisition, ProAssurance intends to continue marketing NORCAL's products and services utilizing NORCAL's historical methods of online, direct mail and print materials as well as advertisements placed with industry publications. Reviews of such materials will continue to be coordinated by both the business areas as well as legal and compliance to ensure continued accuracy of information communicated to existing and prospective policyholders. Special efforts will be directed at communication pieces to ensure a coordinated uniform message is disseminated by both NORCAL and ProAssurance agents and brokers to respective policyholders.

### **Investments**

Following the closing of the Proposed Acquisition, the NORCAL Board is expected to review and adopt the ProAssurance Statement of Investment Policy and Guidelines ("Guidelines") as are in effect and approved by PAC at the time of Closing. The Guidelines identify those assets that are considered permissible investments and specifically prohibit investment in certain types of assets. As noted in the Guidelines, PAC has established an Investment Committee to administer and supervise the investment management process in their capacities as officers of PAC and officers and directors of PAC's subsidiary corporations. PAC plans to continue utilizing NORCAL's current investment managers, subject to further evaluation of their capabilities in the future.

### **Compensation**

Following the closing of the Proposed Acquisition, the proposed directors of NORCAL are all employees of ProAssurance Group Services Corporation, a subsidiary of PAC and, as such, do not receive additional or allocated compensation for their service on the Board. Rather, such service is considered part of their overall job duties. Any expenses associated with carrying out the activities associated with NORCAL will be addressed pursuant to the Expense Sharing Agreement and Management Services Agreement as discussed in the "Affiliate Transactions" section below, subject to receipt of required insurance regulatory approvals (and/or nondisapprovals) with respect to such agreements. The company's officers will receive compensation in the form of a base salary plus incentive compensation tied to the financial performance metrics established annually by PAC and not tied specifically to the individual performance of NORCAL. No compensation is of the kind

prohibited by California Insurance Code §10434.

## **Underwriting**

Following the closing of the Proposed Acquisition, underwriting functions will continue being conducted by NORCAL employees. ProAssurance intends to maintain regional underwriting services for NORCAL. ProAssurance will evaluate the adequacy of NORCAL's rates, forms, underwriting rules and procedures in an effort to implement "best practices" and make appropriate changes to the extent required or advisable, subject to any required regulatory approvals.

NORCAL's underwriting staff consists of experienced underwriting personnel, and these persons receive training in accordance with NORCAL's internal policies and procedures. Underwriters are compensated, with bonuses being earned based on a combination of company results and individual service contributions.

## **Claims Adjusting**

Following the closing of the Proposed Acquisition, claims will continue to be adjusted by NORCAL employees. ProAssurance intends to maintain regional claims services for NORCAL. ProAssurance will evaluate the adequacy of NORCAL's claims handling procedures in an effort to implement "best practices" and make appropriate changes to the extent required or advisable.

Claims adjusters are compensated on a salary-basis, and their compensation is not contingent upon the amount of settlement of any claims adjusted by them. Claims personnel receive training using materials and programs approved by NORCAL's Vice President of Claims, who also works with senior management in establishing and modifying claims reserves in accordance with NORCAL's internal reserving guidelines.

## **Future Plans For NORCAL Subsidiaries**

NORCAL has certain insurer subsidiaries that are in run-off and certain non-insurer subsidiaries that it will consider merging. In particular:

***NORCAL Specialty Insurance Company:*** NORCAL Specialty Insurance Company, a Texas domestic insurer ("NORCAL Specialty"), writes MPLI on an excess and surplus lines basis (not in California). In order to gain operational efficiencies, ProAssurance intends to integrate that insurer's business with ProAssurance's surplus lines insurer. Assuming comparable coverages, broker and commission continuity, and risk appetite, the transition of renewals to ProAssurance would begin upon completion of operational logistics. After the book of business is re-written by a ProAssurance carrier, ProAssurance may consider merging NORCAL Specialty with and into ProAssurance's surplus lines insurer.

***Preferred Physicians Medical Risk Retention Group:*** Preferred Physicians Medical Risk Retention Group, a Mutual Insurance Company ("PPM") and a NORCAL affiliate pursuant to a management agreement, is a risk retention group that provides MPLI for anesthesiologists. ProAssurance plans to continue PPM's operations substantially as they are being conducted post-closing; however it would look to implement any operational cost savings opportunities capitalizing upon ProAssurance's expertise, if appropriate.

***Medicus Insurance Company and FD Insurance Company:*** Medicus Insurance Company, a Texas domestic insurer, and FD Insurance Company, a Florida domestic insurer, are indirect subsidiaries of NORCAL. Both of those insurers are running-off existing blocks of business and are not writing new business. Post-closing, ProAssurance may consider, subject to receipt of required regulatory approvals, merging those entities into NORCAL to, among other things, eliminate the need to produce separate financial statements. Doing so would reduce regulatory filings, help streamline operations and allow accounting personnel to focus on active companies.

***Non-Insurer NORCAL Subsidiaries:*** With respect to NORCAL's non-insurer subsidiaries, ProAssurance may also consider merging, dissolving or liquidating any inactive entities in order to reduce operating expenses and eliminate unessential or duplicative operating entities.

### **Affiliate Transactions**

NORCAL and its affiliates are parties to an intercompany services agreement whereby they agree to share certain administrative services (*e.g.*, accounting, tax, audit, underwriting, claims, investment and functional support services) and facilities on an actual cost reimbursement basis. ProAssurance maintains a similar arrangement with its subsidiaries through a Management Services Agreement and an Expense Sharing Agreement. ProAssurance anticipates that shortly after the Proposed Acquisition is closed, NORCAL and its affiliates will become parties to the ProAssurance affiliated service agreement agreements, subject to receipt of required insurance regulatory approvals (and/or nondisapprovals).

### **Personnel Changes**

ProAssurance may alter or change the proposed operating structure should circumstance warrant that a change would be in the best interest of NORCAL's policyholders or for operational or financial efficiency.

### **Reinsurance**

After the Proposed Acquisition is consummated and when NORCAL's current reinsurance treaties are due for renewal, ProAssurance will evaluate its options under both NORCAL's exiting reinsurance programs and the prospect of including NORCAL exposures in ProAssurance reinsurance treaties.

### **Internal Controls and Procedures**

As a publicly traded company, ProAssurance is subject to Rule 404 of Sarbanes Oxley. As such, it follows a rigorous process of documenting and confirming the effectiveness of its internal controls. Within 12 months following the closing, NORCAL would be subject to the same internal controls and documentation requirements.

## Conclusion and Summary

ProAssurance seeks to acquire NORCAL for several key strategic reasons. First, NORCAL has a leadership role in the California MPLI market. Profitable organic growth within the MPLI market is challenging, and ProAssurance has determined the best way to achieve such growth is through acquisitions. The California MPLI market is unique in that California has successfully implemented and maintained meaningful tort relief (MICRA) to medical practitioners. As a result, California has one of the most stable medical malpractice markets in the country. Second, NORCAL and ProAssurance share a similar, physician-focused philosophy since their respective foundings over 40 years ago. The majority of NORCAL's business is MPLI for physicians, which NORCAL delivers with robust risk management efforts. ProAssurance also seeks to extend the meaningful agency relationships that NORCAL has with its producers. Lastly, and most importantly, ProAssurance seeks to build a true national platform of excellence, achieve operational and financial synergies, and build a company that can continue to serve the physician and other health care provider community as its needs continue to change for decades to come, just as NORCAL has done for the last four decades. ProAssurance believes that the combined companies are stronger together, can capitalize on their respective strengths, gain economies of scale and offer the physician and other health care provider community solutions to its ever-changing needs as the health care industry continues to evolve all while withstanding the cyclical hardening and softening markets.

By becoming a part of ProAssurance, with \$1.3 billion in equity, NORCAL insureds obtain greater access to a capital base that can provide the stability needed to withstand the volatility that the MPLI line of business is currently experiencing. ProAssurance will also provide NORCAL insureds access to a geographically diverse organization that writes MPLI business in virtually all 50 states. ProAssurance will also be able to provide broader and more in-depth resources to the underwriting, claims and risk management operations. By leveraging the purchasing power of a larger organization, ProAssurance will seek to improve the terms and conditions of NORCAL reinsurance arrangements. Similarly, ProAssurance will seek to improve the costs associated with managing NORCAL's investment portfolio by leveraging the purchasing power of ProAssurance's nearly \$3.0 billion portfolio.

ProAssurance, and its founders, have successfully completed the acquisition of at least sixteen professional liability insurance companies or books of business, as well as other insurance companies. See Appendix B.

|                          |                     |              | <b>APPENDIX A</b>   |       |                  |       |                    |
|--------------------------|---------------------|--------------|---------------------|-------|------------------|-------|--------------------|
| <b>2019 MPLI DWP</b>     | <b>ProAssurance</b> | <b>Group</b> | <b>NORCAL Group</b> |       | <b>COMBIN ED</b> |       | <b>STATE TOTAL</b> |
| Alabama                  | \$54,483,193        | 41.8%        | \$675,635           | 0.5%  | \$55,158,828     | 42.3% | \$130,454,454      |
| Alaska                   | \$219,539           | 0.9%         | \$3,954,287         | 16.4% | \$4,173,826      | 17.3% | \$24,089,450       |
| Arizona                  | \$3,821,080         | 1.8%         | \$16,658,938        | 7.9%  | \$20,480,018     | 9.7%  | \$210,932,732      |
| Arkansas                 | \$3,611,753         | 5.6%         | \$646,861           | 1.0%  | \$4,258,614      | 6.6%  | \$64,399,488       |
| California               | \$26,290,699        | 3.2%         | \$113,615,757       | 14.0% | \$139,906,456    | 17.2% | \$812,816,658      |
| Colorado                 | \$1,132,747         | 0.7%         | \$916,827           | 0.6%  | \$2,049,574      | 1.4%  | \$151,243,796      |
| Connecticut              | \$5,717,502         | 2.8%         | \$1,718,420         | 1.6%  | \$7,435,922      | 3.6%  | \$205,278,198      |
| Delaware                 | \$10,077,458        | 33.4%        | \$1,980,846         | 6.6%  | \$12,058,304     | 40.0% | \$30,182,896       |
| Dist. Columbia           | \$7,493,916         | 29.2%        | \$459,004           | 1.8%  | \$7,952,920      | 31.0% | \$25,688,870       |
| Florida                  | \$25,778,780        | 4.0%         | \$47,469,387        | 7.3%  | \$73,248,167     | 11.3% | \$647,865,247      |
| Georgia                  | \$5,327,225         | 1.9%         | \$6,881,534         | 2.4%  | \$12,208,759     | 4.3%  | \$285,067,972      |
| Hawaii                   | \$368,027           | 1.2%         | \$115,069           | 0.4%  | \$483,096        | 1.6%  | \$30,095,810       |
| Idaho                    | \$455,648           | 1.3%         | \$556,048           | 1.6%  | \$1,011,696      | 3.0%  | \$34,035,952       |
| Illinois                 | \$30,637,520        | 6.8%         | \$28,289,592        | 6.2%  | \$58,927,112     | 13.0% | \$453,462,760      |
| Indiana                  | \$24,285,337        | 19.0%        | \$456,751           | 0.4%  | \$24,742,088     | 19.4% | \$127,727,450      |
| Iowa                     | \$3,679,357         | 5.4%         | \$616,790           | 0.9%  | \$4,296,147      | 6.3%  | \$67,943,959       |
| Kansas                   | \$3,506,949         | 5.0%         | \$905,570           | 1.3%  | \$4,412,519      | 6.3%  | \$70,062,613       |
| Kentucky                 | \$11,413,727        | 10.6%        | \$2,324,774         | 2.2%  | \$13,738,501     | 12.7% | \$107,954,501      |
| Louisiana                | \$1,792,406         | 1.8%         | \$992,103           | 1.0%  | \$2,784,509      | 2.7%  | \$102,002,745      |
| Maine                    | \$794,525           | 1.5%         | \$103,221           | 0.2%  | \$897,746        | 1.7%  | \$52,042,252       |
| Maryland                 | \$28,293,984        | 9.4%         | \$4,712,988         | 1.6%  | \$33,006,972     | 11.0% | \$300,787,855      |
| Massachusetts            | \$2,147,082         | 0.6%         | \$1,249,353         | 0.4%  | \$3,396,435      | 1.0%  | \$339,693,272      |
| Michigan                 | \$28,072,784        | 14.2%        | \$1,902,381         | 1.0%  | \$29,975,165     | 15.2% | \$197,084,891      |
| Minnesota                | \$2,738,381         | 3.3%         | \$515,126           | 0.6%  | \$3,253,507      | 3.9%  | \$83,204,118       |
| Mississippi <sup>1</sup> | \$1,491,723         | 3.3%         | \$1,961,522         | 4.3%  | \$3,453,245      | 7.6%  | \$45,159,730       |
| Missouri                 | \$9,109,047         | 5.9%         | \$12,630,519        | 8.1%  | \$21,739,566     | 14.0% | \$155,161,397      |
| Montana                  | \$284,194           | 0.8%         | \$443,414           | 1.2%  | \$727,608        | 2.0%  | \$35,639,981       |



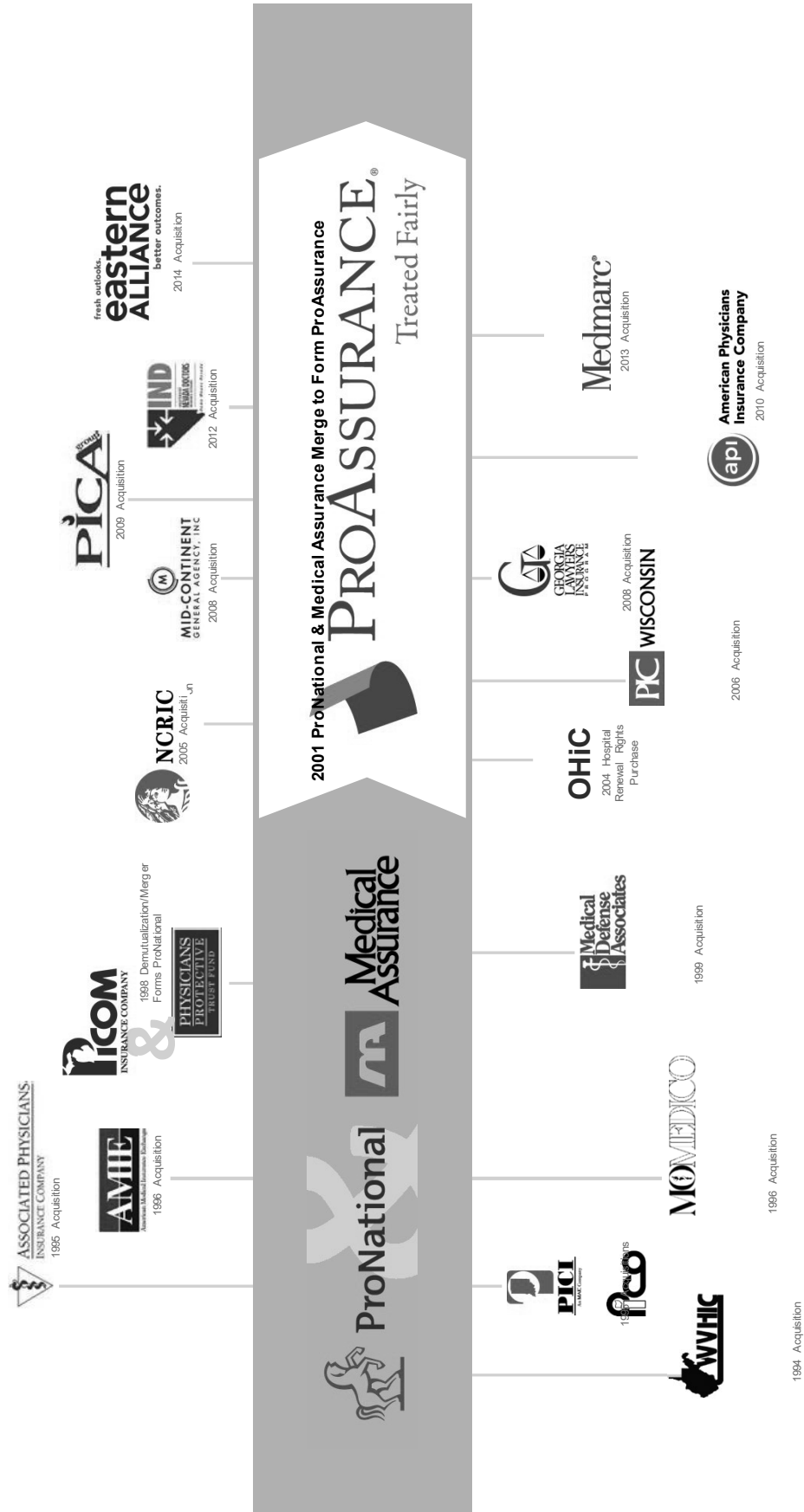
|                    |              |       |              |       |              |       |                 |
|--------------------|--------------|-------|--------------|-------|--------------|-------|-----------------|
| Nebraska           | \$2,709,718  | 7.9%  | \$55,974     | 0.2%  | \$2,765,692  | 8.1%  | \$34,154,634    |
| Nevada             | \$16,787,214 | 22.5% | \$12,023,935 | 16.1% | \$28,811,149 | 38.6% | \$74,557,135    |
| New Hampshire      | \$5,354,547  | 11.0% | \$375,272    | 0.8%  | \$5,729,819  | 11.8% | \$48,725,755    |
| New Jersey         | \$6,235,725  | 1.5%  | \$7,291,574  | 1.7%  | \$13,527,299 | 3.2%  | \$419,455,249   |
| New Mexico         | \$1,063,821  | 1.8%  | \$1,582,068  | 2.7%  | \$2,645,889  | 4.5%  | \$59,328,188    |
| New York           | \$16,821,211 | 1.1%  | \$9,924,705  | 0.6%  | \$26,745,916 | 1.7%  | \$1,585,033,096 |
| North Carolina     | \$3,552,281  | 1.8%  | \$3,381,517  | 1.7%  | \$6,933,798  | 3.5%  | \$198,947,849   |
| North Dakota       | \$198,849    | 1.7%  | -            | 0.0%  | \$198,849    | 1.7%  | \$11,782,126    |
| Ohio               | \$20,756,849 | 8.8%  | \$2,436,482  | 1.0%  | \$23,193,331 | 9.8%  | \$236,397,307   |
| Oklahoma           | \$5,486,683  | 5.6%  | \$2,218,483  | 2.3%  | \$7,705,166  | 7.9%  | \$97,719,922    |
| Oregon             | \$1,359,236  | 1.5%  | \$1,263,879  | 1.4%  | \$2,623,115  | 2.9%  | \$91,185,952    |
| Pennsylvania       | \$12,972,159 | 1.8%  | \$36,292,753 | 5.0%  | \$49,264,912 | 6.8%  | \$719,827,747   |
| Rhode Island       | -            | 0.0%  | \$2,279,924  | 7.2%  | \$2,279,924  | 7.2%  | \$31,587,962    |
| South Carolina     | \$6,028,621  | 7.5%  | \$402,500    | 0.5%  | \$6,431,121  | 8.0%  | \$79,955,040    |
| South Dakota       | \$115,637    | 0.7%  | \$6,535      | 0.0%  | \$122,172    | 0.8%  | \$15,710,897    |
| Tennessee          | \$27,887,779 | 11.9% | \$628,528    | 0.3%  | \$28,516,307 | 12.1% | \$234,884,517   |
| Texas <sup>2</sup> | \$32,965,537 | 6.7%  | \$23,767,352 | 4.8%  | \$56,732,889 | 11.5% | \$492,945,139   |
| Utah               | \$1,114,669  | 2.0%  | \$2,333,193  | 4.1%  | \$3,447,862  | 6.1%  | \$56,581,752    |
| Vermont            | \$169,320    | 1.0%  | \$11,403     | 0.1%  | \$180,723    | 1.1%  | \$17,033,804    |
| Virginia           | \$11,567,925 | 6.2%  | \$5,396,320  | 2.9%  | \$16,964,245 | 9.1%  | \$186,858,177   |
| Washington         | \$2,007,814  | 1.1%  | \$1,903,957  | 1.0%  | \$3,911,771  | 2.0%  | \$191,108,177   |
| West Virginia      | \$1,254,176  | 1.3%  | \$4,181,623  | 4.4%  | \$5,435,799  | 5.7%  | \$96,095,218    |
| Wisconsin          | \$20,686,398 | 28.3% | \$44,927     | 0.1%  | \$20,731,325 | 28.4% | \$73,116,316    |
| Wyoming            | \$121,266    | 0.6%  | \$229,139    | 1.2%  | \$350,405    | 1.9%  | \$18,904,740    |

<sup>1</sup>Does not include premium for Medical Assurance Company of Mississippi

<sup>2</sup>Premium for TMLT taken from 2019 Annual Report for TMLT

2019 SNL Written Premium Data

# Disciplined Growth via Mergers & Acquisitions – 30 year period



**ANNEX I**

**NOTICE OF SPECIAL MEETING**

# NORCAL MUTUAL INSURANCE COMPANY

575 Market Street, Suite 1000

San Francisco, CA 94105

## NOTICE OF SPECIAL MEETING

### FOR APPROVAL OF THE AMENDED AND RESTATED PLAN OF CONVERSION

NOTICE IS HEREBY GIVEN THAT a special meeting (“**Special Meeting**”) of Record Date Members of NORCAL Mutual Insurance Company, a mutual insurance company domiciled in the State of California (“**NORCAL Mutual**,” after the conversion, being referred to as “**NIC**,” and both before and after the conversion, being referred to “**NORCAL**”) will be held on April 12, 2021 beginning at 10:00 a.m. Pacific Time, to vote on a proposed Amended and Restated Plan of Conversion of NORCAL dated February 10, 2021 (the “**Plan**”). The Plan provides for the conversion of NORCAL Mutual from a mutual insurance company into an incorporated stock insurance company (the “**Conversion**”). In connection with the Plan, Record Date Members will vote on (1) the proposed Amended and Restated Articles of Incorporation of NIC; (2) Amended and Restated Bylaws of NIC; and (3) a slate of director nominees proposed by PRA (“**Director Nominees**”), all of which will be effective upon completion of the Proposed Transaction. “**Record Date Members**” are Members of NORCAL Mutual who owned policies on February 11, 2021. Immediately after the Conversion and pursuant to an agreement with ProAssurance Corporation (“**ProAssurance**”) and PRA Professional Liability Group, Inc. (“**PRA Professional**” and collectively with ProAssurance, “**PRA**”), PRA will purchase for cash all of the shares of common stock to be issued to NORCAL Mutual’s Eligible Members from the NORCAL Mutual Eligible Members, pursuant to the Plan (the “**Acquisition**”). The Conversion and subsequent Acquisition collectively are referred to as the “**Proposed Transaction**.”

The full text of the Plan, a proxy for casting your vote on the Plan, the Amended and Restated Articles of Incorporation, the Amended and Restated Bylaws of NIC and Director Nominees accompanies this Notice. Your vote may be cast (1) by proxy online using the instructions on the enclosed proxy card, (2) by mailing the enclosed proxy card or (3) virtually at the meeting. If you need instructions regarding voting by proxy, please call us toll free at (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or 9:00 a.m. to 3:00 p.m. Saturday until April 30, 2021. Your proxy may be marked with a vote of either “FOR,” “AGAINST,” or “ABSTAIN” in regards to the approval of the Plan and each of the above-listed proposals. Selections not made will be counted as FOR the proposals.

The NORCAL Mutual Board of Directors (the “**Board**”) has unanimously approved the Plan and recommends that Record Date Members approve it. Following a public hearing, the Commissioner of the Department of Insurance of the State of California (the “**Commissioner**”) may require modifications to the Plan. If the Commissioner requires the Plan to be modified, the date of this special meeting of Record Date Members to vote may change to a later date or be cancelled. If the Commissioner requires modifications to the Plan, NORCAL Mutual would be

required to submit an amended Plan for approval by at least two-thirds (2/3) of the Board and the consent of ProAssurance. ProAssurance cannot unreasonably withhold, condition or delay consent.

Following the public hearing on the Plan, NORCAL Mutual will mail each Record Date Member a written communication indicating that the public hearing has been completed. The communication will disclose any changes to the Plan and/or the Proposed Transaction requested by the Commissioner and approved by the Board and ProAssurance (if applicable). The communication will be mailed to the Record Date Members as promptly as practicable following the public hearing, and will provide notice if the Special Meeting is to be delayed or cancelled. In the event the Special Meeting is delayed and/or the Commissioner requires modifications to the Plan, Record Date Members may revoke any previously submitted proxy at the Special Meeting or before the Special Meeting by mailing or submitting a new proxy online by the fifth (5<sup>th</sup>) day prior to the Special Meeting. A quorum (10% of the Record Date Members) needs to be present virtually or by proxy at the meeting, with at least two-thirds (2/3) of all Record Date Members actually present virtually or by proxy at the Special Meeting voting in the affirmative (either marked “FOR” or unmarked and therefore considered “FOR”) for the Plan to be adopted.

The NORCAL Mutual Board of Directors has also proposed the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws of NIC for approval by Record Date Members, each of which will be effective upon closing of the Proposed Transaction. The majority of all Record Date Members actually present virtually or by proxy at the Special Meeting must vote “FOR” the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws to be adopted. The NORCAL Mutual Board of Directors recommends the approval of the Amended and Restated Articles of Incorporation and the Amended and Restated Bylaws.

The Governance Committee of the NORCAL Mutual Board of Directors nominated the Director Nominees for election, which election will be effective upon closing. The plurality of all Record Date Members actually present virtually or by proxy at the Special Meeting must vote “FOR” the Director Nominees to be elected. If a candidate is unable or unwilling to serve as a nominee for the office of director at the date of the meeting or any adjournment of the meeting, proxies that voted for that candidate will be voted for a substitute candidate designated by the Board. The Board has no reason to believe that any of the Director Nominees will be unable or unwilling to serve if elected as a director. The NORCAL Mutual Board of Directors recommends the approval of the director nominees.

