Review of Third Quarter 2018

7-Nov-2018

PROTECTIVE
INSURANCE CORPORATION

Forward Looking Statements

Forward-looking statements made during this call, and included in this document, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that such forward-looking statements involve inherent risks and uncertainties. Readers are encouraged to review the Company's annual report for its full statement regarding forward-looking information.

Certain statements made during this conference call, in the press release and in this document, which are not historical, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although Protective Insurance Corporation believes the expectations reflected in any forward-looking statements are based on reasonable assumptions, we can give no assurance that our expectations will be attained. Factors and risks that could cause actual results to differ materially from expectations are detailed in the press release and from time-to-time, with the Company's filings with the SEC.

Also, the discussions during this call, in the press release and in this document, will include certain non-GAAP financial measures. Reconciliations of these measures to the most directly comparable GAAP financial measures are included within the press release, which is available on our website at https://www.protectiveinsurance.com/.

Review of Third Quarter 2018

Strengthened reserves in response to continuing emergence of adverse trends. Reinsurance protection helps put much of the problem of adverse prior-year development behind us. We're focused on: achieving rate, lowering volatility and expense discipline

- **Strengthened reserves in response to increasing:**
  - *Severity* from a challenging litigation environment
  - *Time to settle claims,* resulting in higher ALAE[(1)]
- **Reinsurance protection helps put much of the problem of adverse prior-year development behind us**
  - Commercial auto lines covered by our reinsurance are subject to an aggregate stop-loss provision
    - Once this aggregate stop-loss level is reached, for every $100 of additional loss, our losses are limited to $25
- **Looking forward, we're focused on achieving:**
  - *Rate* where needed in our book
    - By product line and distribution channel
  - *Lower volatility* through
    - Facultative reinsurance and lower limit profile
  - *Expense discipline*

($ in thousands, except per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	**2018**	2017
Annualized				
Book value/sh at start of period	**$ 27.14**	$ 26.50	**$ 27.83**	$ 26.81
Book value/sh at end of period	**25.96**	26.93	**25.96**	26.93
Change in book value/sh	**$ (1.18)**	$ 0.43	**$ (1.87)**	$ 0.12
Dividends paid	**0.28**	0.27	**0.84**	0.81
Total value creation [(2)]	**(13.3%)**	10.6%	**(4.9%)**	4.6%
Loss and LAE expense	**$ 94,540**	$ 60,673	**$ 244,327**	$ 181,026
Net premiums earned	**96,807**	89,100	**314,209**	231,070
Loss and LAE ratio	**97.7%**	68.1%	**77.8%**	78.3%
Other operating expenses	**$ 29,200**	$ 29,187	**$ 99,984**	$ 82,185
Less: Commissions and other	**3,413**	1,407	**7,488**	3,789
Other operating expenses	**$ 25,787**	$ 27,780	**$ 92,496**	$ 78,396
Net premiums earned	**96,807**	89,100	**314,209**	231,070
Expense ratio	**26.6%**	31.2%	**29.4%**	33.9%
Combined ratio [(3)]	**124.3%**	99.3%	**107.2%**	112.3%
Gross premiums written	**$