**Cast your vote by completing the enclosed proxy or by using the instructions on the enclosed proxy card to submit your vote online. Votes may also be cast virtually at the meeting.**

**Mailed or online proxies must be received by 5:00 p.m. Pacific Time, on April 7, 2021.**

If you wish to attend the Special Meeting of Members, please register as soon as possible by visiting <https://www.norcal-group.com/specialmeeting>. Registered attendees will receive an

email invite from Zoom with the meeting link the week of February 26, 2021. Please add no-reply@zoom.us to your contacts to ensure delivery.

If your proxy has been lost or damaged, you may request a new one by calling toll free at (888) 206-5970 from 6:00 a.m. to 8:00 p.m. Pacific Time, Monday through Friday, or from 9:00 a.m. to 3:00 p.m. on Saturday until April 30, 2021.

**THIS NOTICE IS INTENDED FOR RECORD DATE MEMBERS ONLY.  
YOU ARE NOT ENTITLED TO VOTE UNLESS YOU ARE A RECORD DATE MEMBER.**

**ANNEX J**

**FORM OF CONTRIBUTION CERTIFICATE**

**NORCAL INSURANCE COMPANY**

**CONTRIBUTION CERTIFICATE**

575 MARKET STREET, SUITE 1000

SAN FRANCISCO, CA 94105

CERTIFICATE NO. [•]

THIS CONTRIBUTION CERTIFICATE (THIS “CERTIFICATE”) DATED AS OF [•], 2021<sup>[1]</sup> (THE “PLAN EFFECTIVE DATE”) IS ISSUED IN CONNECTION WITH THE PLAN OF CONVERSION (THE “PLAN”) OF NORCAL MUTUAL INSURANCE COMPANY, DATED AS OF FEBRUARY 18, 2020, AS AMENDED AND RESTATED AS OF \_\_\_\_\_, 2021, FOR THE CONVERSION OF NORCAL MUTUAL INSURANCE COMPANY FROM A CALIFORNIA DOMESTIC INCORPORATED MEDICAL MALPRACTICE MUTUAL INSURANCE COMPANY INTO AN INCORPORATED STOCK INSURANCE COMPANY (THE “CONVERSION”) RENAMED NORCAL INSURANCE COMPANY (THE “COMPANY”) IN ACCORDANCE WITH SECTION 4097 OF THE CALIFORNIA INSURANCE CODE (“CODE”).

NOTWITHSTANDING ANY CONTRARY PROVISION HEREIN, THE COMPANY’S OBLIGATION TO PAY PRINCIPAL UNDER THIS CERTIFICATE IS CONTINGENT UPON BOTH OF THE FOLLOWING CONDITIONS BEING SATISFIED (COLLECTIVELY, THE “PRINCIPAL PAYMENT CONDITIONS”):

(1) THE COMPANY SHALL HAVE RECEIVED THE PRIOR WRITTEN APPROVAL OF THE PAYMENT FROM THE CALIFORNIA INSURANCE COMMISSIONER (THE “COMMISSIONER”) OF THE CALIFORNIA DEPARTMENT OF INSURANCE (THE “DEPARTMENT”); AND

(2) THE COMPANY SHALL HAVE SURPLUS IN AN AMOUNT THAT SATISFIES THE POST-PAYMENT MINIMUM SURPLUS FLOOR AS SPECIFIED IN PARAGRAPH 3 BELOW.

IF EITHER OF THE PRINCIPAL PAYMENT CONDITIONS IS NOT SATISFIED ON THE MATURITY DATE (AS DEFINED IN PARAGRAPH 5), THE OBLIGATION TO PAY PRINCIPAL SHALL BE DEFERRED UNTIL THE EARLIEST TIME THE PRINCIPAL PAYMENT CONDITIONS ARE SATISFIED.

NOTWITHSTANDING ANY CONTRARY PROVISION HEREIN, THE COMPANY’S OBLIGATION TO PAY INTEREST UNDER THIS CERTIFICATE IS CONTINGENT UPON THE COMPANY HAVING RECEIVED THE PRIOR WRITTEN APPROVAL OF THE PAYMENT FROM THE COMMISSIONER (THE “INTEREST PAYMENT CONDITION”). IF THE INTEREST PAYMENT CONDITION IS NOT SATISFIED ON AN INTEREST PAYMENT

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<sup>[1]</sup> **Note to Draft:** This should be the closing date under the Acquisition Agreement.



DATE (AS DEFINED IN PARAGRAPH 6), THE OBLIGATION TO PAY INTEREST SHALL BE DEFERRED UNTIL THE EARLIEST TIME THE INTEREST PAYMENT CONDITION IS SATISFIED.

1. The Company (NORCAL Insurance Company), subject to all of the terms and contingencies set out herein, promises to pay to the order of [•] (the “Member”) the sum of [•] Dollars (\$[•]),<sup>1</sup> the principal amount of this Certificate, together with interest computed on a per annum basis at a rate equal to 3.00%; provided, however, that the interest rate as calculated hereunder shall never exceed the maximum rate of interest which could be lawfully charged to the Company under the applicable laws of the State of California or of the United States of America then in effect and as construed by the courts having jurisdiction thereof.

2. The principal amount of this Certificate represents the value of the Member’s interest in the surplus of the Company as determined under the Plan and is referred to as the “Allocable Equity” of the Member as a member of the Company prior to the Conversion. The Member has received this Certificate either because he, she or it elected to receive a “Contribution Certificate” pursuant to the Plan in consideration for his, her or its Allocable Equity or this Certificate was issued to the Member pursuant to Section 4097.04(c) of the Code as a result of the Member’s failure to make an affirmative election regarding the form of consideration the Member desired to receive in exchange for his, her or its Allocable Equity. This Certificate is one in a series of Contribution Certificates (the “Plan Series”) that is being issued by the Company in connection with the Plan. As of the date of issuance of this Certificate, the Company has no outstanding surplus notes or contribution certificates that it has issued with the exception of the other Contribution Certificates that comprise the Plan Series that are being issued in connection with the Plan.

3. The principal of this Certificate shall be payable out of the Company’s surplus and only if immediately following the Company’s payment of all principal and/or interest, as applicable, then due under all outstanding Contribution Certificates issued in the Plan Series, including this Certificate, the Company will have a surplus in an amount exceeding the greater of (1) “Total Adjusted Capital” (as defined in Section 739(m) of the Code) equal to 150% of its “Company Action Level RBC” (as defined in Section 739(j)(1) of the Code) as reflected in the Company’s most recent “RBC Report” (as defined in Section 739(l) of the Code) filed with the Department or (2) the amount of surplus required by the laws of any jurisdiction in which the Company is licensed to do business to retain unimpaired its Certificate of Authority therein (either (1) or (2), as applicable, the “Post-Payment Minimum Surplus Floor”). For purposes of this Certificate and condition (1) of this paragraph 3, the Total Adjusted Capital shall be calculated in accordance with the accounting procedures applicable to the Company under the laws of the State of California in its most recent RBC Report filed with the Department.

4. Nothing in this Certificate shall be construed to prevent the Company’s Board of Directors from declaring and paying dividends to shareholders in the manner and to the extent permitted by law.

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<sup>1</sup> **Note to Draft:** This should be an amount equal to 100% of the Allocable Equity of an Eligible Member, as such capitalized terms are defined in and as determined by the formula in the Plan of Conversion.

5. Subject to the satisfaction of the Principal Payment Conditions, the principal of this Certificate, together with any accrued and unpaid interest, shall be due and payable on [•], 203[•] (the “Maturity Date”), which is at least thirty (30) days after the date the Company’s RBC Report is required to be filed with the Department for the year in which the tenth anniversary of the Plan Effective Date occurs. If either of the Principal Payment Conditions is not satisfied on the Maturity Date, the term of this Certificate shall be extended until the earliest time the Principal Payment Conditions are satisfied and all payments, principal and interest, shall have been made in full according to its terms. The outstanding principal of this Certificate shall continue to bear interest at the rate stated in paragraph 1 until fully paid or satisfied.

6. Subject to the satisfaction of the Interest Payment Condition, accrued and unpaid interest, computed upon the unpaid principal balance of this Certificate as provided in paragraph 1 above, shall be due and payable annually on each April [•] (each, an “Interest Payment Date”) commencing on April [•], 2022 (which is at least thirty (30) days after the first RBC Report is due to be filed by the Company after the Plan Effective Date) until all principal of this Certificate and accrued interest thereon is fully paid or satisfied. If the Interest Payment Condition is not satisfied on an Interest Payment Date, such interest otherwise due on such date shall not become due or payable but shall accrue on the outstanding principal without being compounded and shall become due and payable at the earliest time such Interest Payment Condition is satisfied thereafter. Any interest both due and payable hereunder shall create a cause of action in the Holder (as defined in paragraph 15 hereof) and be a liability of the Company.

7. If the Maturity Date or an Interest Payment Date is not a Business Day, such payment shall be made on the next following Business Day, and such extension of time shall be included in the computation of interest. As used herein, a “Business Day” means a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in, the State of California.

8. The Company reserves the right to prepay this Certificate in whole or in part at any time without penalty, subject to the satisfaction of the Principal Payment Conditions. Any payments on this Certificate shall be made on a *pro rata* basis to all Holders of Contribution Certificates issued in the Plan Series in the ratio that the principal amount of each individual Contribution Certificate bears to the aggregate principal amount of all of the outstanding Contribution Certificates in the Plan Series. Payments shall be applied first to all accrued and unpaid interest and then to outstanding principal.

9. The obligations evidenced by this Certificate and the other Contribution Certificates that comprise the Plan Series are subordinated in right of payment to the prior payment in full of all other existing and future liabilities of the Company and is senior in right of payment only to the Company’s equity holders.

10. If the Company goes into “Runoff” (as defined below), ProAssurance Corporation and PRA Professional Liability Group, Inc. and each of their successors and assigns (collectively, the “Guarantors”) shall jointly and severally guarantee the payment of the interest and/or principal then due on the next Interest Payment Date or Maturity Date of this Certificate, as applicable, until all Contribution Certificates in the Plan Series are fully paid or satisfied. However, this guarantee shall apply if and only if the Company cannot satisfy the following “Capital Test”:

Immediately following payment of all accrued interest and/or principal then due on the next Interest Payment Date or the Maturity Date on all Contribution Certificates issued in the Plan Series, the Company's surplus will not then exceed 150% of its "Company Action Level RBC" (as defined in Section 739(j) of the Code) based upon its most recent RBC Report filed with the Department.

For purposes of this Certificate only and for no other purpose, and so long as this Certificate remains outstanding, the Company shall be deemed to be in "Runoff" if its direct written premium reported (booked) during the preceding 12 months falls below \$174 million (which dollar amount shall be adjusted for inflation on each anniversary date of the Plan Effective Date during the term of this Certificate based on the Consumer Price Index for All Urban Consumers (CPI-U), West Region (1982-84=100)) as reported on the Company's annual or quarterly statements filed with the Commissioner pursuant to Sections 900 and 931 of the Code. A determination of Runoff shall be retroactive to the last date of such statement's reporting period.

11. Should the Company adopt a plan of liquidation at any time before Contribution Certificates in the Plan Series are fully paid or satisfied, after the payment or provision for payment of all of its liabilities (including, but not limited to claims, losses, reserves, reinsurance, dividends, production and administrative expenses, taxes, loans, and advances), but excluding any amounts for or on account of any outstanding Contribution Certificates in the Plan Series, including this Certificate, following the determination of such facts by the Commissioner, any remaining funds or assets of the Company shall first be applied to the payment of any accrued and unpaid interest on the outstanding Contribution Certificates in the Plan Series, then to the unpaid balance of the principal due under this Certificate; provided that if funds are insufficient for the full payment of the principal and interest due on said Contribution Certificates, payments shall be made pro rata as provided in paragraph 8 hereof.

12. This Certificate shall not be a lien upon or claim against any reserves or premiums due in respect of those insurance policies of the Company which are reinsured, or the liability of which is assumed, by another insurer pursuant to action by a receiver of the Company obligated thereon pursuant to Section 1010 *et seq.* of the Code, or pursuant to action by the conservator thereunder (or subsequent corresponding Article of the Code); further provided that in the event of any liquidation or sale of assets or business, reinsurance, or winding up of the Company, this Certificate shall be treated in accordance with the Code.

13. This Certificate shall be reflected as a balance sheet liability of the Company only to the extent of any amount of principal and interest that is due and payable but unpaid. In the event of the consolidation or merger of the Company in a manner such that it is not the surviving company, this Certificate shall, automatically and with no other action being necessary, be and become the obligation of the surviving company to the full extent of the principal and interest owing hereunder.

14. No recourse shall be had for the payment of the principal of, or the interest on, this Certificate, or for any claims based herein or otherwise in respect hereof, against any past, present or future member, officer, or director of the Company, such liability being, by acceptance and as a part of the consideration for the issuance hereof, expressly released.

15. The Company shall at all times maintain an office or agency where this Certificate may be presented for registration of transfer or for exchange (“Registrar”), an office or agency where this Certificate may be presented for payment (“Paying Agent”), and an office or agency where notices and demands to or upon the Company in respect of this Certificate may be served at [•]<sup>2</sup> or such other address as the Company shall designate. Registrar shall keep a register of all Contribution Certificates issued in the Plan Series and of their transfer and exchange (the “Register”). The Member and any transferee of this Certificate reflected in the Register shall be referred to as a “Holder” of this Certificate and the persons to whom the Contribution Certificates in the Plan Series are originally issued and their respective transferees as reflected in the Register shall collectively be referred to as the “Holders”. The Company has initially appointed Computershare, Inc. as Registrar and Paying Agent in connection with the Contribution Certificates issued in the Plan Series. The Company may appoint and change any Paying Agent and/or Registrar, with notice to the Holders of the Contribution Certificates in the Plan Series. The Company or any of its parents or subsidiaries or any of their respective affiliates may act as Paying Agent or Registrar.

16. Payment of the principal of and interest on this Certificate shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts. On or before each Interest Payment Date and the Maturity Date and at such other times as Paying Agent may request in writing, the Company shall cause Registrar to furnish Paying Agent a list in such form and as of such date as Paying Agent may reasonably require of the names and addresses of registered Holders of the Contribution Certificates in the Plan Series. Prior to 10:00 a.m., Birmingham, Alabama time, on each Interest Payment Date and the Maturity Date in respect of any Contribution Certificate issued in the Plan Series, the Company shall deposit with Paying Agent cash (in immediately available funds if deposited on the due date) sufficient to make such payments when so becoming due; provided that the Company shall not be required to deliver such cash to the Paying Agent if the conditions in either paragraph 5 or paragraph 6 hereof have not been satisfied. The Holder must surrender this Certificate to Paying Agent to collect full payment of principal. Payment of interest on this Certificate will be made by check mailed to the address of the Holder as such address appears in the Register. The Company shall require Paying Agent to agree in writing that Paying Agent shall hold in trust for the benefit of the Holders of Contribution Certificates in the Plan Series all cash held by Paying Agent for the making of payments in respect of the Contribution Certificates. If the Company or an affiliate of the Company acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund.

17. THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. THIS CERTIFICATE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR (2) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE STATE SECURITIES LAWS AND THE SECURITIES LAWS OF OTHER JURISDICTIONS, AND IN THE CASE OF A TRANSACTION EXEMPT FROM REGISTRATION, UNLESS THE COMPANY HAS

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<sup>2</sup> **Note to Draft:** Address to be provided.

RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE SECURITIES ACT AND SUCH OTHER APPLICABLE LAWS.

18. When this Certificate is presented to Registrar with a request to register a transfer thereof or to exchange this Certificate for an equal principal amount of Contribution Certificates or other authorized denominations, Registrar shall reflect the transfer on the Register or make the exchange as requested; provided, however, in such event this Certificate presented or surrendered for registration of transfer or exchange (A) shall be duly endorsed or accompanied by an assignment form in form satisfactory to Registrar, each duly executed by the Holder or his, her or its attorney duly authorized in writing, and (B) at the request of the Company or the Registrar, shall be accompanied by an opinion of counsel satisfactory to the Company, that the transfer of the Certificate will not be in violation of the registration requirements under the federal and state securities laws. To permit registration of transfers and exchanges, upon surrender of this Certificate for registration of transfer or exchange at an office or agency maintained for such purpose, the Company shall execute Contribution Certificates of a like aggregate principal amount at Registrar's request. Any transfer or exchange shall be without charge by the Company or Registrar, except that the Company or Registrar may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges that may be imposed in connection with the transfer or exchange of this Certificate from the Holder requesting such transfer or exchange. All Contribution Certificates issued upon any transfer or exchange of this Certificate shall be valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Certificate surrendered upon such transfer or exchange.

19. The Holder shall indemnify the Company, Registrar and Paying Agent against any liability that may result from the transfer, exchange or assignment of this Certificate in violation of any provision of this Certificate and/or applicable United States federal or state securities law.

20. Prior to due presentment of this Certificate for registration of transfer, the Company and any agent of the Company may treat the person in whose name this Certificate is registered as the Holder of this Certificate for the purpose of receiving of principal and interest on this Certificate and for all other purposes whatsoever, whether or not such Certificate is overdue, and neither the Company nor any agent of the Company shall be affected by notice to the contrary.

21. No amendment, modification, or waiver of any provision of this Certificate, nor consent to any departure by the Company therefrom, shall be effective unless the same is in writing, approved by the Department in writing in advance of becoming effective and signed by a duly authorized representative of the Company and the Holder, and then only in the specific instance and for the purpose for which it is given.

22. Wherever possible, each provision of this Certificate shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Certificate shall be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition and/or validity without invalidating the remainder of such provision or the remaining provisions of this Certificate.

23. This Certificate shall be binding upon the Company and the Holder and their respective legal representatives, successors, and assigns. This Certificate shall also be binding upon Guarantors, to the extent and as specified in paragraph 10 of this Certificate.

24. It is understood and agreed that the Holder has received this Certificate, which is a security issued pursuant to the Plan that is exempt under Section 4097.16 of the Code from the securities provisions of Sections 820 – 860 of the Code, upon the terms and conditions herein set forth and that this Certificate evidences the complete understanding and agreement between the Member and the Company.

25. This Certificate has been created under, and shall be governed by and construed under, the laws of the State of California, without reference to its conflicts of laws provisions, and the obligations, rights and remedies hereunder shall be determined in accordance with such laws. The venue for any action relating to this Certificate shall be proper only in San Francisco, California.

*[signature page follows]*

IN WITNESS WHEREOF, this Certificate is executed by the officers of NORCAL Insurance Company to be effective on the date first stated above.

NORCAL Insurance Company

By: \_\_\_\_\_

President

By: \_\_\_\_\_

Secretary

State of \_\_\_\_\_ }

County of \_\_\_\_\_ }

On this \_\_\_\_\_ day of \_\_\_\_\_, 2021, personally appeared \_\_\_\_\_ and \_\_\_\_\_ known to me to be the person whose names are subscribed above as President and Secretary, respectively, of NORCAL Insurance Company, and they and each of them duly acknowledged to me that they and each of them executed this instrument pursuant to authority granted by the Board of Directors of NORCAL Insurance Company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this day and year.

Date \_\_\_\_\_, 2021

\_\_\_\_\_  
Notary Public in and for said

County and State

GUARANTY

The undersigned, ProAssurance Corporation and PRA Professional Liability Group, Inc., jointly and severally agree to perform the obligations of the Guarantors set forth in paragraph 10 of the above and foregoing Certificate. Neither ProAssurance Corporation nor PRA Professional Liability Group, Inc. shall be liable to the Holder of this Certificate for any obligations of NORCAL Insurance Company other than the obligations that each of them has specifically agreed to perform in accordance with the terms and conditions of paragraph 10 of this Certificate.

PROASSURANCE CORPORATION

By \_\_\_\_\_  
Its \_\_\_\_\_

PRA PROFESSIONAL LIABILITY GROUP, INC.

By \_\_\_\_\_  
Its \_\_\_\_\_

State of \_\_\_\_\_ }

County of \_\_\_\_\_ }

On this \_\_\_\_\_ day of \_\_\_\_\_, 2021, personally appeared \_\_\_\_\_ known to me to be the person whose name is subscribed above as President, of ProAssurance Corporation, and he duly acknowledged to me that he executed this instrument pursuant to authority granted by the Board of Directors of ProAssurance Corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this day and year.

Date \_\_\_\_\_, 2021

\_\_\_\_\_  
Notary Public in and for said

County and State



State of \_\_\_\_\_ }

County of \_\_\_\_\_ }

On this \_\_\_\_\_ day of \_\_\_\_\_, 2021, personally appeared \_\_\_\_\_ known to me to be the person whose name is subscribed above as President of PRA Professional Liability Group, Inc, and he duly acknowledged to me that he executed this instrument pursuant to authority granted by the Board of Directors of PRA Professional Liability Group, Inc.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal this day and year.

Date \_\_\_\_\_, 2021

\_\_\_\_\_  
Notary Public in and for said

County and State

**ANNEX K**

**SUMMARY FINANCIAL INFORMATION**

# NORCAL Mutual Insurance Company

## Balance Sheets

|                                  | Dec 31, 2018  | Mar 31, 2019  | Jun 30, 2019  | Sep 30, 2019  | Dec 31, 2019  | Mar 31, 2020  | Jun 30, 2020  | Sep 30, 2020  |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Admitted Assets              | 1,529,139,243 | 1,694,244,648 | 1,652,879,980 | 1,718,158,371 | 1,601,777,727 | 1,704,756,683 | 1,760,982,174 | 1,758,266,693 |
| Total liabilities                | 786,796,796   | 931,106,131   | 887,032,978   | 977,577,770   | 1,031,112,097 | 1,183,115,016 | 1,195,139,059 | 1,199,189,053 |
| Surplus as regards policyholders | 742,342,447   | 763,138,517   | 765,847,002   | 740,580,601   | 570,665,630   | 521,641,667   | 565,843,115   | 559,077,640   |

## Statements of Income

|   |             |              |              |              |               |              |              |              |
|---|-------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|
| Premiums earned                           | 326,345,051 | 82,370,411   | 166,707,414  | 257,372,077  | 342,092,655   | 89,868,706   | 170,159,867  | 275,022,002  |
| Total underwriting deductions             | 334,940,522 | 93,914,139   | 192,966,852  | 329,673,754  | 605,990,726   | 110,501,656  | 201,561,325  | 338,116,020  |
| Net underwriting gain (loss)              | (8,595,471) | (11,543,728) | (26,259,438) | (72,301,677) | (263,898,071) | (20,632,950) | (31,401,458) | (63,094,018) |
| Net investment gain (loss)                | 59,061,870  | 8,933,795    | 23,531,333   | 36,205,410   | 27,081,390    | 13,131,585   | 19,634,500   | 30,800,723   |
| Total other income                        | (342,275)   | (204,745)    | (449,842)    | (907,139)    | 2,435,260     | (196,802)    | (327,140)    | 113,629      |
| Federal and foreign income taxes incurred | 3,461,769   | (716,467)    | (1,688,462)  | (13,717,705) | (23,496,106)  | (27,490,104) | (26,961,495) | (28,055,839) |
| Net income (loss)                         | 46,662,355  | (2,098,211)  | (1,489,485)  | (23,285,701) | (210,885,315) | 19,791,937   | 14,867,397   | (4,123,827)  |

**ANNEX L**

**FAIRNESS OPINION**

February 18, 2020

The Board of Directors  
NORCAL Mutual Insurance Company  
560 Davis Street, Suite 1000  
San Francisco, CA 94105

Ladies and Gentlemen:

NORCAL Mutual Insurance Company (“ALPHA” or the “Company”), ProAssurance Corporation (“ProAssurance”) and PRA Professional Liability Group, Inc. intend to enter into an Agreement and Plan of Acquisition (the “Agreement”) which provides for or contemplates, among other things, the adoption by the Board of Directors of the Company of a Plan of Conversion (the “Plan of Conversion”) pursuant to which ALPHA shall be converted from a mutual insurance company to a stock insurance company (the “Conversion”) and the offer to purchase by ProAssurance of all of the outstanding shares of ALPHA Common Stock from the Stock Subscribers as promptly as practicable after the approval of the Plan of Conversion on the terms and subject to the conditions set forth in the Agreement (the “Offer”). Pursuant to the Agreement, the aggregate purchase price for all Authorized Conversion Shares in the Offer shall be the sum of the following: (i) a fixed amount of \$450,000,000 assuming all Policyholders are Stock Subscribers (the “Fixed Consideration”), and (ii) a contingent amount of up to \$150,000,000 to be determined by multiplying (X) the After Tax Percentage, and (Y) the amount by which the PRA Ultimate Loss Estimate exceeds the Actuary’s Ultimate Loss Estimate (the “Contingent Consideration”). In addition, the Agreement provides, generally, that the Contingent Consideration will be reduced to the extent that (A) the sum of the face amount of the Contribution Certificates to be issued in the Conversion; plus (B) the sum of the cash to be paid to the Cash Subscribers in the Conversion; plus (C) the value of the shares to be issued to Stock Subscribers in the Conversion assuming all shares are valued at a purchase price equal to the Fixed Consideration exceeds \$450,000,000. At the Company’s direction and with the Company’s consent, we have assumed for purposes of our analyses and in rendering our opinion that the amount of the Contingent Consideration is zero. The Fixed Consideration and the Contingent Consideration are collectively referred to herein as the “Aggregate Consideration.” Capitalized terms not otherwise defined herein are used as defined in the Agreement. The terms and conditions of the Conversion and the Offer are more fully set forth in the Plan of Conversion and the Agreement. You have requested our opinion as to whether the Aggregate Consideration to be received by the Policyholders, as a group, pursuant to the Agreement is fair from a financial point of view to such Policyholders, as a group.

Piper Sandler & Co., as part of its investment banking business, is regularly engaged in the valuation of insurance companies and their securities in connection with merger and acquisitions and other corporate transactions. In connection with our opinion, we have reviewed and

considered, among other things, (i) a draft of the Agreement, dated February 18, 2020; (ii) a draft of the Plan of Conversion, dated February 18, 2020; (iii) certain publicly available historical financial statements and other information of the Company; (iv) certain publicly available historical financial statements and other information of ProAssurance; (v) certain internal financial estimates of the Company for the year ending December 31, 2019 as well as certain internal financial projections of the Company for the years ended December 31, 2020 through December 31, 2024, as provided by the senior management of the Company; (vi) a comparison of certain financial and market information for certain property and casualty insurance companies for which information is publicly available; (vii) to the extent publicly available, the financial terms of certain recent business combinations involving medical professional liability insurance companies as well as property and casualty and multiline insurance companies; (viii) the pro forma financial impact of the Offer on ProAssurance's capitalization based on certain assumptions relating to transaction expenses and the sources of funding for the Aggregate Consideration, based on guidance provided by ProAssurance management; (ix) the current market environment generally and the property and casualty insurance environment in particular; and (x) such other information, financial studies, analyses and investigations and financial, economic and market criteria as we considered relevant. We also discussed with certain members of senior management of the Company the business, financial condition, results of operations and prospects of the Company.

In performing our review, we have relied upon the accuracy and completeness of all of the financial and other information that was available to us from public sources, that was provided to us by the Company, ProAssurance or their respective representatives or that was otherwise reviewed by us and have assumed such accuracy and completeness for purposes of rendering this opinion. We have further relied on the assurances of management of the Company and ProAssurance that they are not aware of any facts or circumstances that would make any of such information inaccurate or misleading. We have not been asked to and have not undertaken an independent verification of any of such information and we do not assume any responsibility or liability for the accuracy or completeness thereof. We did not make an independent evaluation or appraisal of the specific assets, the collateral securing assets or the liabilities (contingent or otherwise) of the Company or ProAssurance, or the collectability of any such assets, nor have we been furnished with any such evaluations or appraisals. We are not experts in the evaluation of reserves for property and casualty insurance losses and loss adjustment expenses, and we have not made an independent evaluation of the adequacy of the reserves of the Company or ProAssurance. In that regard, we have made no analysis of, and express no opinion as to, the adequacy of the loss and loss adjustment expense reserves of the Company or ProAssurance.

In preparing its analyses, Piper Sandler used certain internal financial estimates of the Company for the year ending December 31, 2019 as well as certain internal financial projections of the Company for the years ended December 31, 2020 through December 31, 2024, as provided by the senior management of the Company. Piper Sandler also received and used in its pro forma analyses certain assumptions relating to transaction expenses and the sources of funding for the

Aggregate Consideration, based on guidance provided by ProAssurance management. With respect to the foregoing information, the respective senior managements of the Company and ProAssurance confirmed to us that such information reflected the best currently available projections, estimates and judgements of those respective senior managements as to the future financial performance of the Company and ProAssurance, respectively, and we assumed that the financial results reflected in such information would be achieved. We express no opinion as to such projections, estimates or judgements, or the assumptions on which they are based. We have also assumed that there has been no material change in the Company's or ProAssurance's assets, financial condition, results of operations, business or prospects since the date of the most recent financial statements made available to us. We have assumed in all respects material to our analyses that the Company and ProAssurance will remain as going concerns for all periods relevant to our analyses.

We have also assumed, with your consent and to the extent material to our analyses, that (i) each of the parties to the Agreement will comply in all material respects with all material terms and conditions of the Agreement and all related agreements required to effect the Offer, that all of the representations and warranties contained in such agreements are true and correct in all material respects, that each of the parties to such agreements will perform in all material respects all of the covenants and other obligations required to be performed by such party under such agreements and that the conditions precedent in such agreements are not and will not be waived, (ii) in the course of obtaining the necessary regulatory or third party approvals, consents and releases with respect to the Conversion and the Offer, no delay, limitation, restriction or condition will be imposed that would have an adverse effect that would be material to our analyses of the Company, ProAssurance, the Offer or any related transactions, including, without limitation, the Conversion, and (iii) the Offer, the Conversion and any related transactions will be consummated in accordance with the terms of the Agreement and the Plan of Conversion without any waiver, modification or amendment of any material term, condition or agreement thereof and in compliance with all applicable laws and other requirements. We express no opinion as to any legal, accounting or tax matters relating to the Offer, the Conversion or any other transactions contemplated by the Agreement.

Our opinion is necessarily based on financial, regulatory, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. Events occurring after the date hereof could materially affect this opinion. We have not undertaken to update, revise, reaffirm or withdraw this opinion or otherwise comment upon events occurring after the date hereof.

We will receive a fee for rendering this opinion. The Company has also agreed to indemnify us against certain liabilities arising out of our engagement and to reimburse us for certain of our out-of-pocket expenses incurred in connection with our engagement. Piper Sandler has not provided any other investment banking services to the Company in the two years preceding

the date hereof. Piper Sandler did not provide any investment banking services to ProAssurance in the two years preceding the date of this opinion. In the ordinary course of our business as a broker-dealer, we may purchase securities from and sell securities to the Company, ProAssurance and their respective affiliates. We may also actively trade the equity and debt securities of the Company, ProAssurance and their respective affiliates for our own account and for the accounts of our customers.

Our opinion is directed to the Board of Directors of the Company in connection with its consideration of the Offer and does not constitute a recommendation to any Policyholder of the Company as to how such Policyholder should vote at any meeting of Policyholders called to consider and vote upon the Offer. Our opinion is directed only as to the fairness, from a financial point of view, of the Aggregate Consideration to be received by the Policyholders, as a group, pursuant to the Agreement and does not address the underlying business decision of the Company to engage in the Offer or the Conversion or the relative merits of the Offer or the Conversion as compared to any other alternative business strategies that might exist for the Company or the effect of any other transaction in which the Company might engage. We also do not express any opinion as to the fairness of the amount or nature of the consideration to be received in the Offer by any officer, director or employee of the Company, or class of such persons, if any, relative to the amount of consideration to be received by any other policyholder, nor do we express any opinion as to the allocation of the Aggregate Consideration among the Policyholders. This opinion has been approved by Piper Sandler's fairness opinion committee. This opinion may not be reproduced without Piper Sandler's prior written consent; *provided*, however, Piper Sandler will provide its consent for the opinion to be reproduced in any policyholder information statement mailed to the Company's policyholders in connection with the Offer, provided that the opinion is reproduced in such document in its entirety and such document includes a summary of the opinion and related analyses in a form prepared or approved by Piper Sandler (such approval not to be unreasonably withheld, conditioned or delayed) and it may also be included in the applicable regulatory application of the Company to the California Department of Insurance.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Aggregate Consideration to be received by the Policyholders, as a group, pursuant to the Agreement is fair from a financial point of view to such Policyholders, as a group.

Very truly yours,

*Piper Sandler & Co.*



**ANNEX M**

**REVISED AND RESTATED APPRAISAL REPORT**

BOENNING & SCATTERGOOD



NORCAL MUTUAL\*

# Project Alpha

APPRAISAL REPORT, REVISED AND RESTATED

AUGUST 25, 2020

# Table of Contents

CONFIDENTIAL

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## Sections

- I. Appraisal Letter (Pages 3 to 13):** Provides the formal Appraisal Letter.
- II. Executive Summary (Pages 14 to 19):** Provides a summary of the situation, Boenning's engagement summary, key considerations pertaining to the Company and Boenning's analysis, and a summary of the transaction process as we understand it.
- III. Current Position of NORCAL (Pages 20 to 28):** Summarizes important Company background and context, including financial and operational metrics. Additionally, this provides analysis surrounding the Company's struggling underwriting and reserving history, including projections and an AM Best ratings outlook.
- IV. Benchmarking Process (Pages 29 to 32):** Provides peer benchmarking analysis, which indicates how NORCAL's performance objectively compares to two different insurance company peer groups.
- V. Valuation Analysis (Pages 33 to 60):** Describes customary valuation techniques and considerations of each and then derives an implied valuation for NORCAL. The valuation techniques utilized in this analysis are discussed in greater detail in their respective sections.

## Appendices

- A. Supplemental Company Information (Pages 61 to 65):** Provides additional information pertaining to the Company, including the organizational structure, management, and summary of the auction process.
- B. Supplemental Industry Information (Pages 66 to 72):** Reviews supplementary industry information, which provides independent or additional viewpoints that supplement management's perspective on the company and industry outlook.
- C. Boenning Qualifications and Disclosure (Pages 73 to 75):** Details Boenning's deal-team history and qualifications.

# Appraisal Letter

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## Section I

**BOENNING & SCATTERGOOD**  
ESTABLISHED 1914

**APPRAISAL REPORT**  
**OF**  
**NORCAL MUTUAL INSURANCE COMPANY**

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**AS OF JANUARY 31, 2020**

February 12, 2020. Revised and Restated August 25, 2020

Board of Directors  
NORCAL Mutual Insurance Company  
575 Market St., Suite 1000  
San Francisco, CA 94105

Members of the Board:

At your request, Boenning & Scattergood Inc. (“**Boenning**”) completed and hereby provides an independent evaluation, as revised and restated (the “**Appraisal**”) as of January 31, 2020 (the “**Valuation Date**”), of the estimated fair value of the mutual company, NORCAL Mutual Insurance Company (“**NORCAL**” or the “**Company**”), and its direct and indirect wholly-owned subsidiaries. This Appraisal is furnished pursuant to the Company’s draft Plan of Conversion, as of February 4, 2020 (the “**Plan**”). Under the Plan, NORCAL, a mutual insurance company domiciled in the State of California, proposes to convert from a domestic incorporated medical malpractice mutual insurance company into an incorporated stock insurance company (the “**Conversion**”) in connection with the purchase and sale (the “**Purchase**”) of at least eighty percent (80%) of the newly-issued shares of common stock of NORCAL to ProAssurance Corporation, a Delaware corporation (“**ProAssurance**” or the “**Sponsor**”), pursuant to that certain draft Agreement and Plan of Acquisition, by and between NORCAL and the Sponsor, dated February 4, 2020 , (the “**Acquisition Agreement**”), as authorized by Section 4097.04 of the California Insurance Code (the “**Code**”) (together, the Conversion and Purchase, the “**Sponsored Conversion**”).

Pursuant to Section 4097.04 (a) of the Code, the estimated fair value of the mutual company (the “**Appraised Value**”) shall be based upon an evaluation by one or more qualified disinterested persons appointed by the company with the approval of the California Insurance Commissioner. Furthermore, Section 4097.04 (a) requires those persons to consider the assets and liabilities of the mutual company and permits those persons to consider any factors bearing on the value of the mutual as well. The Plan addresses this requirement by requesting the Appraisal.

## **THE PLAN OF CONVERSION**

Under the Plan, the Board has directed that the Plan be submitted to the Commissioner for approval pursuant to Section 4097.02 of the Code. The Board has also directed that the Plan be submitted to the Eligible Members for their approval pursuant to Sections 4097.02 and 4097.07 of the Code and applicable provisions of NORCAL's bylaws.

In the Sponsored Conversion, all Eligible Members, or their designees, as defined in the Plan, will have the option to receive (a) shares of the proposed capital stock of NORCAL, (b) a certificate of contribution from NORCAL based on the Appraisal Report or (c) a cash payment from NORCAL based on the Appraisal Report in exchange for the extinguishment of their Membership Interests in NORCAL, in each case as further described below. In the event an Eligible Member elects to receive shares of the proposed capital stock of NORCAL, such Eligible Member may either (x) immediately sell such stock to the Sponsor in exchange for a cash payment and a right to receive future contingent cash payments based on loss reserve development as set forth in Article 3 of the Acquisition Agreement or (y) retain such stock for such Eligible Member's own account.

In order to consummate the Conversion, Section 4097.06 of the Code requires that the Commissioner hold a public hearing regarding the Plan of Conversion after written notice of the hearing to NORCAL, its Members and the public, and Section 4097.02 of the Code requires that the Plan be submitted to its Eligible Members for a vote at the Special Meeting. The Plan must be approved by at least two-thirds of the Eligible Members actually present in person or by proxy and voting thereon at a meeting with at least ten percent of the Eligible Members present in person or by proxy so as to constitute a quorum.

## **BOENNING & SCATTERGOOD, INC.**

Boenning, as part of its investment banking business, regularly is engaged in valuing assets, securities and companies in connection with various types of asset and securities transactions, including mergers, acquisitions, private placements, public offerings and valuations for various

other purposes, and in the determination of adequate consideration in such transactions. The background of Boenning and professionals assigned to this engagement are presented in Appendix C. We believe that, except for the fee we will receive for our Appraisal, we are independent of the Company and the other parties engaged by the Company to assist in the Conversion. In addition to qualifications noted above, Boenning's insurance industry practice and / or its professional staff members have been involved in over 15 demutualization transactions. We believe we fully meet the requirement of a "qualified person" as required under Section 4097.04 (a) of the Code.



## VALUATION METHODOLOGY

In preparing the Appraisal, we conducted an analysis of the Company that included discussions with the Company's management and onsite visits with Company management in San Francisco, California and Austin, Texas. We reviewed NORCAL's statutory financial statements as of and for the years ended December 31, 2016 through December 31, 2018, unaudited, internally prepared statutory financials as of and for the nine months ended September 30, 2019, and estimated December 31, 2019 statements all as prepared by management. In addition, where appropriate, we considered information based on other available published sources that we believe are reliable, however, we cannot guarantee the accuracy and completeness of such information.

In preparing the Appraisal, we also reviewed and analyzed:

- (i) financial and operating information with respect to the business, operations, and prospects of the Company furnished to us by the Company;
- (ii) information furnished to us by the Company's management and certain of its representatives and advisors, including reports of Milliman, Inc., which summarize independent analysis of NORCAL's unpaid claim liabilities as of December 31, 2019 and a summary of reserves prepared by the Company's independent auditors, KPMG. Additionally, we reviewed certain other internal financial analyses, budgets, projections, reports and other information;
- (iii) publicly available information concerning the Company that we believe to be relevant to our analysis;
- (iv) a comparison of the historical financial results and present financial condition of the Company with those of selected insurance companies that we deemed relevant;
- (v) financial performance and market valuation data of certain publicly traded insurance industry aggregates as provided by industry sources;
- (vi) the financial terms of selected acquisition transactions that we deemed to have some relevancy, in certain respects, to the business of the Company;
- (vii) a present value analysis of the Company's capital and surplus prepared by us based on forecasts prepared by the Company; and,
- (viii) such other financial analyses and inquiries and such other information and factors as we deemed appropriate.

Our Appraisal is completed in reliance on information and representations made or given by NORCAL and its officers, directors, counsel, advisors, and other agents, and on filings, releases and other information issued by NORCAL including financial statements and financial projections, as well as certain information from recognized independent sources and databases. We have not independently verified the information concerning the Company, nor other data which we have considered in our review. For purposes of the Appraisal, we have assumed and relied upon the accuracy and completeness of all such information and data. We express no opinion as to any financial projections or the assumptions on which they are based. We have not considered or evaluated any potential or pro forma expense savings or other financial adjustments identified or estimated by the Company, the Company's advisors, the Sponsor, or the Sponsor's advisors. We have not conducted any valuation or appraisal of any assets or liabilities of the Company, nor have any such valuations or appraisals been provided to us; our Appraisal assumes the accuracy of the value of the assets and liabilities of the Company as reflected on its financial statements. We specifically note that we have assumed that the liabilities for losses and loss adjustment expenses, commonly known as loss or claims reserves, indicated on the balance sheet of NORCAL are adequate and actuarially sound; we are not actuaries or an actuarial firm and we have not conducted any valuations or appraisals of any of the Company's loss or claims reserves. We have also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business, or prospects of NORCAL since the date of the last financial statements that were made available to us.

The Appraisal is based on the Company's representation that the information contained in the Plan and additional information furnished to us by the Company including, but not limited to, the statutory financials, are truthful, accurate, and complete. We did not independently verify any of the financial statements and other information provided by the Company and its independent auditor, nor did we independently value the individual assets or liabilities that are contained on and make up the Company's provided balance sheets. The Appraisal considers the Company only as a going concern on a stand-alone basis and should not be considered as an indication of the liquidation value of the Company.

Our Appraisal is predicated on a continuation of the current operating environment for NORCAL, and for all insurance companies and their holding companies. Changes in the local and national economy, the federal and state legislative and regulatory environments for insurance

companies, the stock market, interest rates, and other external forces (such as natural disasters or significant world events) may occur from time to time, often with great unpredictability, and may materially impact the value of insurance stocks as a whole or the Company's value alone. To the extent that such factors can be reasonably foreseen, they have been factored into our analysis.

## **VALUATION CONCLUSION**

It is our opinion that, as of the Valuation Date, after review of the expressly limited additional information, namely the reports of Milliman Inc, and KPMG as noted on page 5, the fair value of the Company is \$440 million. Section V. of the Appraisal Report shows the assumptions and calculations utilized in determining the fair value. In determining the fair value of the Company, we have taken into consideration and we have adhered to the requirements specifically set forth in Section 4097.04 (a) of the Code. Boenning utilized the valuation standard of minority interest, freely traded within the context of Section 4097.04 (a) of the Code.

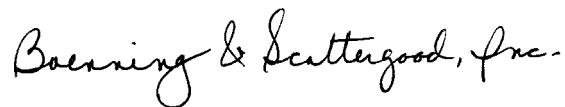
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## LIMITING FACTORS AND CONSIDERATIONS

Our Appraisal is not intended, and must not be construed to be, a recommendation of any kind as to the advisability of how a policyholder should vote at the special meeting or how to select between options regarding the form of Consideration such Eligible Member is eligible to receive under this Plan as payment of such Eligible Member's Allocable Equity. The Appraisal reflects only the fair value as of the Valuation Date and does not take into account any trading activity with respect to the purchase and sale of the Sponsor's or NORCAL's common stock in the secondary market on the date of issuance of such securities or at any time thereafter following the completion of the Conversion. Any report prepared by Boenning shall not be used as an offer or solicitation with respect to the purchase or sale of any securities.

Boenning has made no recommendation regarding the merits of the decision to proceed or not to proceed with the Conversion. The results of our Appraisal are but one of the many factors the Company's board of directors should consider in making its decision. The Company has assured Boenning that it has relied on its own counsel, accountants and other experts for legal, accounting, tax and similar professional advice.

Respectfully submitted,

A handwritten signature in cursive script that reads "Boenning & Scattergood, Inc." The signature is written in black ink and is positioned below the typed name.

BOENNING & SCATTERGOOD, INC.

## **EXHIBIT I**

### **STATEMENT OF GENERAL ASSUMPTIONS AND LIMITING CONDITIONS**

This Appraisal is subject to the following general assumptions and limiting conditions.

1. No investigation has been made of, and no responsibility is assumed for, the legal description of the property being valued or legal matters, including title or encumbrances. Title to the property is assumed to be good and marketable unless otherwise stated. The property is assumed to be free and clear of any liens, easements or encumbrances unless otherwise stated.
2. Information furnished by others, upon which all or portions of this analysis is based, is believed to be reliable, but has not been verified except as set forth in this Appraisal. No warranty is given as to the accuracy of such information.
3. This Appraisal has been made only for the purpose stated and shall not be used for any other purpose.
4. Except as specified in our engagement letter, neither Boenning nor any individual signing or associated with this report shall be required by reason of this Appraisal to give further consultation, provide testimony, or appear in court or other legal proceeding.
5. No responsibility is taken for changes in market conditions and no obligation is assumed to revise this Appraisal to reflect events or conditions which occur subsequent to the date hereof.
6. The date to which the analysis expressed in this Appraisal apply is set forth in the letter of transmittal. Our Appraisal is based on the purchasing power of the United States dollar as of that date.
7. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can readily be obtained or renewed.
8. Full compliance with all applicable federal, state and local zoning, use, environmental and similar laws and regulations is assumed, unless otherwise stated.
9. Competent management is assumed.
10. The Appraisal is predicated on the financial structure prevailing as of the date of this report.

**EXHIBIT II**  
**CERTIFICATION**

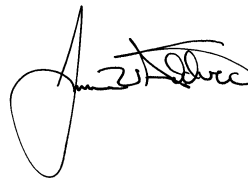
We certify that, to the best of our knowledge and belief:

- The facts and data reported by the reviewer and used in the review process are true and correct;
- The analyses, opinions, and conclusions in this Appraisal are limited only by the assumptions and limiting conditions stated in this Appraisal, and are our personal, impartial and unbiased professional analyses, opinions and conclusions;
- We have no present or prospective interest in the property that is the subject of this Appraisal, and we have no personal interest or bias with respect to the parties involved;
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results;
- Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report;
- We have made a personal visit to the Company.



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Anthony A. Latini, Jr.



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James W. Adducci

# Executive Summary

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## Section II

## **I. NORCAL's Situation**

NORCAL Mutual Insurance Company ("NORCAL" or the "Company") is pursuing a sponsored demutualization (the "Transaction") that is governed by Section § 4097.04 of the California Insurance Code ("Code"). NORCAL determined that its position as an independent company in the current competitive MPL environment may not be in the best interests of policyholders, and as a result engaged a financial advisor in May 2018 to approach potential partners.

## **II. Overview of Plan of Conversion**

Based on its draft Plan of Conversion dated February 4, 2020 (the "Plan"), NORCAL will convert from a domestic incorporated medical malpractice mutual insurance company into an incorporated stock insurance company (the "Conversion").

Further, the Plan calls for the sale of at least 80% of the newly-issued shares of common stock of NORCAL to ProAssurance Corporation (the "Sponsor"), pursuant to the draft Agreement and Plan of Acquisition dated February 4, 2020. As is required under Section § 4097.04 of the Code and noted in Article 8.1 of the Plan, NORCAL has engaged Boenning & Scattergood to determine the fair value of NORCAL in an appraisal report ("Appraisal").

## **III. Use of Appraisal**

The Appraisal will be used by NORCAL as the basis for the determination of the eligible members' rights in surplus as defined in the Code (defined as "Allocable Equity" in the Plan). The Allocable Equity will be allocated among eligible members through a fair and equitable formula ("Allocation Formula") called for under Section § 4097.04(a) of the Code and summarized in Article 8.2 of the Plan.

Boenning's Appraisal of the fair value of NORCAL will consider the assets and liabilities of NORCAL, as well as any factors bearing on the value of NORCAL allowed for by Section §4097.04(a) of the Code.



**IV. Boenning's Scope and Role**

Boenning was engaged by NORCAL to provide

1. The fair value of the Company as defined under Section §4097.04(a) of the Code;
2. Review of the Company's Allocation Formula; and
3. As part of the request to Revise and Restate the Appraisal, Boenning reviewed reports of Milliman which summarize independent analysis of NORCAL's unpaid claim liabilities as of December 31, 2019 and a summary of reserves prepared by the Company's independent auditors, KPMG.

Boenning performed a valuation of NORCAL using various generally accepted valuation methodologies and developed its conclusion regarding the fair value of the Company.

| Company  |
|--|
| <ul style="list-style-type: none"> <li>➤ <b>Entity Name:</b> NORCAL Mutual Insurance Company</li> <li>➤ <b>Business Lines:</b> MPL</li> <li>➤ <b>Industry:</b> Property &amp; Casualty Insurance</li> <li>➤ <b>Ownership Structure:</b> Mutual</li> <li>➤ <b>Year Founded:</b> 1975</li> <li>➤ <b>NPW:</b> \$358.6 million (2019)</li> <li>➤ <b>Capital &amp; Surplus:</b> \$575.5 million (2019)</li> </ul> |

| Transaction   |
|---|
| <ul style="list-style-type: none"> <li>➤ <b>Transaction Type:</b> Sponsored Demutualization</li> <li>➤ <b>Buyer:</b> ProAssurance Corporation</li> <li>➤ <b>% Acquired:</b> At least 80%</li> <li>➤ <b>Consideration:</b> \$450 million, with a \$150 million earnout based on potential favorable reserve development from 2020-2023</li> <li>➤ <b>Consideration Mix:</b> 100% Cash</li> <li>➤ <b>Board Seats:</b> 2</li> <li>➤ <b>Auction Process:</b> Yes</li> </ul> |

| Boenning Deliverables   |
|---|
| <ul style="list-style-type: none"> <li>➤ Appraisal Report</li> <li>➤ Allocation Methodology Report</li> <li>➤ <b>Deliverable Date:</b> Feb. 12, 2020</li> <li>➤ <b>Valuation Methodologies:</b> Guideline Public Company Analysis, Guideline M&amp;A Transaction Analysis, and Present Value Analysis.</li> <li>➤ <b>As of Date:</b> Jan. 31, 2020</li> <li>➤ <b>Revised and Restated:</b> August 21, 2020</li> </ul> |

## **V. Appraisal Preparations**

In preparing this Appraisal, we conducted an analysis of NORCAL that included face-to-face and telephonic discussions with the Company's management, as well as an onsite visit to the Company's offices in San Francisco, CA. We reviewed NORCAL's statutory financial statements as of and for the years ended December 31, 2013 through December 31, 2018, including recently provided reports of Milliman which summarize independent analysis of NORCAL's unpaid claim liabilities as of December 31, 2019 and a summary of reserves prepared by the Company's independent auditors, KPMG. Additionally, we reviewed internally prepared estimated 2019 statements and projections for the years 2020 through 2024.

## **VI. GAAP vs. Statutory Accounting**

GAAP, or generally accepted accounting principles, is the accounting method most businesses use. Unlike statutory accounting, GAAP assumes that a company will continue to do business rather than liquidate; all potential revenue is calculated as part of the annual financial statement, including, for example, accounts receivable not yet invoiced.

Statutory accounting principles are accounting procedures used in the insurance industry. An insurance company's annual statement purports to indicate its value as if it were in liquidation rather than continuing in business. This is potentially a more conservative value, as a company cannot include revenue that has not been invoiced or various other differences from GAAP.

NORCAL does not produce GAAP statements, nor does it regularly calculate potential Statutory to GAAP adjustments. Company management made estimates of potential Statutory to GAAP adjustments for years 2017 and 2018, however these adjustments were not audited, nor did they include purchase accounting adjustments relating to the company's numerous acquisitions. As such, Boenning applied in some cases, NORCAL's statutory metrics to GAAP valuation multiples. Where appropriate, we considered information based on other available published sources that we believe are reliable, however, we cannot guarantee the accuracy and completeness of such information.

## **VII. Boenning's Review**

We reviewed and analyzed: (i) financial and operating information with respect to the business, operations, and prospects of the Company furnished to us by the Company; (ii) publicly available information concerning the Company that we believe to be relevant to our analysis; (iii) and a comparison of the historical financial results and present financial condition of the Company with those of selected insurance companies that we deemed relevant.

We did not independently verify any of the financial statements and other information provided by the Company and its independent auditor, nor did we independently value the individual assets or liabilities that are contained on and make up the Company's provided balance sheet. The Appraisal considers the Company only as a going concern on a stand-alone basis as if it were a stock company and should not be considered as an indication of the liquidation value of the Company.

We have investigated the competitive environment within which the Company operates and have assessed the Company's strengths and weaknesses relative to comparable MPL insurance companies. We have monitored material regulatory and legislative actions affecting financial institutions generally and, to the extent that we were aware of such matters, analyzed the potential impact of such developments on the Company and the entire industry.

We have compared the Company's financial performance and condition with other MPL insurance institutions evaluated and selected in accordance with the valuation guidelines. Our appraised value is predicated on a continuation of the current operating environment for NORCAL, and for all MPL insurance companies. Additional details on Boenning's review may be found in the Appraisal Letter.

## **VIII. Valuation Conclusion**

In completing our valuation, we considered and analyzed several traditional, commonly accepted and appropriate factors, as detailed earlier in this Appraisal. These include a review of the Company and its position in the market, its financial performance (including its reserve and development experience), its projected financial performance, standalone key financial metrics (and as compared to its peers through benchmarking), industry factors and outlook, the standard of value, several valuation techniques and additional valuation considerations deemed by us to be relevant.

The valuation techniques we used provide indicative values in a range, such that an appraiser could determine value anywhere within the range, or even outside the range if additional factors justified such a determination. While we employed several valuation techniques, no one method of analysis should be regarded as solely or primarily responsible for the overall conclusion we have reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the usefulness of certain techniques. The valuation conclusion we ultimately reached is based on all of the analyses and factors described in this report, taken as a whole, as well as an application of our own professional experience and judgment. Such conclusions necessarily involve significant elements of subjective judgment and qualitative analysis and are not a purely mathematical exercise. Using the factors and techniques noted above and described in this Appraisal, Boenning determined that NORCAL's value falls towards the bottom end of the 25<sup>th</sup> to 75<sup>th</sup> percentile, and that the fair value of NORCAL was \$440 million as of January 31, 2020.

In order to provide this Revised and Restated Appraisal, Boenning reviewed the recent reserve analysis conducted by Milliman which summarized its independent analysis of NORCAL's unpaid claim liabilities as of December 31, 2019, as well as a summary of reserves prepared by the Company's independent auditors, KPMG. We affirm that the information from Milliman and KPMG supports (and does not change) our original valuation conclusion from February 11, 2020 of \$440 million.

# Current Position of NORCAL

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## Section III

## I. Business Description

NORCAL has grown into one of the largest MPL insurance companies and has provided coverage to physicians, physician groups and specialists, and other healthcare professionals for over 40+ years. The Company has 17,000 policies covering 32,000+ insured doctors, with a 90%+ annual retention ratio.

The Company actively writes business in more than 40 states and D.C., with growth over the past several years due to organic and acquisitive initiatives. NORCAL is licensed to write business in 49 states (and D.C.), with the ability to write in New York via PPM RRG. NORCAL operates out of its San Francisco headquarters, as well as four regional offices (Florida, Kansas, Pennsylvania, and Texas).

## II. Product Suite and Expertise

NORCAL focuses on its core competencies, which include MPL coverage for Medical Specialists (on an Admitted & Non-Admitted basis) in an Agency-driven model. The Company also has an E&S product with its recent NORCAL Specialty entity expansion. This represents a growing market but is limited in scope (\$28 million in premiums in 2018). NORCAL has local market knowledge and presence, which is backed by national resources and deep relationships.

### Mission, Vision, & Strategic Plan

#### Mission

- To safeguard policyholders from risk, guide them through the unexpected, and protect the practice of medicine.

#### Vision

- To remain a top-tier national medical professional liability company, committed to innovative products and services.

#### Strategic Plan

- Prudent growth through a segmentation strategy that emphasizes retention and clearly defines new markets, coverages, and programs.

### Key Milestones

- **1975:** NORCAL was incorporated in Northern California.
- **1984:** AM Best initiated coverage on NORCAL, giving it an “A” Financial Strength Rating.
- **1985:** Expansion into Southern California.
- **1991:** Expansion into Alaska.
- **1994:** East coast presence established in Rhode Island.
- **1998:** Expansion into Pennsylvania.
- **2002:** Completed PMSLIC acquisition.
- **2007:** Expansion into Delaware via PMSLIC.
- **2008:** Millennium acquisition.
- **2011:** Medicus acquisition, which expanded NORCAL’s footprint into 24 new states.
- **2013:** Expansion into Maryland, Louisiana, and D.C via Medicus.
- **2015:** FD Insurance acquisition, which established Jacksonville as NORCAL’s southeastern hub.
- **2016:** PPM acquisition

# Underwriting Trends

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## I. Influence of Underwriting

Insurance underwriting is the process of evaluating a company's risk in insuring the risks protected by the policy issued by the company. It determines whether it would be profitable for an insurance company to take a chance on providing insurance coverage to an individual or business. After determining the risk involved, the underwriter sets a price and establishes the insurance premium that will be charged in exchange for taking it on. Premium income often represents most of the insurance company's revenue, and the profitable production of such revenue is a key determinant of success.

## II. NORCAL's Underwriting History

As displayed in the tables below, despite steady historical top-line premium growth, losses and other underwriting expenses have served as a drag on underwriting performance, with NORCAL's management estimating that the Company would record a \$264 million underwriting loss in 2019. Furthermore, management has provided guidance that they expect underwriting losses until the end of 2022.

The following charts represent NORCAL's underwriting performance for the years 2016 through 2019, and as projected by management for the years 2020 through 2023.

| Income Statement:                          | FY16            | Historical<br>FY17 | FY18            | Estimate <sup>1</sup><br>FY19 |
|--|-----------------|--------------------|-----------------|-------------------------------|
| Net Premiums Written                       | \$ 282.6        | \$ 321.8           | \$ 328.4        | \$ 358.6                      |
| Net Premiums Earned                        | 290.1           | 317.9              | 326.3           | 342.1                         |
| Loss and LAE Expenses                      | 223.2           | 236.6              | 251.8           | 500.1                         |
| Other Underwriting Expenses                | 70.6            | 82.0               | 83.3            | 106.6                         |
| <b>Underwriting Gain (Loss)</b>            | <b>\$ (3.7)</b> | <b>\$ (0.8)</b>    | <b>\$ (8.8)</b> | <b>\$ (264.6)</b>             |
| Net Investment Income                      | 33.9            | 36.6               | 43.0            | 41.5                          |
| Net Realized Capital Gains                 | 4.2             | 28.9               | 25.7            | (11.3)                        |
| Other Income (Expenses)                    | 3.9             | (0.7)              | (0.3)           | 2.6                           |
| <b>Income before Taxes / Distributions</b> | <b>\$ 38.4</b>  | <b>\$ 64.0</b>     | <b>\$ 59.6</b>  | <b>\$ (231.8)</b>             |
| Policyholder Dividends                     | 0.1             | -                  | -               | -                             |
| Income Taxes Benefit (Expense)             | (3.6)           | (0.4)              | (9.6)           | 20.4                          |
| <b>Net Income</b>                          | <b>\$ 34.9</b>  | <b>\$ 63.7</b>     | <b>\$ 50.0</b>  | <b>\$ (211.3)</b>             |
| <b>Underwriting Ratios:</b>                |                 |                    |                 |                               |
| Loss and LAE Ratio                         | 76.9%           | 74.4%              | 77.1%           | 146.2%                        |
| Expense Ratio                              | 25.0%           | 25.5%              | 25.4%           | 29.7%                         |
| Policyholder Dividend Ratio                | 0.0%            | 0.0%               | 0.0%            | 0.0%                          |
| <b>Combined Ratio</b>                      | <b>101.9%</b>   | <b>99.9%</b>       | <b>102.5%</b>   | <b>175.9%</b>                 |

| Income Statement:                 | FY20             | FY21          | FY22           | FY23           |
|-----------------------------------|------------------|---------------|----------------|----------------|
| Net Premiums Earned               | \$ 341.0         | \$ 323.3      | \$ 326.2       | \$ 332.5       |
| Loss and LAE Expenses             | 331.2            | 276.7         | 249.9          | 236.1          |
| Other Underwriting Expenses       | 87.1             | 83.7          | 83.1           | 89.5           |
| <b>Underwriting Gain (Loss)</b>   | <b>(77.3)</b>    | <b>(37.1)</b> | <b>(6.8)</b>   | <b>6.9</b>     |
| Net Investment Income             | 37.5             | 37.5          | 37.5           | 37.5           |
| Net Realized Capital Gains        | 12.0             | 12.0          | 12.0           | 12.0           |
| Other Expenses (Income)           | -                | -             | -              | -              |
| Policyholder Dividends            | -                | -             | -              | -              |
| Income Tax Expense (Benefit)      | (5.8)            | 2.6           | 9.0            | 11.8           |
| <b>Net Income</b>                 | <b>\$ (22.0)</b> | <b>\$ 9.8</b> | <b>\$ 33.7</b> | <b>\$ 44.5</b> |
| <b>Coverage Year Underwriting</b> |                  |               |                |                |
| Loss and LAE Ratio                | 97.1%            | 88.7%         | 82.7%          | 80.0%          |
| Expense Ratio                     | 26.9%            | 25.9%         | 25.2%          | 26.7%          |
| <b>Combined Ratio</b>             | <b>124.0%</b>    | <b>114.6%</b> | <b>107.9%</b>  | <b>106.7%</b>  |
| <b>Calendar Year Underwriting</b> |                  |               |                |                |
| Loss and LAE Ratio                | 97.1%            | 85.6%         | 76.6%          | 71.0%          |
| Expense Ratio                     | 26.9%            | 25.9%         | 25.2%          | 26.7%          |
| <b>Combined Ratio</b>             | <b>124.0%</b>    | <b>111.5%</b> | <b>101.8%</b>  | <b>97.7%</b>   |

1) For 2016 – 2018, data is based on Statutory Filings. 2019 is statutory and a management estimate.

## **I. Loss Reserves**

Insurance loss reserves are estimates of an insurer's liability from future claims it will eventually have to pay. Reserves allow insurers to cover claims made against insurance policies that it underwrites. Estimating reserves is complex and must factor in the length of the insurance contract, the type of insurance offered, the odds of a claim being made, the amount of the claim, and the length of time it would take to resolve the claim. Insurance companies must adjust their loss reserves as circumstances change.

If an insurer is too conservative in calculating reserves, it can reduce its income, investable asset base, and ultimately its capital position. On the flip-side, if an insurer is too liberal with its reserve calculation, it may not have allocated enough reserves to pay out future claims. This could result in booking losses and might potentially strain its liquidity and capital positions.

## **II. NORCAL's Reserve History and its Importance**

Reserve development is the difference between final losses recorded by an insurance company and what the insurer originally recorded on their books, and accounts for the fact that sometimes claims can take longer to settle than originally anticipated. Estimates for the total loss to an insurer will adjust over time as claims are finalized.

An insurer that has consistent favorable reserve development is seen as a good predictor of future claim estimates. Likewise, a company that has consistent unfavorable reserve development is seen as a poor predictor of future claim estimates and is often valued lower, all things being equal.

NORCAL's reserve levels have generally trended in an upward direction, a factor of increased earned premium exposure and downward trending reserve development, adversely affecting the Company's value. In connection with the Revised and Restated Report, management noted that carried reserves for the end of 2019 were approximately \$825 million (vs. the \$786.4 million originally estimated in February 2020).

\* Reserves were indicated by management to be approximately \$825 million for 2019, as opposed to the \$786.4 million estimate previously provided in February 2020.

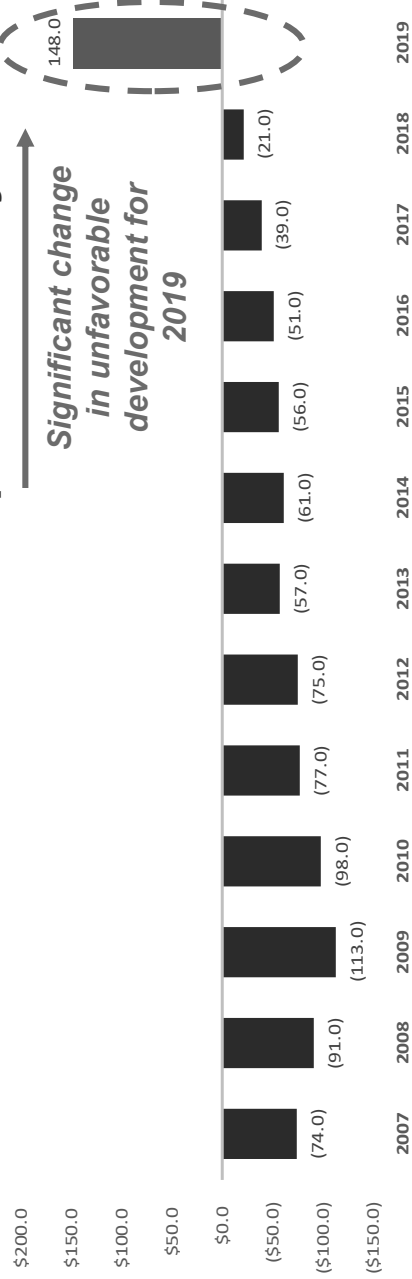


### NORCAL's Loss Reserve History



NORCAL historically displayed favorable reserve development, however development in recent years has decreased, a consequence of a challenging MPL industry and a new case reserving policy implemented in 2017 and 2018. The new reserving process caused changes to reserve levels and possibly exposed deficiencies in previous methods. Total unfavorable development in 2019 was approximately \$148 million, primarily related to indemnity reserves in policy years 2016 to 2018. As noted, unfavorable reserve development (meaning reserves trending upward), adversely affects the Company's value.

### NORCAL's Reserve Development History



## Loss Reserves: Comparison

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### **III. Additional Reserve Information**

Boenning utilized initial reports of Milliman and KPMG, the Company's auditor, to understand how results compared to management's set level of reserves. These reports were as of July 31, 2019 and October 31, 2019.

After our initial report date of February 11, 2020 Boenning was provided reports of Milliman which summarized independent analysis of NORCAL's unpaid claim liabilities as of December 31, 2019 and a summary of reserves prepared by the Company's independent auditors, KPMG.

Boenning was then engaged to assess whether the newly provided information contained in the reports noted above would have affected its prior conclusion as to the ultimate value of NORCAL.

After review of the aforementioned Milliman and KPMG reports, Boenning concluded that the new data was consistent with the trends reviewed as of February 11, 2020, and while the absolute level of carried reserves as of December 31, 2019 was 4.9% higher than originally estimated, the data is supportive of previous conclusions regarding adverse trends and Boenning's conclusion regarding value does not change.

At the time of our initial report, Boenning was provided a year-end 2019 estimate of \$786.4 million in reserves from NORCAL's management. It was recently indicated by management that their estimated carried reserves were approximately \$825 million, slightly higher than the estimate and mid-point values from both Milliman (\$801) and KPMG (\$819). As with our review of the Milliman and KPMG reports, this change was consistent with the trends reviewed as of February 11, 2020 and does not affect Boenning's conclusion regarding value.

### **I. Financial Condition**

As noted in the preceding pages of this section, NORCAL has struggled to produce underwriting profit, producing a Combined Ratio of 100% or more in 4 of the past 5 years. Despite the underwriting struggles, the Company's bottom line has been driven by investment performance. NORCAL's investments consist of fixed income securities (79% of total investments), with 94% of fixed income investments considered investment grade. The bond portfolio has a duration of 4.1 years. The remainder of the portfolio consists of equities and other investments. We also note that NORCAL's underwriting leverage is 0.6x, demonstrating the Company's inability or lack of desire to write additional business.

In 2019 unfavorable development and reserve increases caused a \$264.2 million underwriting loss, more than enough to overshadow any investment gains. The net loss resulted in a strain on NORCAL's surplus levels, which decreased approximately \$171.6 million to \$575.7 million at year-end 2019.

### **II. AM Best Implications**

AM Best is the primary rating agency for the insurance industry, and their ratings often influence perceived financial stability (and ultimately, valuations). After NORCAL's 3Q19 results, AM Best placed their ratings under "review" with a negative implication. AM Best noted the reserve increases and related issues "raise questions regarding internal controls and oversight of operational processes, as well as price adequacy, underwriting practices and the potential for future reserve strengthening." Insurers who have their ratings downgraded often are not able to continue writing business at the same level and rates, subsequently lowering their inherent value. Management indicated to Boenning that a downgrade was likely to occur in 2020.

Subsequently, after the remainder of 2019's performance (and after Boenning's initial Appraisal report), AM Best downgraded NORCAL's credit ratings in February 2020, indicating that the Company is expected to struggle in the coming years (and may have an adverse effect on the Company's valuation implications). Given management had indicated a downgrade was likely, this was not a surprise.

### **III. Conclusion**

Noted in the past few pages, NORCAL has experienced some operating performance volatility. The Company has not been able to produce favorable underwriting results, writing at a 100% + combined ratio in 4 of the past 5 years. Adverse reserve development trends have served as a drag on earnings and has resulted in a downgrade in the Company's credit rating from AM Best. Additionally, NORCAL's management team has indicated that both an unfavorable industry and underwriting conditions are anticipated to continue in the coming years.

The aforementioned factors create a concern regarding future earnings power and cash flow, and ultimately how performance will impact valuation. Boenning also notes that there is additional confirmation of NORCAL's current financial position on a relative basis found in the Benchmarking Process, Guideline Public Company Approach, Guideline Transaction Approach, and Market Approach. Furthermore, results of the auction process from company's investment banker help indicate the Company's financial performance and the effect it has on value.

# Financial Overview: Historical and Projected

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| Income Statement:                          | Historical      |                 | Estimate <sup>1</sup><br>FY19 |                   |
|--|-----------------|-----------------|-------------------------------|-------------------|
|  | FY16            | FY17            |                               | FY18              |
| <b>Net Premiums Written</b>                | \$ 282.6        | \$ 321.8        | \$ 328.4                      | \$ 358.6          |
| <b>Net Premiums Earned</b>                 | 290.1           | 317.9           | 326.3                         | 342.1             |
| Loss and LAE Expenses                      | 223.2           | 236.6           | 251.8                         | 500.1             |
| Other Underwriting Expenses                | 70.6            | 82.0            | 83.3                          | 106.6             |
| <b>Underwriting Gain (Loss)</b>            | <b>\$ (3.7)</b> | <b>\$ (0.8)</b> | <b>\$ (8.8)</b>               | <b>\$ (264.6)</b> |
| Net Investment Income                      | 33.9            | 36.6            | 43.0                          | 41.5              |
| Net Realized Capital Gains                 | 4.2             | 28.9            | 25.7                          | (11.3)            |
| Other Income (Expenses)                    | 3.9             | (0.7)           | (0.3)                         | 2.6               |
| <b>Income before Taxes / Distributions</b> | <b>\$ 38.4</b>  | <b>\$ 64.0</b>  | <b>\$ 59.6</b>                | <b>\$ (231.8)</b> |
| Policyholder Dividends                     | 0.1             | -               | -                             | -                 |
| Income Taxes Benefit (Expense)             | (3.6)           | (0.4)           | (9.6)                         | 20.4              |
| <b>Net Income</b>                          | <b>\$ 34.9</b>  | <b>\$ 63.7</b>  | <b>\$ 50.0</b>                | <b>\$ (211.3)</b> |
| <b>Underwriting Ratios:</b>                |                 |                 |                               |                   |
| Loss and LAE Ratio                         | 76.9%           | 74.4%           | 77.1%                         | 146.2%            |
| Expense Ratio                              | 25.0%           | 25.5%           | 25.4%                         | 29.7%             |
| Policyholder Dividend Ratio                | 0.0%            | 0.0%            | 0.0%                          | 0.0%              |
| <b>Combined Ratio</b>                      | <b>101.9%</b>   | <b>99.9%</b>    | <b>102.5%</b>                 | <b>175.9%</b>     |

| Balance Sheet:                         | Historical        |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | FY16              | FY17              | FY18              | FY19              |
| <b>ASSETS:</b>                         |                   |                   |                   |                   |
| Cash & Invested Assets                 | \$ 1,407.6        | \$ 1,454.6        | \$ 1,365.7        | \$ 1,431.1        |
| Investment Income Due & Accrued        | 11.6              | 11.3              | 9.8               | 9.1               |
| Premiums Receivable                    | 62.7              | 69.3              | 74.0              | 90.1              |
| Reinsurance Recoverables               | 9.1               | 5.0               | 1.4               | 2.9               |
| Federal Income Tax Recoverable         | -                 | 10.2              | 0.7               | 21.1              |
| Deferred Income Tax Asset, net         | 29.5              | 14.8              | 22.6              | 26.6              |
| Goodwill and Other Admitted Assets     | 46.2              | 68.9              | 71.4              | 39.7              |
| <b>Total Admitted Assets</b>           | <b>1,566.7</b>    | <b>1,633.9</b>    | <b>1,545.6</b>    | <b>1,620.5</b>    |
| <b>LIABILITIES AND SURPLUS:</b>        |                   |                   |                   |                   |
| Loss and Loss Adjustment Expenses      | \$ 639.8          | \$ 652.1          | \$ 585.2          | \$ 786.4          |
| Unearned Premiums                      | 136.7             | 150.1             | 152.2             | 168.7             |
| Premiums Collected for Future Renewals | 26.1              | 26.5              | 23.5              | 28.3              |
| Reinsurance Payable                    | 2.6               | 8.1               | 3.4               | 6.1               |
| Current Federal Income Taxes Payable   | 1.2               | -                 | -                 | -                 |
| Funds Held Under Reinsurance Treaties  | 2.5               | 3.4               | (4.9)             | (8.0)             |
| Amounts Retained on Behalf of Others   | 21.0              | 21.3              | 22.3              | 24.3              |
| Payable for Securities                 | 0.1               | -                 | 0.0               | 0.0               |
| Payable to Subsidiaries or Affiliates  | 0.1               | -                 | -                 | -                 |
| Other Liabilities                      | 31.6              | 31.3              | 16.6              | 39.2              |
| <b>Total Liabilities</b>               | <b>861.6</b>      | <b>892.7</b>      | <b>798.3</b>      | <b>1,045.0</b>    |
| <b>Surplus</b>                         | <b>705.1</b>      | <b>741.2</b>      | <b>747.3</b>      | <b>575.5</b>      |
| <b>Total Liabilities &amp; Surplus</b> | <b>\$ 1,566.7</b> | <b>\$ 1,633.9</b> | <b>\$ 1,545.6</b> | <b>\$ 1,620.5</b> |

| Income Statement:                  | Projected <sup>1</sup> |                 |                 |                 |                 |
|------------------------------------|------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | FY20                   | FY21            | FY22            | FY23            | FY24            |
| <b>Net Premiums Earned</b>         | <b>\$ 341.0</b>        | <b>\$ 323.3</b> | <b>\$ 326.2</b> | <b>\$ 332.5</b> | <b>\$ 341.1</b> |
| Coverage Year Loss and LAE Reserve | 290.5                  | 251.5           | 236.8           | 233.4           | 238.3           |
| Margin on Current Coverage Year    | 40.7                   | 35.2            | 33.1            | 32.7            | 33.4            |
| Prior Year Development             | -                      | (10.0)          | (20.0)          | (30.0)          | (30.0)          |
| Loss and LAE Expenses              | 331.2                  | 276.7           | 249.9           | 236.1           | 241.7           |
| Other Underwriting Expenses        | 87.1                   | 83.7            | 83.1            | 89.5            | 99.3            |
| <b>Underwriting Gain (Loss)</b>    | <b>(77.3)</b>          | <b>(37.1)</b>   | <b>(6.8)</b>    | <b>6.9</b>      | <b>0.1</b>      |
| Net Investment Income              | 37.5                   | 37.5            | 37.5            | 37.5            | 37.5            |
| Net Realized Capital Gains         | 12.0                   | 12.0            | 12.0            | 12.0            | 12.0            |
| Other Expenses (Income)            | -                      | -               | -               | -               | -               |
| Policyholder Dividends             | -                      | -               | -               | -               | -               |
| Income Tax Expense (Benefit)       | (5.8)                  | 2.6             | 9.0             | 11.8            | 10.4            |
| <b>Net Income</b>                  | <b>\$ (22.0)</b>       | <b>\$ 9.8</b>   | <b>\$ 33.7</b>  | <b>\$ 44.5</b>  | <b>\$ 39.2</b>  |
| <b>Coverage Year Underwriting</b>  |                        |                 |                 |                 |                 |
| Loss and LAE Ratio                 | 97.1%                  | 88.7%           | 82.7%           | 80.0%           | 79.6%           |
| Expense Ratio                      | 26.9%                  | 25.9%           | 25.2%           | 26.7%           | 28.7%           |
| <b>Combined Ratio</b>              | <b>124.0%</b>          | <b>114.6%</b>   | <b>107.9%</b>   | <b>106.7%</b>   | <b>108.3%</b>   |
| <b>Calendar Year Underwriting</b>  |                        |                 |                 |                 |                 |
| Loss and LAE Ratio                 | 97.1%                  | 85.6%           | 76.6%           | 71.0%           | 70.9%           |
| Expense Ratio                      | 26.9%                  | 25.9%           | 25.2%           | 26.7%           | 28.7%           |
| <b>Combined Ratio</b>              | <b>124.1%</b>          | <b>111.5%</b>   | <b>101.9%</b>   | <b>97.7%</b>    | <b>99.5%</b>    |

# Benchmarking Process

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## Section IV

## I. What is Benchmarking?

Financial results are important on their own, but a comparison of results relative to other companies provides further indications of a company's financial performance (and potential valuation implications). Using both Statutory and GAAP data, Boenning reviewed NORCAL's key operating metrics against a group of MPL insurers ("MPL Peers") and comparable publicly traded insurers ("Guideline Public Companies") to assess where they ranked amongst the peers. Our conclusion on where NORCAL ranks amongst the peers is summarized below and indicated in highlights on the charts that follow on pages 31 and 32.

- With respect to premium and surplus, NORCAL's underwriting leverage is about *in-line with the median* (and ranged from 0.4x – 0.6x) on both a Statutory and GAAP basis.
- With respect to underwriting and profitability, consistent with the industry's current environment, NORCAL has typically produced a Combined Ratio above 100%, placing it amongst the worst performers on both a Statutory and GAAP basis. While the Company continues to grow its top-line, reserving issues have served as a drag on earnings and possibly will continue to suppress its earnings profile in the coming years.
- With respect to return on equity, while NORCAL has struggled to underwrite profitably, the Company has relied on its investment portfolio to drive returns. This is evidenced by positive ROAE figures in most years, despite a Combined Ratio over 100%. We believe NORCAL has historically fallen somewhere between the Bottom 25th percentile and the Median on both a Statutory and GAAP basis. The Company produced an underwriting loss of \$264.2 million in 2019 and experienced a significant net loss of \$211.1 million as a result of the poor underwriting performance, further providing evidence that they would currently rank in the bottom 25th percentile on Return on Equity.

## II. Conclusion

Taken as a whole, the Benchmarking process indicates that NORCAL should be valued, as compared to peers, in the bottom 25<sup>th</sup> percentile. The following two charts represent where NORCAL falls compared to peers based on statutory and GAAP data.

# Statutory MPL Peer Benchmarking

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**Guideline Public Companies - Peer Benchmarking**  
(\$ USD in Millions), Operating data as of LTM 9/30/2019.

| Company Name   | NPW / Surplus |       |       | Combined Ratio |       |        | ROAE   |        |        | Direct Premiums Written Growth |        |        |
|--|---------------|-------|-------|----------------|-------|--------|--------|--------|--------|--------------------------------|--------|--------|
|  | 2015          | 2016  | 2017  | 2018           | 2019  | LTM    | 2015   | 2016   | 2017   | 2018                           | 2019   | LTM    |
| MedPro Group Inc.  | 0.1 x         | 0.1 x | 0.1 x | 0.1 x          | 0.1 x | 92.9%  | 87.7%  | 81.9%  | 83.8%  | 88.2%                          | 92.9%  | 92.9%  |
| The Doctors Company <sup>1</sup>                                 | 0.4 x         | 0.3 x | 0.3 x | 0.3 x          | 0.4 x | 95.2%  | 94.5%  | 95.8%  | 94.2%  | 96.8%                          | 95.2%  | 95.2%  |
| Coverys <sup>1</sup>   | 0.2 x         | 0.2 x | 0.2 x | 0.2 x          | 0.3 x | 116.5% | 99.8%  | 117.2% | 116.0% | 116.5%                         | 110.7% | 110.7% |
| ProAssurance Corporation   | 0.4 x         | 0.4 x | 0.5 x | 0.6 x          | 0.7 x | 103.5% | 83.0%  | 84.2%  | 87.0%  | 98.7%                          | 103.5% | 103.5% |
| WCIC Vermont (a Risk Retention Group)                            | 0.5 x         | 0.5 x | 0.5 x | 0.6 x          | 0.7 x | 110.7% | 132.8% | 111.6% | 113.5% | 109.4%                         | 110.7% | 110.7% |
| MAG Mutual Group <sup>1</sup>                                    | 0.2 x         | 0.3 x | 0.3 x | 0.4 x          | 0.4 x | 110.3% | 106.1% | 109.5% | 106.8% | 109.8%                         | 110.3% | 110.3% |
| Hospitals Insurance Company                                      | 0.5 x         | 0.4 x | 0.3 x | 0.4 x          | 0.3 x | 48.0%  | 99.8%  | 71.5%  | 68.8%  | 46.2%                          | 48.0%  | 48.0%  |
| ISMIE Mutual Group <sup>1</sup>                                  | 0.3 x         | 0.2 x | 0.2 x | 0.2 x          | 0.2 x | 119.2% | 98.5%  | 101.6% | 116.8% | 121.3%                         | 119.2% | 119.2% |
| State Volunteer Mutual Insurance Company                         | 0.2 x         | 0.2 x | 0.2 x | 0.2 x          | 0.2 x | 105.4% | 104.6% | 104.5% | 91.3%  | 99.9%                          | 105.4% | 105.4% |
| Mutual Insurance Company of Arizona                              | 0.2 x         | 0.2 x | 0.1 x | 0.1 x          | 0.1 x | 104.2% | 98.2%  | 99.3%  | 105.8% | 103.4%                         | 104.2% | 104.2% |
| NCMIC Insurance Company <sup>1</sup>                             | 0.6 x         | 0.5 x | 0.6 x | 0.6 x          | 0.6 x | 96.5%  | 92.5%  | 85.1%  | 96.3%  | 95.9%                          | 96.5%  | 96.5%  |
| MMIC Insurance <sup>1</sup>                                      | 0.5 x         | 0.5 x | 0.4 x | 0.5 x          | 0.4 x | 109.7% | 88.6%  | 101.5% | 98.0%  | 108.6%                         | 109.7% | 109.7% |
| Medical Mutual Insurance Company of North Carolina               | 0.3 x         | 0.4 x | 0.3 x | 0.3 x          | 0.3 x | 85.7%  | 75.5%  | 73.3%  | 78.4%  | 80.8%                          | 85.7%  | 85.7%  |
| COPIC Insurance Company  | 0.2 x         | 0.2 x | 0.3 x | 0.3 x          | 0.3 x | 102.5% | 108.8% | 104.3% | 108.2% | 98.9%                          | 102.5% | 102.5% |
| OMS National Insurance Company (a Risk Retention Group)          | 0.3 x         | 0.3 x | 0.2 x | 0.2 x          | 0.2 x | 109.2% | 96.4%  | 92.2%  | 79.4%  | 111.9%                         | 109.2% | 109.2% |
| Controlled Risk Insurance Company of VT (a Risk Retention Group) | 0.5 x         | 0.5 x | 0.5 x | 0.6 x          | 0.5 x | 79.3%  | 100.7% | 91.6%  | 95.3%  | 84.3%                          | 79.3%  | 79.3%  |
| Maximum  | 0.6 x         | 0.5 x | 0.6 x | 0.6 x          | 0.7 x | 48.0%  | 75.5%  | 71.5%  | 68.8%  | 46.2%                          | 48.0%  | 48.0%  |
| Top 25th Percentile  | 0.5 x         | 0.5 x | 0.4 x | 0.5 x          | 0.5 x | 96.9%  | 93.3%  | 91.9%  | 92.7%  | 96.4%                          | 96.9%  | 96.9%  |
| Median   | 0.3 x         | 0.3 x | 0.3 x | 0.3 x          | 0.3 x | 103.5% | 98.5%  | 99.3%  | 102.6% | 99.9%                          | 103.5% | 103.5% |
| Bottom 25th Percentile   | 0.2 x         | 0.2 x | 0.2 x | 0.2 x          | 0.2 x | 109.5% | 102.6% | 104.4% | 108.9% | 109.6%                         | 109.5% | 109.5% |
| Minimum  | 0.1 x         | 0.1 x | 0.1 x | 0.1 x          | 0.1 x | 119.2% | 132.8% | 117.2% | 116.8% | 121.3%                         | 119.2% | 119.2% |
| NORCAL Mutual Insurance Company                                  | 0.4 x         | 0.4 x | 0.4 x | 0.4 x          | 0.6 x | 175.9% | 104.2% | 101.9% | 99.9%  | 102.5%                         | 175.9% | 175.9% |

Represents where NORCAL ranks amongst MPL peers.

1) Represents a SML P&C Group.

2) NORCAL metrics are for year-end 2019.



# GAAP Public Company Benchmarking

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## Guideline Public Companies

(\$ USD in Millions), Market data as of 1/31/2020 and Operating data as of LTM 9/30/2019.

| Company Name                                       | Market Cap |            | Operating Data |                |                |              | GAAP Pricing Data |                    |                      |                |                 |
|--|------------|------------|----------------|----------------|----------------|--------------|-------------------|--------------------|----------------------|----------------|-----------------|
|  | Ticker     | Cap        | NPW / Equity   | Combined Ratio | ROAE           | NPW Growth   | Price / Book      | Price / Tang. Book | Price / LTM Earnings | Price / Assets | Price / Revenue |
| AXIS Capital Holdings Limited                      | AXS        | \$ 5,394.4 | 0.8 x          | 109.4%         | 2.6%           | (3.9%)       | 113.1%            | 121.6%             | 19.2 x               | 21.2%          | 1.1 x           |
| American National Insurance Company                | ANAT       | 2,960.8    | 0.4 x          | 103.4%         | 6.2%           | NA           | 50.8%             | 50.8%              | 8.9 x                | 10.4%          | 0.8 x           |
| ProAssurance Corporation                           | PRA        | 1,633.6    | 0.5 x          | 103.6%         | 2.3%           | 3.3%         | 102.7%            | 125.0%             | 46.0 x               | 33.9%          | 1.8 x           |
| United Fire Group, Inc.                            | UFCS       | 1,107.9    | 1.1 x          | 110.0%         | 0.9%           | 5.6%         | 115.1%            | 117.9%             | NM                   | 36.8%          | 1.0 x           |
| United Insurance Holdings Corp.                    | UIHC       | 436.2      | 1.4 x          | 125.1%         | (5.9%)         | 10.2%        | 85.0%             | 105.5%             | NM                   | 15.8%          | 0.5 x           |
| Donegal Group Inc.                                 | DGICA      | 390.5      | 1.7 x          | 100.6%         | 4.3%           | 0.4%         | 90.2%             | 91.6%              | 22.3 x               | 20.3%          | 0.5 x           |
| NIJ Holdings, Inc.                                 | NODK       | 339.2      | 0.8 x          | 117.5%         | 8.5%           | 22.8%        | 117.4%            | 118.6%             | 14.1 x               | 64.1%          | 1.3 x           |
| FedNat Holding Company                             | FNHC       | 232.4      | 1.4 x          | 105.5%         | (0.6%)         | (12.3%)      | 84.2%             | NA                 | NM                   | 21.1%          | 0.6 x           |
| Protective Insurance Corporation                   | PTVC.B     | 221.9      | 1.3 x          | 107.1%         | (5.7%)         | 6.6%         | 61.5%             | 61.5%              | NM                   | 13.9%          | 0.5 x           |
| Kingstone Companies, Inc.                          | KINS       | 85.2       | 1.6 x          | 109.9%         | (9.5%)         | 24.6%        | 98.2%             | 98.8%              | NM                   | 28.6%          | 0.6 x           |
| Atlantic American Corporation                      | AAME       | 45.3       | 1.6 x          | 97.6%          | (1.3%)         | NA           | 40.8%             | 41.8%              | NM                   | 11.8%          | 0.2 x           |
| ICC Holdings, Inc.                                 | ICCH       | 41.3       | 0.8 x          | 104.8%         | 2.2%           | 5.9%         | 67.6%             | 67.6%              | 29.8 x               | 25.6%          | 0.7 x           |
| National Security Group, Inc.                      | NSEC       | 38.1       | 1.2 x          | 100.0%         | 2.5%           | (0.5%)       | 73.1%             | 73.1%              | 30.7 x               | 24.7%          | 0.6 x           |
| Conifer Holdings, Inc.                             | CNFR       | 36.6       | 2.0 x          | 109.2%         | (21.6%)        | (3.6%)       | 80.5%             | 82.3%              | NM                   | 15.4%          | 0.4 x           |
| Unico American Corporation                         | UNAM       | 34.0       | 0.5 x          | 91.0%          | (2.1%)         | 8.8%         | 59.1%             | 59.1%              | NM                   | 26.1%          | 1.1 x           |
| Maximum  |            | 5,394.4    | 2.0 x          | 91.0%          | 8.5%           | <b>24.6%</b> | 117.4%            | 125.0%             | 46.0 x               | 64.1%          | 1.8 x           |
| Top 25th Percentile                                |            | 772.1      | 1.5 x          | 100.4%         | 2.5%           | <b>8.8%</b>  | 100.5%            | 114.8%             | 30.3 x               | 27.3%          | 1.0 x           |
| Median   | \$         | 232.4      | 1.2 x          | 104.2%         | 0.9%           | 5.6%         | 84.2%             | 87.0%              | 22.3 x               | 21.2%          | 0.6 x           |
| Bottom 25th Percentile                             |            | 43.3       | <b>0.8 x</b>   | 109.4%         | <b>(3.9%)</b>  | (0.5%)       | 64.6%             | 63.1%              | 16.7 x               | 15.6%          | 0.5 x           |
| Minimum  |            | 34.0       | <b>0.4 x</b>   | <b>125.1%</b>  | <b>(21.6%)</b> | (12.3%)      | 40.8%             | 41.8%              | 8.9 x                | 10.4%          | 0.2 x           |
| <b>NORCAL Mutual Insurance Company<sup>1</sup></b> |            |            | <b>0.6 x</b>   | <b>175.9%</b>  | <b>(13.3%)</b> | <b>9.2%</b>  |                   |                    |                      |                |                 |

Represents where NORCAL would rank amongst GAAP peers from an operating perspective.

1) NORCAL's operating metrics are as of year-end 2019 on a Statutory basis.

# Valuation Analysis Overview

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## Section V

# Foundation of Valuation Analysis

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As is customary in an appraisal, Boenning reviewed several foundational factors important in a valuation analysis, with the main factors summarized below:

## **I. Financial Metrics**

It is customary to select various financial metrics for an insurance company to apply in a valuation analysis. Once selected, each of these are determined using the available financial data as provided by the Company closest to the Valuation Date of the Appraisal. A summary of the metrics deemed relevant for this Appraisal and their values are presented on page 35.

## **II. Standard of Value**

In an appraisal report, an appraiser needs to identify and define the applicable standard of value applied in its valuation analysis. Typically, the standard of value is specified, such as “fair market value,” “fair value,” “investment value,” etc. Further, if the appraisal is being conducted in a context that requires compliance with some statutory or regulatory definition of value (which is the case here), such authority should be specifically cited. There are two common ways the standards of value is applied, i) the “freely traded minority interest” standard and ii) the control value (with or without a discount for lack of marketability). Citation of the regulatory definition, summary of the common applications and a detailed analysis of how the standard of value was applied are on pages 36 and 37.

## **III. Valuation Techniques**

Boenning has summarized each of the typically considered valuation techniques by an Appraiser, including the Market Approach (page 38), Income Approach (page 39) and Asset Approach (page 40). Additionally, we provided our view on the relevance of each method to this Appraisal, and as a summary of the application of those selected.

## **IV. Additional Valuation Considerations**

As part of an Appraisal, an Appraiser can (and should) consider such other factors that could play into the valuation of its subject company. Also, in this case, the Appraiser can consider any factors bearing on the value of NORCAL as allowed for by Section §4097.04(a) of the Code. These additional value considerations are presented on pages 41 and 42.

## **V. Application**

While we employed several valuation techniques, no one method of analysis should be regarded as solely or primarily responsible for the overall conclusion we have reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the usefulness of certain techniques. The valuation conclusion we ultimately reached is based on all of the analyses and factors described in this report, taken as a whole, as well as an application of our own professional experience and judgment. Such conclusions necessarily involve significant elements of subjective judgment and qualitative analysis and are not a purely mathematical exercise.

## I. Basis of NORCAL's Financial Statements

The company does not produce GAAP statements, nor does it regularly calculate potential Statutory to GAAP adjustments. Company management made estimates of potential Statutory to GAAP adjustments for years 2017 and 2018, however these adjustments were not audited, nor did they include purchase accounting adjustments relating to the company's numerous acquisitions. As such, Boenning applied in some cases, NORCAL's statutory metrics to GAAP valuation multiples.

## II. Considered and Selected Metrics

As is customary in the analysis of an insurance company, Boenning considered revenue, earnings, assets and capital & surplus/book value. Correspondingly, the financial pricing statistics derived from these metrics were also considered, namely Price-to-Book ("P/B"), Price-to-Tangible Book ("P/TB"), Price-to-Earnings ("P/E"); Price-to-Assets ("P/A"); and Price-to-Revenue ("P/R"). We believe that Price-to-Book value is the primary determinant of an investor's interest in an insurance company. The other multiples mentioned above (P/E, P/A, P/R and P/TB) are of secondary value in determining interest in, and, the value of, insurance company.

## III. Selected NORCAL Metrics

Below is a summary of the NORCAL metrics based on available financial information as of the Valuation Date applied in this valuation analysis.

| <b>NORCAL Metrics</b>                | <b>\$</b>  | <b>Source</b>                       |
|--------------------------------------|------------|-------------------------------------|
| Statutory Capital & Surplus          | \$ 575.5   | NORCAL Internal Financial Package   |
| Tangible Statutory Capital & Surplus | \$ 544.6   | NORCAL Internal Financial Package   |
| Total Assets                         | \$ 1,620.5 | NORCAL Internal Financial Package   |
| Total Revenues                       | \$ 372.3   | NORCAL Internal Financial Package   |
| Net Premiums Written                 | \$ 358.6   | NORCAL Internal Financial Package   |
| Earnings (2019-2024)                 | Various    | 01-23-2020 DRAFT Financial Forecast |

### I. “Fair Value” from the Code

The Code under Section § 4097(a) calls for an appraisal to determine the “fair value of the mutual company” and that the appraisal “shall consider the assets and liabilities of the mutual company and any factors bearing on the value of the mutual company.”

### II. Types of Standards of Value

Based on Boenning’s experience with valuations, fairness opinions and over 15 demutualization transactions, there are generally two main standards of value that are potentially applicable to determining the value of a demutualizing insurance company:

1. The “freely traded minority interest” standard: The “freely traded minority interest” standard approximates the value attributable to an individual shareholder in a company that is publicly traded.
2. The control value (with or without a discount for lack of marketability) standard: The control value standard would approximate the value of 100% of a company under an acquisition scenario. It is also commonplace for a control value to be discounted for lack of marketability based on a company’s specific characteristics.

### **III. Determined Standard of Value**

“Fair value” as used in Code § 4097(a) is not a defined standard of value used by appraisers to determine the value of an insurance company. Boenning chose to utilize the “freely traded minority interest” standard of value to determine the Company’s “fair value” for the following reasons:

- Almost all the demutualizations Boenning was able to identify that were completed over the past 10 years have utilized a freely-traded minority interest standard of value to determine “Fair Market Value” (or something similar such as “pro forma market value”);
- An Eligible Member only has a right to their portion of rights in surplus which is not a control position (i.e. the policyholder owns significantly less than 50%), which supports the minority interest standard;
- There is no scenario in the Plan that would allow for Eligible Members as a group to control >20% post Conversion, which supports the minority interest standard;
- In accordance with the Code, any value enhancing benefits that may result from control gained by the Sponsor through the Sponsored Conversion are not to be considered; which supports the minority interest standard; and
- While appraisals in a minority of other demutualizations (those not included in the above commentary) have not definitively relied on a minority interest standard, the ultimate application was an undefined hybrid of both minority and control valuation techniques owing to the discretion afforded to the appraiser.

### **IV. Conclusion Regrading Minority Interest Level of Value**

Our decision to use a minority interest standard to value the Company is based on a few key factors, including:

1. There is sufficient support to interpret “fair value” on a minority basis;
2. This determination is consistent with our experience in demutualizations similar to NORCAL’s; and
3. A minority interest level is supported by the Code’s guidance to appraisers to “... consider ... any factors bearing on the value of the mutual company” under Section § 4097(a).

The Market Approach measures the value of an asset by comparing it to the values of other assets whose values are publicly known. There are two variations of the market approach, which are the Guideline Company Approach and the Guideline M&A Transaction approach:

### **I. Guideline Company Approach**

The Guideline Company Approach measures value through an analysis of publicly traded guideline companies that operate in the same (or similar) lines of business. Stocks of these corporations are actively traded in a free and open market. When applied to the valuation of businesses, consideration is given to the financial condition and operating performance of the Exchanges being appraised relative to those of the publicly traded companies. Adjustments to account for significant differences between the subject company and the guideline companies are made to the valuation multiples of the comparable companies. Boenning's analysis utilizing this method occurs on pages 43 to 46.

### **II. Guideline M&A Transaction Approach**

The Guideline M&A Transaction approach measures the value of a company through an analysis of transactions involving similar companies in the mergers and acquisitions market. The transaction approach yields "control" value instead of "minority share" as used in an appraisal of this nature. As the Guideline M&A Transaction data represents a control situation, Boenning applied a minority discount informed by a premiums paid analysis detailed later in the Appraisal. Boenning's analysis utilizing this method occurs on pages 47 to 52.

### **III. Boenning's Application**

The Market Approach was deemed relevant to determine fair value, because it has been widely accepted as a valuation approach by insurance industry analysts and applicable regulatory authorities. Furthermore, reliable market and financial data are readily available for most comparable companies.

## Valuation Techniques – Income Approach

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The Income Approach includes methods to determine future cash flows to an owner or investor, which attempt to capture the value of an asset by the present value of its future economic benefits. Present value is the current value of a future sum of money or stream of cash flows given a specified rate of return.

When applied to equity interests in businesses, value indications are developed by discounting expected cash flows or values to their present value at a rate of return that incorporates the risk-free rate for the use of funds, the expected rate of inflation, and risks associated with the particular investment. The discount rate selected is generally based on rates of return available from alternative investments of similar type and quality/risk as of the valuation date.

### I. **Boenning's Application**

The Income Approach was deemed relevant to determine fair value because it considered the future earnings of the Company and how they are impacted by certain assumptions provided by the Company, including declining performance, loss reserve developments, and how these factors ultimately impact future capital and surplus. Boenning's analysis utilizing this method is found on pages 53 - 56.



The Asset Approach measures the value of an asset by the cost to reconstruct or replace it with another of like utility. When applied to the valuation of equity interests in businesses, value is based on the net aggregate fair market value of the entity's underlying assets less liabilities. The technique entails a restatement of the balance sheet of the enterprise substituting the fair market value of its assets and liabilities for their book values. The resulting equity is reflective of a 100% ownership interest in the business.

The Asset Approach can either be conducted on a going concern, orderly disposition, or forced liquidation basis. Going concern asset-based valuations are often only used in the case of companies that hold readily marketable assets such as an investment company. In this case, the Company holds assets for the purpose of producing income to support its insurance operations. While a portion of the Company's assets are readily marketable, its primary business is not investment in assets for resale. Financial services companies that are a going concern are rarely valued on the basis of their assets at liquidation value or the disposal of individual assets or groups of assets.

### **I. Boenning's Application**

Boenning did not deem the Asset Approach to be relevant to determine fair value in our Appraisal, primarily because for a going concern insurance company such as NORCAL, the Asset Approach could lead to valuation conclusions that do not fully take into account the enterprise as a whole and the accompanying risk factors or intangible benefits related to the business franchise. Due to these underlying factors, we have elected not to utilize this approach and have concentrated on the comparable market approach.

Boenning consider other factors that could play into the valuation of its subject company. Also, in this case, Boenning is afforded the ability to consider any factors bearing on the value of NORCAL as allowed for by Section §4097.04(a) of the Code. Based upon its experience with over a dozen demutualization transactions, as well as independent research into selected other demutualization transactions, Boenning considered the factors summarized on this page.

### **I. Discounts / Premium Factors**

The consideration of numerous discounts and premiums listed below are customary in demutualization appraisals. Boenning's application of a minority discount discussed on the prior pages captures an order of magnitude that likely approximates what a net discount/premium would total. As a result, Boenning did not apply any discount/premiums, but instead captured the appropriate discounts via a discount attributed to the previously mentioned minority interest standard, as well as other considerations in the methodologies employed herein.

1. Relative size;
2. Profitability and earning prospects;
3. Strength of management;
4. Liquidity of the issue;
5. Subscription interest;
6. Stock market conditions;
7. Dividend outlook;
8. New issue risks;
9. Financial considerations;
10. Operating considerations;
11. Regulatory environment; and
12. Liabilities and costs not reflected on the balance sheet.

## **II. NORCAL Marketing Process**

The results of a robust marketing process can be a useful tool to provide an indication of value external to traditional and accepted valuation techniques. Based on a review of information provided by the Company's financial advisor, Waller Helms, valuation proposals as a result of the marketing process provide the following valuation data points:

- 1. ProAssurance:** Original offer with a valuation range of \$900 million to \$1.1 billion in November 2018, which was revised down to \$870 million in March 2019 and revised again to \$450 million (with a potential \$150 million earnout) in October 2019.
- 2. Party 2:** Initial offer of \$770 million in November 2018, which was then revised down to \$441 million in November 2019 (with a potential \$50 million earnout).
- 3. Party 3 (Not a finalist):** Initial bid of November 2018 of \$535 million (prior to the results of the actuarial review).

The auction process ultimately showed the downward trend in NORCAL's value, a result of declining surplus levels behind weak underwriting performance and unfavorable reserve development trends.

## Guideline Public Company Analysis

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## I. Overview of Guideline Public Companies

NORCAL is a mutual property & casualty insurer, and strictly writes business in the Medical Professional Liability line of business. Additionally, the Company's competitors include either i) similar privately held MPL insurers and/or ii) larger private companies with more diversified revenue streams. Boenning identified one publicly traded company (ProAssurance) that was deemed directly comparable to the Company. While ProAssurance was the only publicly traded entity with a similar business profile, Boenning did identify 14 other publicly traded P&C companies that had similar underwriting, earnings and other characteristics.

Given insurance M&A and demutualization experience, as well as the earnings profile and other characteristics of NORCAL, Boenning placed greater emphasis on the book value multiple as an indicator of value.

| Selected Guideline Companies        |        |                 |                 |                 |  |
|-------------------------------------|--------|-----------------|-----------------|-----------------|--|
| Company Name                        | Ticker | Market Cap      | Written Premium | GAAP Equity     |  |
| AXIS Capital Holdings Limited       | AXS    | \$ 5,394.4      | \$ 4,456.2      | \$ 5,585.9      |  |
| American National Insurance Company | ANAT   | 2,960.8         | 2,214.4         | 5,831.7         |  |
| ProAssurance Corporation            | PRA    | 1,633.6         | 846.5           | 1,589.5         |  |
| United Fire Group, Inc.             | UFCS   | 1,107.9         | 1,101.7         | 964.2           |  |
| United Insurance Holdings Corp.     | UIHC   | 436.2           | 776.3           | 536.5           |  |
| Donegal Group Inc.                  | DGICA  | 390.5           | 749.9           | 442.6           |  |
| NI Holdings, Inc.                   | NODK   | 339.2           | 240.6           | 292.3           |  |
| FedNat Holding Company              | FNHC   | 232.4           | 342.7           | 237.4           |  |
| Protective Insurance Corporation    | PTVC.B | 221.9           | 460.0           | 363.4           |  |
| Kingstone Companies, Inc.           | KINS   | 85.2            | 139.4           | 86.7            |  |
| Atlantic American Corporation       | AAME   | 45.3            | 180.6           | 116.4           |  |
| ICC Holdings, Inc.                  | ICCH   | 41.3            | 52.5            | 62.9            |  |
| National Security Group, Inc.       | NSEC   | 38.1            | 60.4            | 52.1            |  |
| Conifer Holdings, Inc.              | CNFR   | 36.6            | 89.4            | 45.5            |  |
| Unico American Corporation          | UNAM   | 34.0            | 28.8            | 57.5            |  |
| <b>Median</b>                       |        | <b>\$ 232.4</b> | <b>\$ 342.7</b> | <b>\$ 292.3</b> |  |

Aside from ProAssurance, Boenning identified 14 publicly traded companies that Boenning deemed, in certain respects, to offer valuation guidance based on factors, including but not necessarily limited to:

1. General Industry Sector;
2. Return on Equity; and
3. Combined Ratio Performance.

Given both the MPL Industry Outlook and NORCAL's recent struggles, to determine companies that were valued similarly to NORCAL, Boenning identified the publicly traded P&C insurance companies that had the following:

1. Negative Return on Equity; or
2. Combined Ratio above 100%.

*The Guideline Public Companies differ from NORCAL with respect to lines of business underwritten, geographic footprint, size, historical and future profitability, state of domicile, historical and future growth, and considerations related to product suite and underwriting risk appetite.*

## Guideline Public Companies – Comp Set

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As noted earlier, Boenning utilized a Guideline Public Company approach as one of the market approaches for determining value. Boenning applied multiples derived from a review of Guideline Public Companies to NORCAL's financial metrics to determine potential valuation conclusions from the Guideline Public Company approach.

Compared to these Guideline Public Companies, NORCAL generally ranks in the bottom 25<sup>th</sup> percentile.

### Guideline Public Companies

(\$ USD in Millions), Market data as of 1/31/2020 and Operating data as of LTM 9/30/2019.

| Company Name                                       | Ticker | Market Cap | Operating Data |                |                | GAAP Pricing Data |              |                    |                      |                |                 |
|--|--------|------------|----------------|----------------|----------------|-------------------|--------------|--------------------|----------------------|----------------|-----------------|
|  |        |            | NPW / Equity   | Combined Ratio | ROAE           | NPW Growth        | Price / Book | Price / Tang. Book | Price / LTM Earnings | Price / Assets | Price / Revenue |
| AXIS Capital Holdings Limited                      | AXS    | \$ 5,394.4 | 0.8 x          | 109.4%         | 2.6%           | (3.9%)            | 113.1%       | 121.6%             | 19.2 x               | 21.2%          | 1.1 x           |
| American National Insurance Company                | ANAT   | 2,960.8    | 0.4 x          | 103.4%         | 6.2%           | NA                | 50.8%        | 50.8%              | 8.9 x                | 10.4%          | 0.8 x           |
| ProAssurance Corporation                           | PRA    | 1,633.6    | 0.5 x          | 103.6%         | 2.3%           | 3.3%              | 102.7%       | 125.0%             | 46.0 x               | 33.9%          | 1.8 x           |
| United Fire Group, Inc.                            | UFCS   | 1,107.9    | 1.1 x          | 110.0%         | 0.9%           | 5.6%              | 115.1%       | 117.9%             | NM                   | 36.8%          | 1.0 x           |
| United Insurance Holdings Corp.                    | UIHC   | 436.2      | 1.4 x          | 125.1%         | (5.9%)         | 10.2%             | 85.0%        | 105.5%             | NM                   | 15.8%          | 0.5 x           |
| Donegal Group Inc.                                 | DGICA  | 390.5      | 1.7 x          | 100.6%         | 4.3%           | 0.4%              | 90.2%        | 91.6%              | 22.3 x               | 20.3%          | 0.5 x           |
| NI Holdings, Inc.                                  | NODK   | 339.2      | 0.8 x          | 117.5%         | 8.5%           | 22.8%             | 117.4%       | 118.6%             | 14.1 x               | 64.1%          | 1.3 x           |
| FedNat Holding Company                             | FNHC   | 232.4      | 1.4 x          | 105.5%         | (0.6%)         | (12.3%)           | 84.2%        | NA                 | NM                   | 21.1%          | 0.6 x           |
| Protective Insurance Corporation                   | PTVC.B | 221.9      | 1.3 x          | 107.1%         | (5.7%)         | 6.6%              | 61.5%        | 61.5%              | NM                   | 13.9%          | 0.5 x           |
| Kingstone Companies, Inc.                          | KINS   | 85.2       | 1.6 x          | 109.9%         | (9.5%)         | 24.6%             | 98.2%        | 98.8%              | NM                   | 28.6%          | 0.6 x           |
| Atlantic American Corporation                      | AAME   | 45.3       | 1.6 x          | 97.6%          | (1.3%)         | NA                | 40.8%        | 41.8%              | NM                   | 11.8%          | 0.2 x           |
| ICC Holdings, Inc.                                 | ICCH   | 41.3       | 0.8 x          | 104.8%         | 2.2%           | 5.9%              | 67.6%        | 67.6%              | 29.8 x               | 25.6%          | 0.7 x           |
| National Security Group, Inc.                      | NSEC   | 38.1       | 1.2 x          | 100.0%         | 2.5%           | (0.5%)            | 73.1%        | 73.1%              | 30.7 x               | 24.7%          | 0.6 x           |
| Conifer Holdings, Inc.                             | CNFR   | 36.6       | 2.0 x          | 109.2%         | (21.6%)        | (3.6%)            | 80.5%        | 82.3%              | NM                   | 15.4%          | 0.4 x           |
| Unico American Corporation                         | UNAM   | 34.0       | 0.5 x          | 91.0%          | (2.1%)         | 8.8%              | 59.1%        | 59.1%              | NM                   | 26.1%          | 1.1 x           |
| Maximum  |        | 5,394.4    | 2.0 x          | 91.0%          | 8.5%           | <b>24.6%</b>      | 117.4%       | 125.0%             | 46.0 x               | 64.1%          | 1.8 x           |
| Top 25th Percentile                                |        | 772.1      | 1.5 x          | 100.4%         | 2.5%           | <b>8.8%</b>       | 100.5%       | 114.8%             | 30.3 x               | 27.3%          | 1.0 x           |
| Median   |        | \$ 232.4   | 1.2 x          | 104.2%         | 0.9%           | 5.6%              | 84.2%        | 87.0%              | 22.3 x               | 21.2%          | 0.6 x           |
| Bottom 25th Percentile                             |        | 43.3       | <b>0.8 x</b>   | 109.4%         | <b>(3.9%)</b>  | (0.5%)            | 64.6%        | 63.1%              | 16.7 x               | 15.6%          | 0.5 x           |
| Minimum  |        | 34.0       | <b>0.4 x</b>   | <b>125.1%</b>  | <b>(21.6%)</b> | (12.3%)           | 40.8%        | 41.8%              | 8.9 x                | 10.4%          | 0.2 x           |
| <b>NORCAL Mutual Insurance Company<sup>1</sup></b> |        |            | <b>0.6 x</b>   | <b>175.9%</b>  | <b>(13.3%)</b> | <b>9.2%</b>       |              |                    |                      |                |                 |

Represents where NORCAL would rank amongst GAAP peers from an operating perspective.

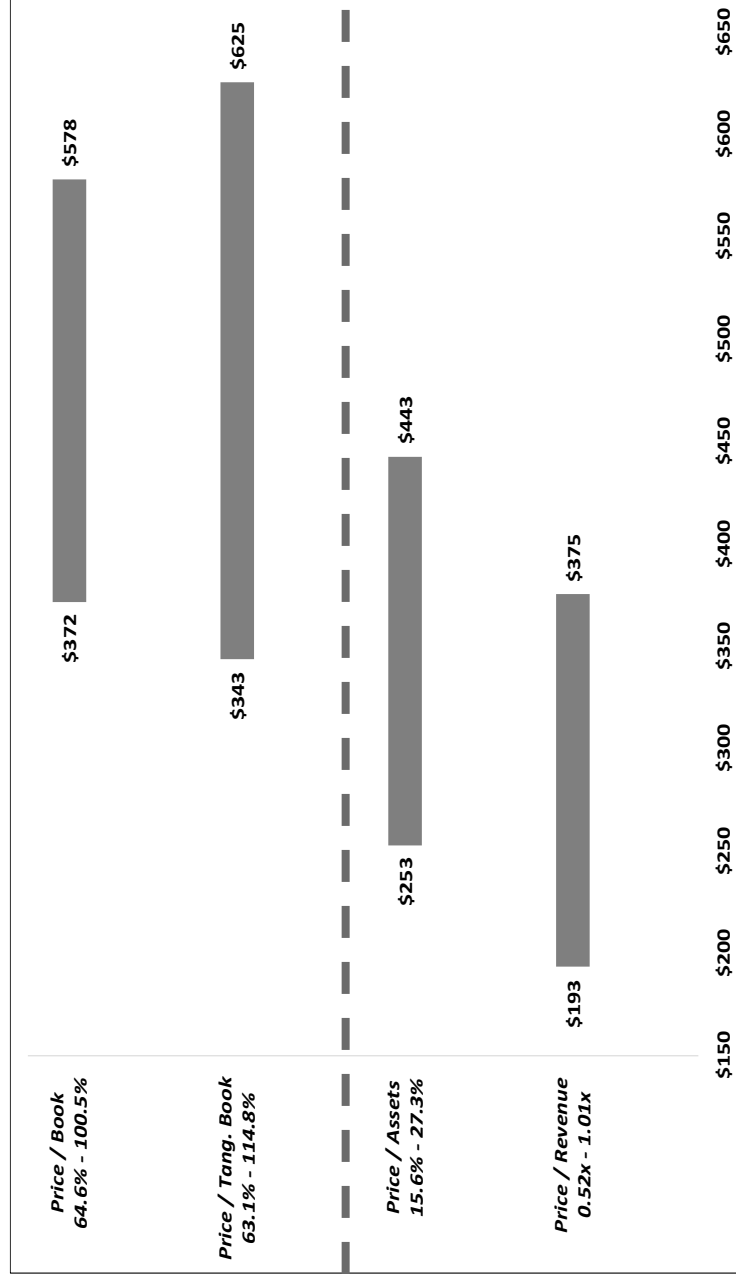
1) NORCAL's operating metrics are as of year-end 2019 on a Statutory basis.

## Guideline Public Company – Valuation Summary

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Boenning applied multiples derived from a review of Guideline Public Companies to NORCAL's financial metrics to determine potential valuation conclusions from the Guideline Public Company approach. In this case the multiples from the 25<sup>th</sup> to the 75<sup>th</sup> percentile were applied for each metric, as we determined NORCAL likely falls in that range based on relative performance. Additionally, analyzing this range helps eliminate extreme values.

Ultimately, the valuation results from the Guideline Public Company analysis resulted in value ranges of \$193 million on the low end to \$625 million on the high end.



## Guideline M&A Transaction Analysis (GAAP and Statutory)

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Boenning utilized a Guideline M&A Transaction approach as one of the market approaches for determining value. Boenning applied multiples derived from a review of Guideline M&A transactions to NORCAL's financial metrics (as described and determined on pages 50 and 51) to determine potential valuation conclusions from the Guideline M&A approach. Boenning used two Guideline transaction groups, as explained below.

## I. Guideline M&A Transactions: (GAAP)

- NORCAL is a mutual property & casualty insurer, and strictly writes business in the Medical Professional Liability line of business. Additionally, the Company's competitors include either i) similar privately held MPL insurers and/or ii) larger private companies with more diversified revenue streams.
- To help determine value, Boenning reviewed all Property & Casualty M&A transactions (GAAP data) that had occurred since January 1, 2009 with disclosed Price/Book value metrics and total transaction values of less than \$10 billion.
- The screen resulted in 19 Guideline GAAP Transactions.
- Additionally, to adjust the Guideline GAAP Transactions for the implicit control premium paid in the transactions, Boenning used a 22.2% discount<sup>1</sup> to Book Value multiples.

## II. Guideline M&A Transactions: (Statutory)

- NORCAL is a mutual property & casualty insurer, and strictly writes business in the Medical Professional Liability line of business. Additionally, the Company's competitors include either i) similar privately held MPL insurers and/or ii) larger private companies with more diversified revenue streams.
- To help determine value, Boenning reviewed all Property & Casualty M&A transactions (Statutory data) that had occurred since January 1, 2016 with disclosed Price/Book value metrics.
- We then looked for Target Companies who had the following:
  - Negative ROAE; or
  - Combined Ratio above 100%.
- The screen resulted in 27 Guideline Statutory Transactions.
- Additionally, to adjust the Guideline Statutory Transactions for the implicit control premium paid in the transactions, Boenning used a 22.2% discount<sup>1</sup> to Book Value multiples.

1) The minority discount derived from a 28.5% control premium represents the median premium paid in P&C whole company acquisitions since 1/1/2000.

# Guideline (GAAP) Transaction Summary – Comp Set

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Boenning utilized a Guideline M&A Transaction approach as another market approach for determining value. The following table reflects transactions where the financial reporting follows the generally accepted accounting principles (“GAAP”). Boenning applied multiples derived from a review of these Guideline M&A Transactions to NORCAL’s financial metrics to determine potential valuation conclusions from the Guideline Transaction approach.

Compared to these Guideline M&A Transactions, NORCAL generally ranks in the bottom 25th percentile to the minimum, except for size (Assets and Equity). The following were determined to be our Guideline Public Companies:

**Guideline M&A Transactions Announced Since January 1, 2009 with Disclosed Pricing**  
 (\$ USD in Millions), Target Financials at Announcement

| Acquirer                                    | Target                                     | Target State | Announce Date                                | Total Assets | Total Equity | Target Premium/Equity | LTM ROAE | Combined Ratio | Deal Value | Price/Assets | Price/Book Value | Price/Tangible Book Value | Price/Revenue | Price/Earnings |
|---|--|--------------|--|--------------|--------------|-----------------------|----------|----------------|------------|--------------|------------------|---------------------------|---------------|----------------|
| Hartford Financial Services Group, Inc.     | Navigators Group, Inc.                     | CT           | 8/22/2018                                    | \$ 5,488.9   | \$ 1,234.1   | 1.0 x                 | 5.0%     | 96.0%          | \$ 2,151.0 | 39.2%        | 168.7%           | 172.7%                    | 1.5 x         | 34.5 x         |
| Kemper Corporation                          | Infinity Property and Casualty Corporation | AL           | 2/13/2018                                    | 2,473.4      | 720.3        | 1.9 x                 | 6.4%     | 95.2%          | 1,324.1    | 53.5%        | 183.7%           | 205.2%                    | 0.9 x         | 29.5 x         |
| Heritage Insurance Holdings, Inc.           | NBIC Holdings, Inc.                        | RI           | 8/8/2017                                     | 493.2        | 104.2        | NA                    | NA       | NA             | 237.9      | 48.2%        | 228.3%           | 228.3%                    | 1.7 x         | 9.6 x          |
| Market Corporation                          | State National Companies, Inc. (1)         | TX           | 7/26/2017                                    | 3,249.0      | 320.5        | 0.4 x                 | 18.1%    | 87.2%          | 922.6      | 28.4%        | 276.3%           | 289.5%                    | 3.9 x         | 16.4 x         |
| Fosun International Holdings Ltd.           | Meadowbrook Insurance Group, Inc. (1)      | MI           | 12/30/2014                                   | 2,739.4      | 448.1        | 1.5 x                 | 2.1%     | 110.8%         | 435.2      | 15.9%        | 96.7%            | 103.6%                    | NM            | 48.1 x         |
| Global Indemnity plc                        | American Reliable Insurance Company (1)    | AZ           | 10/16/2014                                   | 413.6        | 107.9        | NA                    | NA       | 99.2%          | 113.7      | 27.5%        | 105.4%           | 105.7%                    | NM            | 13.2 x         |
| ProAssurance Corporation                    | Eastern Insurance Holdings, Inc. (1)       | PA           | 9/24/2013                                    | 407.3        | 140.8        | 1.2 x                 | 9.0%     | 91.1%          | 205.2      | 50.4%        | 137.7%           | 153.8%                    | 1.1 x         | 15.4 x         |
| Enstar Group Limited                        | SeaBright Holdings, Inc. (1)               | WA           | 8/27/2012                                    | 1,101.4      | 353.6        | 0.7 x                 | 3.0%     | 105.4%         | 249.6      | 22.7%        | 70.7%            | 71.1%                     | 0.9 x         | 23.6 x         |
| Alleghany Corporation                       | Transatlantic Holdings, Inc.               | NY           | 11/21/2011                                   | 16,594.8     | 4,294.9      | 0.9 x                 | 2.4%     | 98.2%          | 3,534.6    | 21.3%        | 85.8%            | 85.8%                     | NM            | 39.6 x         |
| ACE Limited                                 | Penn Millers Holding Corporation           | PA           | 9/8/2011                                     | 244.5        | 91.7         | 0.7 x                 | (4.8%)   | 113.8%         | 105.0      | 42.9%        | 101.1%           | 101.1%                    | NM            | NA             |
| Doctors Company, An Interinsurance Exchange | FPIC Insurance Group, Inc.                 | FL           | 5/24/2011                                    | 961.1        | 258.6        | 0.6 x                 | 10.3%    | 86.8%          | 360.6      | 37.5%        | 135.6%           | 151.4%                    | 1.8 x         | 13.8 x         |
| United Fire & Casualty Company              | Mercer Insurance Group, Inc.               | NJ           | 11/30/2010                                   | 613.4        | 180.6        | 0.8 x                 | 8.9%     | 97.6%          | 191.5      | 31.2%        | 109.0%           | 112.4%                    | 1.4 x         | 12.3 x         |
| Fairfax Financial Holdings Limited          | First Mercury Financial Corporation        | MI           | 10/28/2010                                   | 1,210.9      | 297.4        | 0.8 x                 | 11.1%    | 94.9%          | 294.3      | 24.3%        | 98.5%            | 124.3%                    | 0.9 x         | 8.7 x          |
| Investor group                              | NVMAG, INC.                                | NY           | 7/15/2010                                    | 1,012.0      | 222.9        | 0.7 x                 | 24.2%    | 98.7%          | 231.8      | 22.9%        | 98.1%            | 98.1%                     | 1.0 x         | 4.6 x          |
| Doctors Company, An Interinsurance Exchange | American Physicians Capital, Inc.          | MI           | 7/8/2010                                     | 933.0        | 234.1        | 0.5 x                 | 16.4%    | 76.5%          | 396.4      | 42.5%        | 170.2%           | 174.8%                    | 2.8 x         | 11.2 x         |
| Old Republic International Corporation      | PMA Capital Corporation                    | PA           | 6/10/2010                                    | 2,409.7      | 418.1        | 1.0 x                 | 5.4%     | 116.2%         | 228.3      | 15.2%        | 54.6%            | 58.7%                     | 0.7 x         | 10.9 x         |
| National Interstate Corporation             | Vanliner Group, Inc. (1)                   | MO           | 4/26/2010                                    | 607.8        | 134.3        | 1.1 x                 | NA       | 97.5%          | 138.0      | 22.7%        | 102.7%           | NA                        | 0.8 x         | 11.0 x         |
| OBE Insurance Group Limited                 | NAU Holding Company, LLC                   | MN           | 4/16/2010                                    | 693.0        | 361.0        | NA                    | NA       | 83.7%          | 565.0      | 84.1%        | 166.2%           | 260.4%                    | NA            | 6.1 x          |
| Tower Group, Inc.                           | Specialty Underwriters' Alliance, Inc. (1) | IL           | 6/22/2009                                    | 451.8        | 138.1        | 1.0 x                 | 3.7%     | 102.5%         | 109.1      | 24.2%        | 77.0%            | 83.4%                     | 0.7 x         | 22.4 x         |
|   |  |              | Maximum                                      | 16,594.8     | \$ 4,294.9   | 1.9 x                 | 24.2%    | 76.5%          | 3,534.6    | 84.1%        | 276.3%           | 289.5%                    | 3.9 x         | 48.1 x         |
|   |  |              | Top 25th Percentile                          | 2,441.6      | 389.6        | 1.1 x                 | 10.7%    | 90.9%          | 500.1      | 42.7%        | 167.4%           | 174.3%                    | 1.6 x         | 23.3 x         |
|   |  |              | Median                                       | \$ 961.1     | \$ 258.6     | 0.8 x                 | 6.4%     | 96.0%          | \$ 249.6   | 28.4%        | 105.4%           | 118.4%                    | 1.1 x         | 13.5 x         |
|   |  |              | Bottom 25th Percentile                       | 550.5        | 139.4        | 0.7 x                 | 3.3%     | 98.5%          | 198.3      | 22.8%        | 97.4%            | 98.9%                     | 0.9 x         | 10.9 x         |
|   |  |              | Minimum                                      | 244.5        | 91.7         | 0.4 x                 | (4.8%)   | 116.2%         | 105.0      | 15.2%        | 54.6%            | 58.7%                     | 0.7 x         | 4.6 x          |
|   |  |              | NORCAL Mutual Insurance Company <sup>2</sup> | \$ 1,620.5   | \$ 575.5     | 0.6 x                 | (13.3%)  | 175.9%         |            |              |                  |                           |               |                |

| Adjustments for Control vs. Minority |       | P/Assets | P/BV   | P/TVB | P/Revenue | P/E |
|--------------------------------------|-------|----------|--------|-------|-----------|-----|
| Maximum                              | 65.4% | 215.0%   | 225.2% | 3.0 x | 37.4 x    |     |
| Top 25th Percentile                  | 33.2% | 130.3%   | 135.6% | 1.3 x | 18.2 x    |     |
| Median                               | 22.1% | 82.0%    | 92.1%  | 0.8 x | 10.5 x    |     |
| Bottom 25th Percentile               | 17.7% | 75.8%    | 76.9%  | 0.7 x | 8.5 x     |     |
| Minimum                              | 11.8% | 42.5%    | 45.7%  | 0.5 x | 3.6 x     |     |

# Guideline (Statutory) Transaction Summary – Comp Set

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Boenning utilized a Guideline M&A Transaction approach as another market approach for determining value. The following table reflects transactions where the financial reporting follows the statutory accounting principles for insurance companies (“Statutory”). Boenning applied multiples derived from a review of these Guideline M&A Transactions to NORCAL’s financial metrics to determine potential valuation conclusions from the Guideline Transaction approach.

Compared to these Guideline M&A Transactions, NORCAL generally ranks in the bottom 25th percentile to the minimum, except for size (Assets and Equity). The following were determined to be our Guideline Public Companies

### Guideline M&A Transactions

Announced Since January 1, 2016 with a Negative ROE or a Combined Ratio Above 100%

(\$ USD in Millions), Target Financials as of Announcement

| Acquirer  | Target  | Target State | Announcement Date      | Total Assets | Capital & Surplus | Premium / Surplus | LTM ROAE | Combined Ratio  | Deal Value | Price / Assets | Price / NPW |
|---|---|--------------|------------------------|--------------|-------------------|-------------------|----------|-----------------|------------|----------------|-------------|
| American Family Insurance Group                 | ID5 Property Casualty Insurance Company                           | WI           | 4/2/2019               | 1,800.0      | 802.2             | 1.4 x             | NA       | 104.9%          | 1,050.0    | 58.3%          | 130.9%      |
| FedNat Holding Company                          | 1347 Property Insurance's Homeowners Operations                   | LA           | 2/25/2019              | 105.9        | 35.6              | 1.7 x             | (3.4%)   | 91.4%           | 51.0       | 48.2%          | 143.1%      |
| Auto-Owners Insurance Company                   | California Capital Insurance Company                              | CA           | 2/19/2019              | 849.3        | 209.1             | 1.8 x             | NA       | 124.4%          | 230.8      | 27.2%          | 110.4%      |
| Southern Farm Bureau Casualty Insurance Company | Colorado Farm Bureau Mutual Insurance Company                     | CO           | 1/28/2019              | 74.5         | 33.7              | 0.8 x             | (2.4%)   | 108.2%          | 25.7       | 34.5%          | 76.2%       |
| Wilmington Insurance Company                    | National Insurance Company of Wisconsin, Inc.                     | WI           | 11/20/2018             | 13.2         | 11.3              | 0.0 x             | (0.3%)   | NM <sup>1</sup> | 3.0        | 38.9%          | 51.5%       |
| Employers Mutual Casualty Company               | EMC Insurance Group Inc.  | IA           | 11/16/2018             | 1,652.2      | 549.9             | 1.2 x             | NA       | 101.3%          | 371.3      | 49.9%          | 150.0%      |
| Transverse Insurance Group, LLC                 | Financial American Property and Casualty Insurance Company        | FL           | 10/26/2018             | 9.4          | 7.9               | 0.0 x             | (5.9%)   | NM              | 4.9        | 52.2%          | 62.2%       |
| SUNZ Holdings, LLC                              | Ashmere Insurance Company   | FL           | 10/23/2018             | 10.7         | 3.8               | 1.3 x             | (42.8%)  | 178.9%          | 3.7        | 35.0%          | 99.9%       |
| CFM Insurance, Inc.                             | Cornestone National Insurance Company                             | MO           | 10/18/2018             | 21.5         | 5.2               | 3.1 x             | (30.7%)  | 136.1%          | 5.3        | 24.8%          | 103.5%      |
| Enstar Group Limited                            | Malden Reinsurance North America, Inc.                            | NJ           | 8/31/2018              | 1,275.7      | 293.0             | 2.0 x             | 2.1%     | 104.3%          | 321.5      | 25.2%          | 109.7%      |
| Hartford Financial Services Group               | Navigator Group, Inc.   | CT           | 8/22/2018              | 3,319.2      | 1,039.6           | 1.0 x             | NA       | 98.5%           | 2,151.0    | 64.8%          | 206.9%      |
| Hardscuffie, Inc.                               | Rutgers Enhanced Insurance Company                                | NJ           | 8/16/2018              | 11.0         | 4.0               | 0.7 x             | (8.0%)   | 119.1%          | 4.1        | 37.6%          | 103.8%      |
| Premier Holdings, LLC                           | Menotda Insurance Company   | MN           | 7/16/2018              | 135.4        | 29.1              | 3.9 x             | NA       | 121.6%          | 25.4       | 18.8%          | 87.4%       |
| Plymouth Rock Company Incorporated              | MAPRE Insurance Company of New York                               | MA           | 6/14/2018              | 150.3        | 42.2              | 2.3 x             | (4.2%)   | 106.6%          | 22.7       | 15.1%          | 53.7%       |
| Kemper Corporation                              | Infinity Property and Casualty Corporation                        | AL           | 2/13/2018              | 2,167.7      | 675.7             | 2.0 x             | NA       | 101.6%          | 1,324.1    | 61.1%          | 196.0%      |
| CopperPoint Mutual Insurance Company            | Pacific Compensation Insurance Company                            | CA           | 9/13/2017              | 389.2        | 114.0             | 1.3 x             | 1.7%     | 102.2%          | 150.0      | 38.5%          | 131.6%      |
| Heritage Insurance Holdings, Inc.               | NBIC Holdings, Inc.   | RI           | 8/31/2017              | 230.9        | 95.6              | 0.5 x             | NA       | NA              | 237.9      | 103.0%         | 248.8%      |
| United Insurance Company                        | Specialty Surplus Insurance Company                               | IL           | 7/31/2017              | 17.4         | 17.3              | 0.0 x             | (1.1%)   | NA              | 15.2       | 87.3%          | 88.0%       |
| Markel Corporation                              | State National Companies, Inc.                                    | TX           | 7/26/2017              | 635.8        | 319.7             | 0.4 x             | NA       | NA              | 922.6      | 145.1%         | 288.6%      |
| American International Group, Inc.              | Hamilton U.S. Holdings, Inc.                                      | NJ           | 5/15/2017              | 117.1        | 56.7              | 0.4 x             | NA       | 209.0%          | 110.0      | 93.9%          | 193.9%      |
| Enstar Group Limited                            | Affirmative Insurance Company of Michigan                         | MI           | 4/7/2017               | 9.5          | 7.0               | 0.0 x             | (6.3%)   | NA              | 5.0        | 53.0%          | 71.4%       |
| Standard Diversified Inc.                       | Interboro Holdings, Inc.  | NY           | 11/25/2016             | 60.6         | 6.8               | 6.2 x             | (72.4%)  | 125.9%          | 2.5        | 4.1%           | 37.0%       |
| National Fidelity Holdings, Inc.                | Ashmere Insurance Company   | CT           | 10/10/2016             | 9.4          | 9.3               | 0.0 x             | (1.0%)   | NA              | 15.4       | 164.5%         | 164.8%      |
| PW Holdings Limited                             | Affirmative Direct Insurance Company                              | CT           | 9/6/2016               | 5.2          | 5.1               | 0.0 x             | (4.4%)   | NA              | 5.7        | 109.6%         | 112.7%      |
| Metromile Inc.                                  | Mosaic Insurance Company  | NY           | 8/16/2016              | 16.4         | 15.1              | 0.0 x             | (9.9%)   | NA              | 22.0       | 133.8%         | 145.9%      |
| National General Holdings Corporation           | Standard Mutual Insurance Company                                 | IL           | 1/27/2016              | 59.0         | 22.0              | 2.0 x             | (1.5%)   | 103.6%          | 27.6       | 46.8%          | 125.7%      |
| National General Holdings Corporation           | Century National Insurance Company / Western General Agency, Inc. | CA           | 1/25/2016              | 599.3        | 365.3             | 0.4 x             | 4.1%     | 109.6%          | 315.0      | 70.1%          | 146.3%      |
|   |   |              | Maximum                | 3,319.2      | 1,039.6           | 6.2 x             | 4.1%     | 91.4%           | 2,151.0    | 164.5%         | 288.6%      |
|   |   |              | Top 25th Percentile    | 617.5        | 231.1             | 1.9 x             | (1.0%)   | 102.6%          | 276.4      | 78.7%          | 146.2%      |
|   |   |              | Median                 | \$ 105.9     | \$ 33.7           | 1.0 x             | (3.8%)   | 107.4%          | \$ 25.7    | 49.9%          | 112.7%      |
|   |   |              | Bottom 25th Percentile | 14.8         | 8.6               | 0.2 x             | (7.6%)   | 123.7%          | 5.5        | 34.7%          | 87.7%       |
|   |   |              | Minimum                | 5.2          | 3.8               | 0.0 x             | (72.4%)  | 209.0%          | 2.5        | 4.1%           | 37.0%       |
|   |   |              |                        | \$ 1,620.5   | \$ 575.5          | 0.6 x             | (3.3%)   | 175.8%          |            |                |             |

1) NORCAL operating metrics are as of year-end 2019 on a Statutory basis.

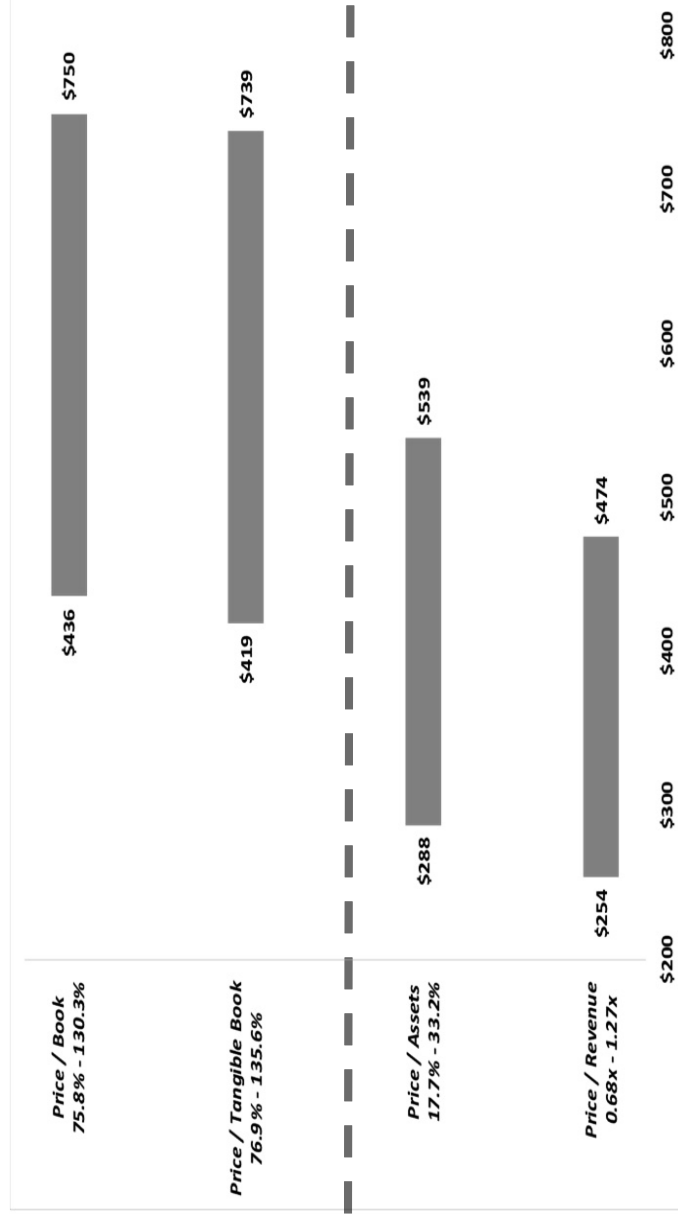
| Adjustments for Control vs. Minority | P/Asset | P/BV   | P/NPW |
|--------------------------------------|---------|--------|-------|
| Maximum                              | 128.0%  | 224.5% | 5.5 x |
| Top 25th Percentile                  | 61.2%   | 115.3% | 1.3 x |
| Median                               | 38.8%   | 87.7%  | 0.8 x |
| Bottom 25th Percentile               | 27.0%   | 68.2%  | 0.5 x |
| Minimum                              | 3.2%    | 28.8%  | -     |

## Guideline Transaction Analysis (GAAP) – Valuation Summary

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We applied the Guideline M&A Transaction multiples to derive NORCAL's relative valuation. Given insurance M&A and demutualization experience, as well as the earnings profile and other characteristics of NORCAL, Boenning placed greater emphasis on the book value multiple as an indicator of value. Note that the valuation metrics in the graph above reflect the 25th to 75th percentile, as we determined NORCAL likely falls in in that range based on their relative performance. Analyzing this range also helps eliminate extreme values.

Ultimately, the valuation results from the Guideline M&A Transaction Analysis (GAAP) resulted in value ranges of \$254 million on the low end to \$750 million on the high end.



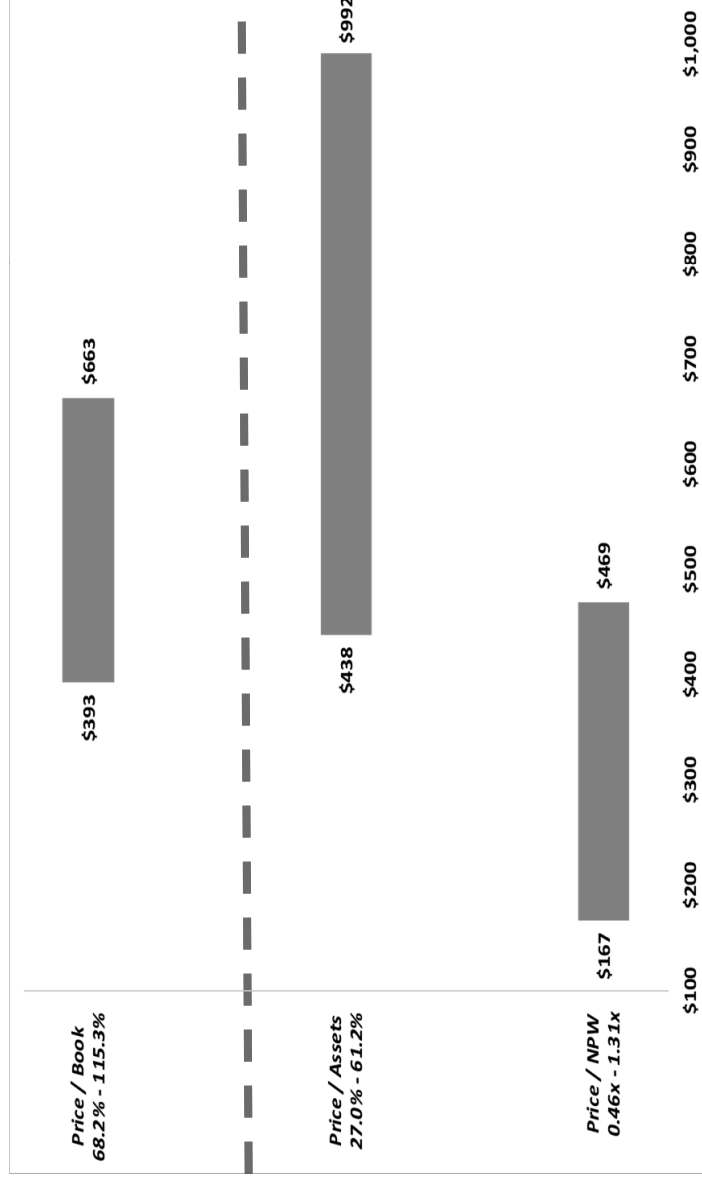
Due to the absence of GAAP filings, Boenning is applying NORCAL's year-end 2019 statutory figures to GAAP multiples.

## Guideline Transaction Analysis (Statutory) – Valuation Summary

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We applied the Guideline M&A Transaction multiples to derive NORCAL's relative valuation. Given insurance M&A and demutualization experience, as well as earnings profile and other characteristics of NORCAL, Boenning placed greater emphasis on the book value multiple as an indicator of value. Note that the valuation metrics in the graph above reflect the 25th to 75th percentile, as we determined NORCAL likely falls in in that range based on their relative performance. Analyzing this range also helps eliminate extreme values.

Ultimately, the valuation results from the Guideline M&A Transaction Analysis (Statutory) resulted in value ranges of \$167 million on the low end to \$663 million on the high end.



## Present Value Analysis

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### **I. What is Present Value?**

Present value (PV) is the current value of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows.

### **II. Present Value Analysis – Statutory Capital & Surplus**

Boenning utilized NORCAL's recent projections, which were updated due to the Company's recent underperformance. The discount rate applied to the model was run at 9%, which is a factor of the following:

- Risk Free Rate: 2.05%, the 20-year Treasury as of the Valuation date.
- Equity Risk Premium: 5.0%, the Duff & Phelps recommended premium.
- Beta: 0.76, the Duff & Phelps recommended average beta for NORCAL's industry.
- Size Premium: 2.46%, the Duff & Phelps recommended size premium.

### **III. Present Value Analysis – Tangible Statutory Capital & Surplus**

Boenning utilized NORCAL's recent projections, which were updated due to the Company's recent underperformance. The discount rate applied to the model was run at 9%, which is a factor of the following:

- Risk Free Rate: 2.05%, the 20-year Treasury as of the Valuation date.
- Equity Risk Premium: 5.0%, the Duff & Phelps recommended premium.
- Beta: 0.76, the Duff & Phelps recommended average beta for NORCAL's industry.
- Size Premium: 2.46%, the Duff & Phelps recommended size premium.

## Present Value Analysis – Discounting of Capital & Surplus

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### IV. Discounting Cash Flows

Boenning utilized a Present Value analysis as one of the methods for determining value. We discounted management's projections of future capital & surplus to the present to account for risk adjusted time value of money. Boenning then utilized a range of Discount Rates and possible variations to management's projections as compiled in the tables below. This discounted Present Value was applied to both stated as well as tangible capital & surplus.

| <b>Present Value Analysis - Statutory Capital &amp; Surplus</b> |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
|   | 2020P   | 2021P   | 2022P   | 2023P   | 2024P   |
| Statutory Capital & Surplus                                     | \$575.5 | \$553.5 | \$563.3 | \$597.0 | \$641.5 |
| Earnings Gain (Loss)  | (22.0)  | 9.8     | 33.7    | 44.5    | 39.2    |
| Statutory Capital & Surplus                                     | \$553.5 | \$563.3 | \$597.0 | \$641.5 | \$680.7 |
| Present Value of Capital & Surplus                              |         |         |         |         | \$442.4 |

| <b>Sensitivity to Capital &amp; Surplus and Discount Rate</b> |                                       |         |
|---|---------------------------------------|---------|
| Discount Rate (%)   | Capital & Surplus Increase / Decrease |         |
| 7.0%  | (10.0%)                               | \$436.8 |
| 8.0%  | (5.0%)                                | \$416.9 |
| 9.0%  | —                                     | \$398.1 |
| 10.0%   | 5.0%                                  | \$380.4 |
| 11.0%   | 10.0%                                 | \$363.5 |
|   |                                       | \$461.0 |
|   |                                       | \$463.2 |
|   |                                       | \$420.3 |
|   |                                       | \$422.6 |
|   |                                       | \$403.9 |
|   |                                       | \$403.8 |
|   |                                       | \$424.1 |
|   |                                       | \$444.3 |
|   |                                       | \$509.6 |
|   |                                       | \$486.4 |
|   |                                       | \$464.5 |
|   |                                       | \$464.5 |
|   |                                       | \$464.9 |
|   |                                       | \$444.3 |

| <b>Present Value Analysis - Tangible Statutory Capital &amp; Surplus</b> |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|
|  | 2020P   | 2021P   | 2022P   | 2023P   | 2024P   |
| Tangible Statutory Capital & Surplus                                     | \$544.6 | \$522.6 | \$532.4 | \$566.1 | \$610.6 |
| Earnings Gain (Loss)   | (22.0)  | 9.8     | 33.7    | 44.5    | 39.2    |
| Tangible Statutory Capital & Surplus                                     | \$522.6 | \$532.4 | \$566.1 | \$610.6 | \$649.8 |
| Net Present Value of Tangible Capital & Surplus                          |         |         |         |         | \$422.4 |

| <b>Sensitivity to Capital &amp; Surplus and Discount Rate</b> |                                       |         |
|---|---------------------------------------|---------|
| Discount Rate (%)   | Capital & Surplus Increase / Decrease |         |
| 7.0%  | (10.0%)                               | \$417.0 |
| 8.0%  | (5.0%)                                | \$398.0 |
| 9.0%  | —                                     | \$380.1 |
| 10.0%   | 5.0%                                  | \$363.2 |
| 11.0%   | 10.0%                                 | \$347.1 |
|   |                                       | \$463.3 |
|   |                                       | \$442.3 |
|   |                                       | \$442.4 |
|   |                                       | \$403.5 |
|   |                                       | \$423.7 |
|   |                                       | \$385.7 |
|   |                                       | \$404.9 |
|   |                                       | \$486.5 |
|   |                                       | \$464.4 |
|   |                                       | \$443.5 |
|   |                                       | \$464.6 |
|   |                                       | \$443.9 |
|   |                                       | \$424.2 |

Due to the absence of GAAP filings, Boenning is applying NORCAL's year-end 2019 statutory figures to GAAP multiples.



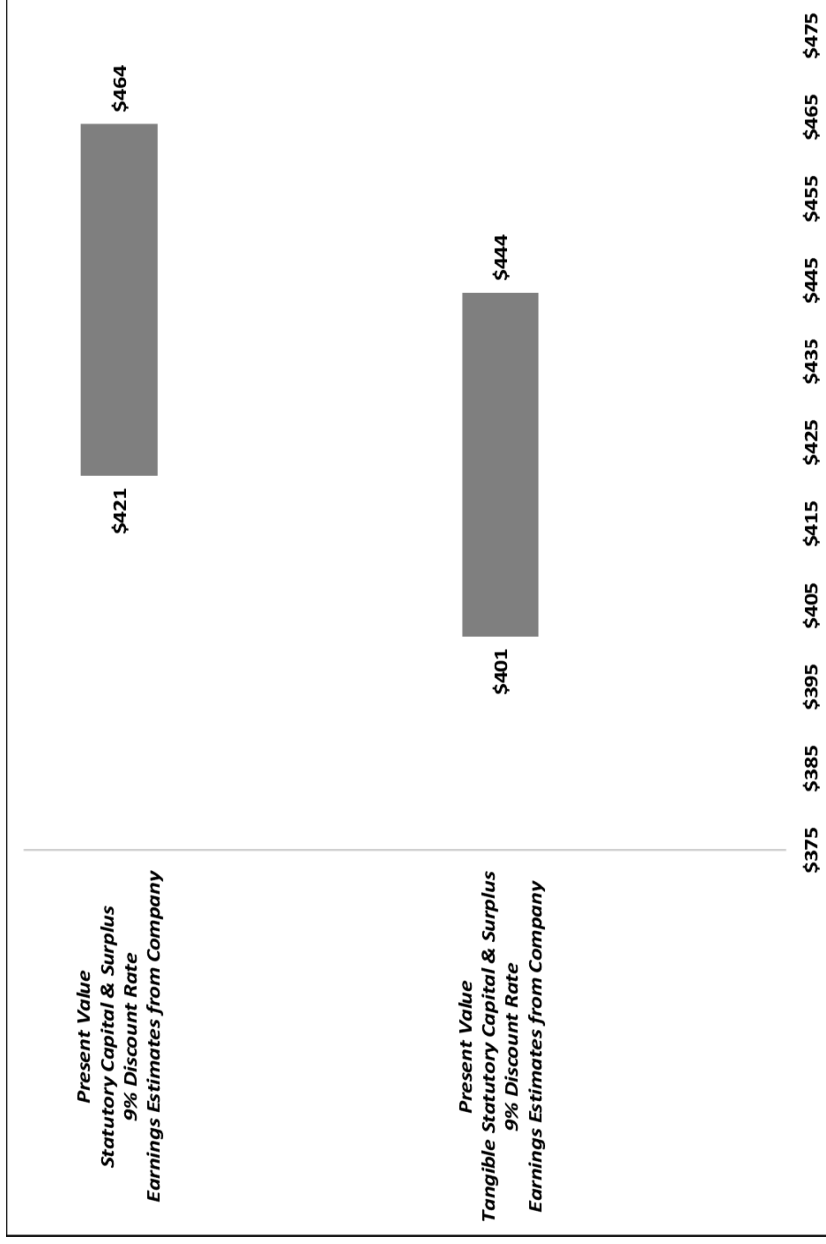
# Present Value Analysis – Valuation Summary

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## V. Summary

We utilized a Present Value Analysis to derive NORCAL's relative valuation. Given that both Book Value and Tangible Book Value are key metrics to an insurer, we analyzed both metrics to determine potential valuation ranges.

Ultimately, the valuation results from the Present Value Analysis resulted in value ranges of \$401 million on the low end to \$464 million on the high end.



## Valuation Conclusions

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## Valuation Process and Conclusions

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In completing our valuation, we considered and analyzed several traditional, commonly accepted and appropriate factors, as detailed earlier in this Appraisal. These include a review of the Company and its position in the market, its financial performance (including its reserve and development experience), its projected financial performance, standalone key financial metrics (and as compared to its peers through benchmarking), industry factors and outlook, the standard of value, several valuation techniques and additional valuation considerations deemed by us to be relevant.

The valuation techniques we utilized included Market (Guideline Public Company and Guideline M&A Transactions) and Income (Present Value) valuation approaches under a “freely traded minority interest” standard of value, as applied to NORCAL’s statutory financial results. These are customary methods of assessing the valuation of a company.

The Market approaches were used to develop financial pricing multiples (Price-to-Book Value, Price-to-Tangible Book Value, Price-to-Assets and Price-to-Revenue). For each of these, we selected a range of multiples (based on the results of our benchmarking, comparable analysis and judgment) to be applied to NORCAL’s financial metrics, and thereby derived implied valuation ranges for each market approach. Similarly, the Income approach used a present value analysis that varied NORCAL’s statutory capital & surplus and tangible capital & surplus forecasts, and the discount rate, to derive ranges of value.

Using the factors and techniques noted above and described in this Appraisal, we determined that the fair value of NORCAL was \$440 million as of January 31, 2020. We observe that applying equal weight to each valuation approach, focusing on the median of the range end point values, results in a value that is supportive of \$440 million.

*continued*

## Valuation Process and Conclusions (*continued*)

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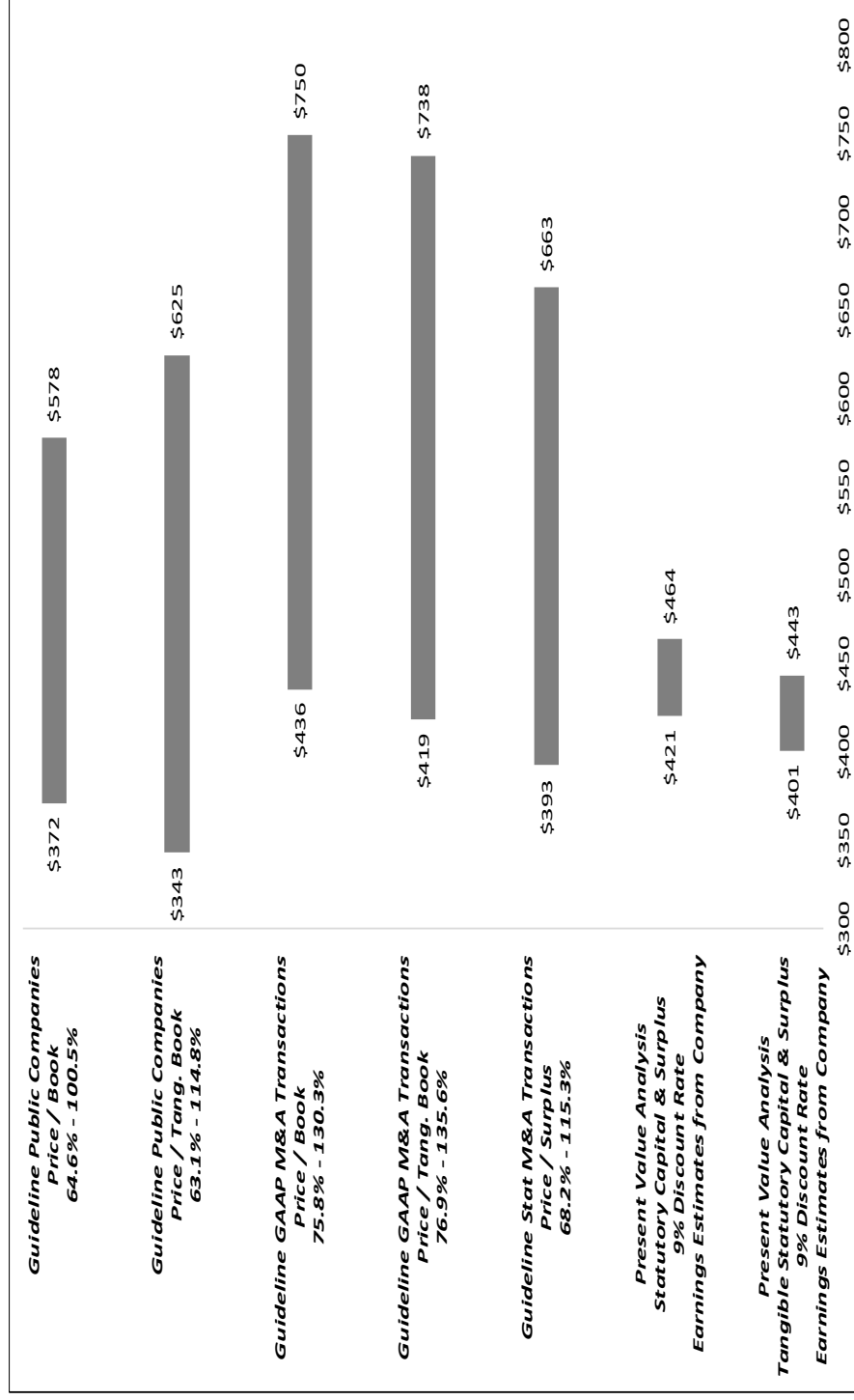
To explain further, the valuation techniques we used provide indicative values in a range, as noted in the chart on the following page, such that an appraiser could determine value anywhere within the range, or even outside the range if additional factors justified such a determination. The chart below presents the ranges of values derived from the Guideline Public Company, Guideline M&A Transaction (GAAP and Statutory), and Present Value analyses, described earlier in the Appraisal. The valuation techniques generated 14 observable indicators, ranging from \$343 million to \$750 million. While the application of valuation techniques alone is not determinative of an ultimate valuation conclusion, the median of the fourteen values is \$439.7 million which is consistent with our determination that the fair value of NORCAL as of January 31, 2020 was \$440 million.

While we employed several valuation techniques, no one method of analysis should be regarded as solely or primarily responsible for the overall conclusion we have reached. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the usefulness of certain techniques. The valuation conclusion we ultimately reached is based on all of the analyses and factors described in this report, taken as a whole, as well as an application of our own professional experience and judgment. Such conclusions necessarily involve significant elements of subjective judgment and qualitative analysis and are not a purely mathematical exercise.

*continued*

**Valuation Technique Summary Results**

Note that the valuation metrics in the graph below reflect the 25<sup>th</sup> to 75<sup>th</sup> percentile. As noted in the Appraisal, we determined NORCAL’s value falls in the bottom end of that range due to their relative performance and other factors.



# Supplemental Company Information

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## Appendix A

NORCAL policyholders do not “own” the Company’s surplus, and only have rights to the surplus in certain circumstances. Per the California Code, if the Company were to be dissolved, policyholders would be entitled to the surplus remaining after expenses and costs related to dissolving the Company were paid.

According to management, with the challenges and headwinds facing the MPL industry today, NORCAL will likely see a decline in surplus levels in the near term, raising questions of long-term sustainability and ultimately weakening the position of the Policyholders.

***At any valuation, NORCAL’s Policyholders’ current position is enhanced, and they benefit from a Sponsored Conversion in the following manner, as summarized in the Plan under Article 1:***

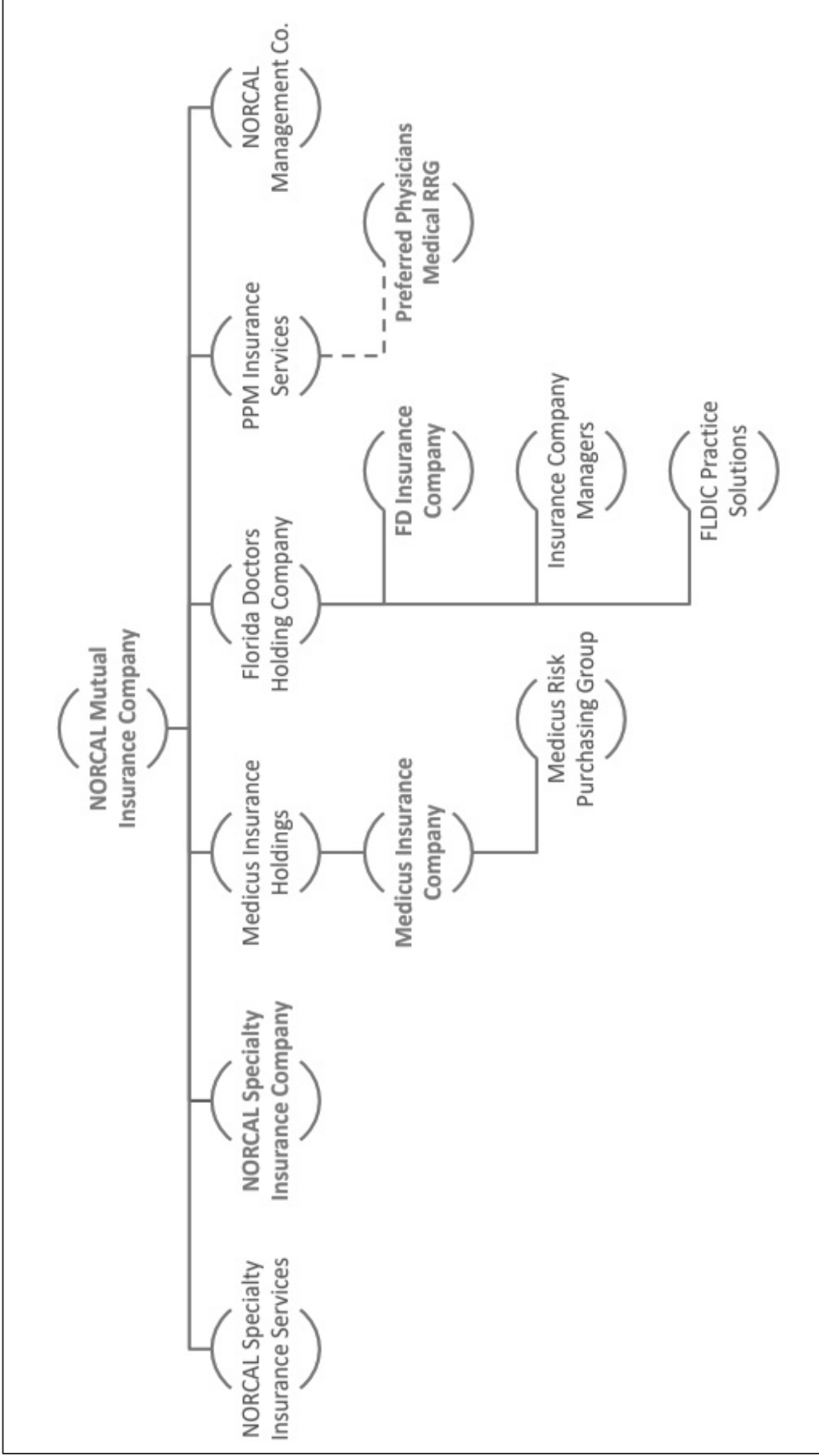
The Board has considered NORCAL’s position as an independent company in the present competitive environment for medical professional liability insurers and believes that NORCAL’s ability to pursue its strategic objectives would be enhanced by this affiliation;

The Sponsored Conversion and affiliation with the Sponsor will create meaningful economies of scale and will provide NORCAL with greater resources to back its obligations to policyholders, support the growth of NORCAL’s business and product lines, and take advantage of investment and acquisition opportunities. The Sponsored Conversion will benefit both the short-term and long-term interests of NORCAL and its policyholders; and

The Sponsor has a history of successfully integrating the mutual insurance and stock insurance companies it has acquired and invested substantial resources in such companies, resulting in the steady growth and expansion of such insurers over time.

# NORCAL Corporate Structure

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# NORCAL Management and Board of Directors

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## The NORCAL Group Senior Leadership

| Team Member   | Years at NORCAL | Years in P&C Insurance |
|---|-----------------|------------------------|
| <b>Scott Diener</b><br><i>President &amp; Chief Executive Officer</i> | 17              | 41                     |
| <b>Ron Rumin</b><br><i>SVP &amp; Chief Operating Officer</i>          | 6               | 30                     |
| <b>Mark Johnson</b><br><i>SVP &amp; Chief Financial Officer</i>       | 4               | 31                     |
| <b>Jason Gingerich</b><br><i>VP &amp; Treasurer</i>                   | 3               | 28                     |
| <b>Kara Baysinger</b><br><i>Interim Chief Legal Officer</i>           | NA              | NA                     |
| <b>Julie Burns</b><br><i>SVP &amp; Chief Human Resources Officer</i>  | 17              | 17                     |

## The NORCAL Group Board of Directors

| Board Member  | Board Position  | Year Appointed |
|---|---|----------------|
| <b>Sandra L. Beretta, MD</b><br><i>Obstetrics &amp; Gynecology</i>                  | Chair of the Board<br><i>Executive Committee</i>                  | 2011           |
| <b>Fabiola Cobarrubias, MD, MBA</b><br><i>Hospitalist</i>                           | Vice Chair of the Board<br><i>Chair of Governance Committee</i>   | 2012           |
| <b>Steven Packer, MD</b><br><i>President &amp; CEO of Montage Health</i>            | Secretary of the Board<br><i>Chair of Investment Committee</i>    | 2013           |
| <b>Scott Diener, MSIM, CPCU, ARe</b><br><i>President &amp; CEO of NORCAL Mutual</i> | Director  | 2015           |
| <b>Alice H. Gannon, FCAS, MAAA, CPCU</b><br><i>Actuary</i>                          | Director<br><i>Chair of Audit Committee</i>                       | 2009           |
| <b>Roger M. Hayashi, MD</b><br><i>Vascular Surgery</i>                              | Director<br><i>Chair of Transactions Committee</i>                | 2004           |
| <b>M. Diane Koken, JD</b><br><i>Legal Consultant</i>                                | Director<br><i>Chair of Compensation &amp; Benefits Committee</i> | 2009           |
| <b>Rebecca J. Patchin, MD</b><br><i>Anesthesiology</i>                              | Director  | 2011           |
| <b>Scott C. Syphax</b><br><i>CEO of Syphax Strategic Inc.</i>                       | Director  | 2011           |

## Transaction History

Given NORCAL's size and MPL focused book, only a handful of potential parties (3) were seriously interested, creating a limited buyer pool. Those parties were heavily focused on NORCAL's current and near-term surplus development. Recent performance results among MPL insurers (including ProAssurance) indicate the headwinds facing the sector.

Valuation revisions downward reflect the erosion of NORCAL's surplus due to 2019 adverse reserve development, actuarial review, and potential continued adverse development in the coming years (ultimately proven in the reports of Milliman, which summarized independent analysis of NORCAL's unpaid claim liabilities as of December 31, 2019 and a summary of reserves prepared by the Company's independent auditors, KPMG).

## Auction Process

**May 2018:** NORCAL determined that its limited product offerings & capabilities, changes in the healthcare industry, and need for scale made continuing as an independent company may not be in the best interest of policyholders. As a result, NORCAL retained Waller Helms to contact potential interested parties, which included a select number of larger MPL writers.

**June / July / September 2018:** Buyer outreach began, and initial management meetings occurred with the 4 potential transaction partners. Waller Helms distributed process letters to all four parties, detailing items to include in a formal IOI.

**November / December 2018:** Three interested parties submitted IOIs, which indicated a preliminary valuation range from \$535 million to \$1.1 billion. NORCAL's management reviewed the list and decided to narrow discussions down to two parties based on a variety of factors including policyholder orientation, product offerings and expertise, financial consideration, and employee culture. NORCAL's board gave approval to move forward with ProAssurance for a 45-day exclusivity period to perform diligence and valuation work.

**March / April / May / July 2019:** ProAssurance delivered initial transaction terms, indicative of a \$870 million valuation, and NORCAL's board approved an initial transaction with ProAssurance.

**September / October / December 2019:** Milliman conducted an actuarial report in connection with the potential transaction, and ProAssurance submitted a revised IOI based on their view of NORCAL's surplus level. The revised IOI was indicative of a \$450 million valuation, with a potential \$150 million additional consideration for an earnout based on future reserve development. NORCAL approved transaction based on ProAssurance's updated IOI.

# Supplemental Industry Information

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## Appendix B

This section of the Appraisal is intended to summarize key industry trends which could impact the valuation of an enterprise, including how well-positioned a subject company is relative to such trends.

## P&C Overview

In the United States (the world's biggest insurance market), the P&C sector is building upon a strong 2018 in which the industry saw net income rise 66% to \$60 billion, largely due to a 10.8% increase in net written premiums and nearly breaking even on underwriting.

Some of the increase in NPW can be attributed to changes in reinsurance purchasing strategy, prompted by the Tax Cuts and Job Act of 2017. Despite this, P&C insurers are growing premium volumes simply by raising rates, in part to compensate for mounting liabilities as well as lower yields on fixed-income securities.

Looking ahead, S&P Global Market Intelligence is projecting “modest deterioration” in U.S. P&C underwriting profitability over the next four years. Additionally, the U.S. industry's top-line growth rates and profitability could also be undermined by a slowing economy, as Deloitte is projecting GDP growth to fall 1.6% in 2020, with the profitability of a recession relatively high at 25%. Interest rates should remain at historically low levels, rising only to about 3.25% over the next five years.

While most insurers are continually seeking expense efficiencies and variabilization of costs, most keep investing proactively.

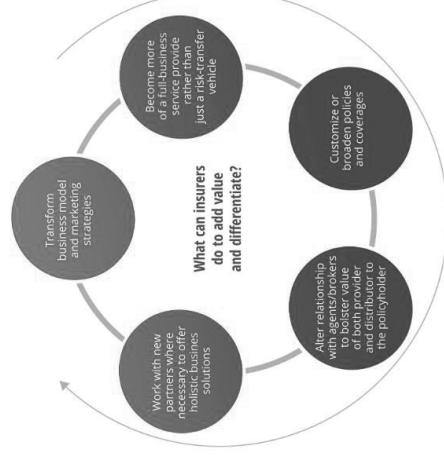
More insurers are looking to bolster core systems, add capabilities, and enhance customer experience through artificial intelligence (“AI”), digitalization, new sales platforms, alternative product development, and other innovations.

Many insurance companies are beginning to pivot from investments to support business as usual to financing innovations that facilitate more fundamental business model changes.

## 2020 and Beyond

Most insurance carriers are aware of the growth challenges they face in already mature insurance markets, compounded by a slowdown or even retraction in a number of major economies. As a result, many are being far more selective about where they direct organic expansion efforts.

Growth is rarely being sought out for growth's sake, but rather for differentiation and profitability. At the same time, seeking expense efficiencies is likely to be an ongoing mission for most insurers, which will allow them to free up funds to invest in new products, systems, business models, and capabilities.

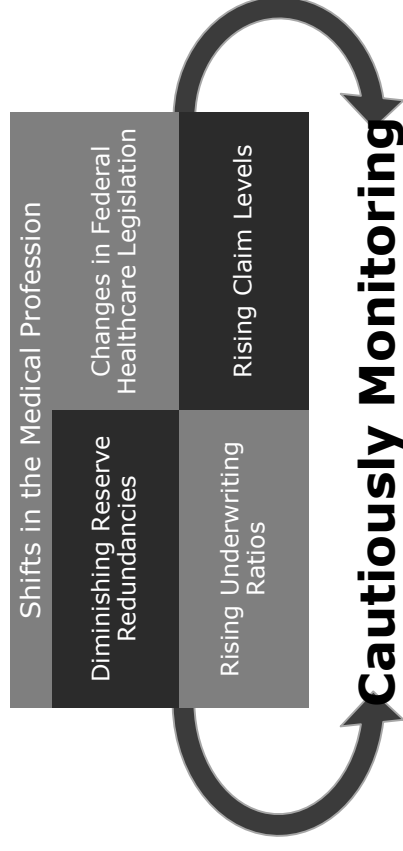


Not everyone will innovate in the same way, however what's changing in insurance seems to be the increasing sense of urgency. Few companies are debating whether they are being disrupted, and instead are beginning to focus on longer-term responses to avoid becoming irrelevant.

MPL writers are being pressured by shrinking demand, prolonged soft market conditions, and diminishing reserve redundancies.

Medical professional liability insurance, sometimes known as medical malpractice insurance, is one type of professional liability insurance which protects physicians and other licensed health care professionals (e.g., dentists, nurses) from liabilities associated with wrongful practices that result in bodily injury, medical expenses and property damage, as well as the cost of defending lawsuits related to such claims.

A medical professional liability insurance policy covers bodily injury or property damage, as well as liabilities for personal injury such as mental anguish. The complexity involved in discovering negligence results in a higher percentage of premium dollars going toward defense and cost containment expenses. Medical liability insurers spend substantial funds investigating and defending claims where there is an adverse patient outcome not resulting from negligence.



| Top 10 MPL Writers (\$ in Millions) <sup>1</sup> | 2018       |      | 2017 |      | 2018 |      |
|--|------------|------|------|------|------|------|
|  | DPW        | Rank | DPW  | Rank | Rank | Rank |
| Berkshire Hathaway Insurance Group               | \$ 1,564.1 | 1    |      | 1    | 1    | 1    |
| The Doctors Company                              | 690.0      | 2    |      | 2    | 2    | 2    |
| CNA Insurance Companies                          | 528.7      | 3    |      | 3    | 3    | 3    |
| ProAssurance                                     | 474.8      | 4    |      | 4    | 4    | 4    |
| Coverys  | 446.2      | 5    |      | 5    | 5    | 5    |
| NORCAL Mutual Insurance Company                  | 341.5      | 7    |      | 7    | 6    | 6    |
| MICIC Vermont                                    | 339.9      | 6    |      | 6    | 7    | 7    |
| Mag Mutual Insurance Company                     | 286.7      | 8    |      | 8    | 8    | 8    |
| Hospitals Insurance Company                      | 219.1      | 10   |      | 10   | 9    | 9    |
| Physicians Reciprocal Insurers                   | 174.1      | 9    |      | 9    | 10   | 10   |

1) Source - AMBest Market Segment Report.

| US MPL Highlight (\$ in Millions) <sup>1</sup> | 2014              | 2015              | 2016            | 2017              | 2018              |
|--|-------------------|-------------------|-----------------|-------------------|-------------------|
| Premiums Earned                                | \$ 5,070.0        | \$ 5,560.0        | \$ 5,783.0      | \$ 5,754.0        | \$ 5,879.0        |
| Loss & LAE Incurred                            | 2,290.0           | 3,777.0           | 4,282.0         | 4,221.0           | 4,369.0           |
| Other Underwriting Expenses                    | 1,288.0           | 1,274.0           | 1,363.0         | 1,348.0           | 1,378.0           |
| Policyholder Dividends                         | 300.0             | 342.0             | 298.0           | 241.0             | 251.0             |
| Underwriting Income                            | 491.0             | 167.0             | (160.0)         | (56.0)            | (119.0)           |
| Investment Income                              | 1,005.0           | 975.0             | 939.0           | 942.0             | 1,137.0           |
| Other Income                                   | 32.0              | 30.0              | 10.0            | (22.0)            | 184.0             |
| <b>Pre-Tax Income</b>                          | <b>\$ 1,528.0</b> | <b>\$ 1,172.0</b> | <b>\$ 789.0</b> | <b>\$ 865.0</b>   | <b>\$ 1,202.0</b> |
| Realized Gains (Losses)                        | 477.0             | 65.0              | 155.0           | 476.0             | 686.0             |
| <b>Net Income</b>                              | <b>\$ 1,670.0</b> | <b>\$ 1,060.0</b> | <b>\$ 737.0</b> | <b>\$ 1,163.0</b> | <b>\$ 1,804.0</b> |

1) Source - AMBest Market Segment Report.

## What's Driving the Challenging Environment?

**Primarily, the increasing frequency of severe claims fueled by rising verdict and settlement values.**

Historically, most physicians were insured separately, independent of their hospital (hospitals carry higher limits by comparison). With more physicians now employed by hospitals, plaintiffs continue to find ways to ignite the “blame game” in order to inflate values and sway a juror’s view of the care provided.

This strategy typically increases both the ultimate settlement value and the cost of the defense, while eliminating opportunities for early resolution.

The MPL market is responding to increasing severity trends. Most carriers are starting to look more carefully at policy language, terms, and conditions. Multi-year agreements are narrower in their parameters, and underwriting discipline is increasing, with looking at if renewing terms & conditions make sense based on the insured’s loss experience and current risk profile.

Capital & surplus capital in the medical liability space has continuously declined, and reserve redundancies are diminishing from prior years, so the market is no longer able to mask actual current year results. While in the past a carrier could have been buffered by prior year results, that’s not longer an option (to the same extent).

## How Do these Factors Affect the Competitive Landscape?

The aforementioned factors have in some cases resulted in rising rates. Brokers, customers, and carriers are having open and candid conversations about the importance of a healthy market and the need to act to ensure long-term stability.

Over the past several years, there has been a good deal of rationalizing, failure to respond timely, and a general reluctance to make corrections needed for the overall health of the marketplace.

The industry is now at a turning point where the key writers realize they’re behind, and serious improvements are necessary to return to strong business fundamentals.

## Risk Retention Groups – Additional Competition

Recently, the admitted carriers have faced increased competition from Risk Retention Groups (“RRGs”), who are exempt from having to obtain state licenses in the states they write business and are also exempt from state laws that regulate insurance.

RRG’s are exempt from having to contribute to state guaranty funds, which can lower premium costs, but can also increase the possibility that policyholders will not have access to state funds in the event of a group failure.

Due to the low premiums and flexibility to tailor insurance policies to customer needs, RRGs have recently put increased pressure on traditional admitted carriers.

## Industry Headwind

## Notes

**Requirements of being a leader in MPL insurance continue to grow as healthcare continues its evolution.**

### Physician Employment Trends

- Independent physicians and groups continue to face pressure and competition from hospitals for practitioners, accelerated by consolidation within the provider and facility space.
- Rising operating costs and expanding client services are driving partnerships and consolidation amongst healthcare professionals to form larger groups or join hospitals.

### Larger, More Sophisticated Clients are Becoming the Norm

- Larger groups and healthcare systems need comprehensive insurance and risk management solutions beyond healthcare liability.
  - Enterprise risk management, patient safety, continuing education services, risk mitigation, cyber coverage, practice management, and other P&C insurance products.
- As hospital employment of physicians continues to trend upwards and health systems become larger as a result of consolidation, those groups are looking for tailored solutions that do not tie up significant amounts of capital.
  - Alternative risk transfer vehicles are becoming more prevalent and the management of those entities is a growth area for the industry.

### MPL Insurance Operating Environment

- Continued soft market environment but will favor those with scale and the ability to respond quickly to client and market needs.
- Distribution models are changing and becoming more broker-driven.
- Challenging reserve redundancy dynamics, but underwriting results remain buoyed by favorable reserve development.
- Quality M&A opportunities in the MPL insurance space are becoming scarce.
- Investment yields remain low, putting pressure on overall profitability and stressing the importance of underwriting profits.

## AXIS Capital Holdings

AXIS provides a broad range of specialty insurance and reinsurance solutions through operating subsidiaries and branch networks based in Bermuda, United States, Europe, Singapore, Canada, Latin America and the Middle East. The Company's business consists of two distinct global underwriting platforms, AXIS Insurance and AXIS Re.

## American National

American National's core businesses include life insurance, annuities and property and casualty insurance. The Company also offers limited health insurance. Additionally, American National provides personalized service to approximately six million policyholders throughout the United States, the District of Columbia, and Puerto Rico.

## ProAssurance

ProAssurance is an industry-leading specialty insurer with extensive expertise in healthcare professional liability, products liability for medical technology and life sciences, legal professional liability, and workers' compensation insurance. The Company is recognized as one of the top performing insurance companies in America by virtue of our inclusion in the Ward's 50 for thirteen consecutive years.

## United Fire

United Fire primarily writes property and casualty insurance. Through its subsidiaries, the Company is licensed to write business in 46 states. A.M. Best Company assigns a rating of "A" (Excellent) for members of the United Fire & Casualty Group.

## United Insurance

UPC Insurance is an insurance holding company that sources, writes and services personal and commercial residential property and casualty insurance policies using a group of wholly owned insurance subsidiaries and one majority owned insurance subsidiary through a variety of distribution channels.

## Donegal

Donegal is focused on several primary strategies, including growing profitably in commercial lines, improving financial performance, utilizing technology to improve operational efficiency, strategically modernizing the business in order to achieve operational excellence and enhancing the Company's market position to compete effectively.

## NI Holdings

Nodak Insurance Company and its affiliates focus on property and casualty insurance products with emphasis on automobile, Farmowners, homeowners, and small business risks. Products are marketed through both captive and independent agent channels located in North and South Dakota, Nebraska, Minnesota, Nevada, and Arizona.

## FedNat

FedNat, through its wholly owned subsidiaries, is authorized to underwrite, and/or place homeowners multi-peril, federal flood and other lines of insurance in Florida and other states. The Company markets, distributes and services its own and third-party insurers' products, as well as other services through a network of independent and general agents.

## Protective

Through its subsidiaries, Protective provides liability and workers' compensation coverage for trucking and public transportation fleets, along with trucking industry independent contractors. Additionally, the Corporation's subsidiaries offer worker's compensation coverage for a variety of classes outside the transportation industry.



# Guideline Public Company Business Description

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## Kingstone

Kingstone is a multiline northeast regional property and casualty insurer that writes business through retail and wholesale agents and brokers. The Company offers primarily personal lines insurance products, as well as Physical Damage.

## Atlantic American

Atlantic American Corporation is an insurance holding company involved in the specialty markets of the life, health, and property and casualty insurance industries.

## ICC

ICC Holdings, Inc. is a vertically integrated company created to facilitate the growth, expansion and diversification of its subsidiaries in order to maximize value to its stakeholders. ICC engages in diverse, yet complementary business activities, including property and casualty insurance, real estate, and information technology.

## National Security Group

National Security Group primarily writes personal lines property coverage including dwelling fire and windstorm, homeowners, and mobile homeowners lines of insurance. The Company also offers life, accident and health, supplemental hospital and cancer insurance products.

## Conifer

Conifer offers customized insurance coverage solutions in both specialty commercial and specialty personal product lines, marketing its business mainly through independent agents in all 50 states.

## Unico American

Unico is an insurance holding company whose subsidiaries underwrite and market property and casualty insurance, health insurance, insurance premium financing, and membership association services.

# Boenning Qualifications

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## Appendix C

## Background of Appraisers & Independence of Boenning

*Boenning, as part of its investment banking business, is regularly involved in the valuation of assets, securities and companies in connection with various types of asset and security transactions. These transactions include conversions, acquisitions, private placements, public offerings and valuations for various other purposes, as well as in the determination of adequate consideration in such transactions. We believe that Boenning and its principals, officers, directors, employees, and all related interests are independent of NORCAL.*

### **Anthony A. Latini, Jr., CFA**

#### ***Managing Director, Head of Insurance***

Tony leads the firm's insurance practice and has over 30 years of experience with the property/casualty and life segments. His merger & acquisition transaction experience includes approximately \$2 billion in transaction value and he has assisted in raising in excess of \$1 billion in debt and junior capital. Prior to joining Boenning & Scattergood, Mr. Latini was Managing Director of Curtis Financial Group's financial services industry group. He has also held positions at Berwind Financial L.P., Evans & Company, Inc. and CoreStates Financial Corp. Tony received his Bachelor of Science degree in Economics with a concentration in Finance from the Wharton School of the University of Pennsylvania. He holds the Chartered Financial Analyst designation and the FINRA Series 7, 24, 63, and 79 licenses. Tony has experience working on over fifteen demutualizations.



### **James Adducci**

#### ***Director***

James has 16 years of investment banking experience working with public and private companies executing exclusive sale assignments, buy-side transactions, financings and various other strategic advisory assignments. James has completed more than 60 transactions totaling more than \$1 billion in value. James has been involved with multiple deals involving companies in the insurance sector. Prior to joining Boenning in 2004, James worked in the diversified industrials group at Dresdner Kleinwort in New York where he focused on cross-border M&A transactions. James received his BA in Economics from Carleton College. He is registered with FINRA and holds the Series 7 and 63 licenses. James has experience working on five demutualizations.



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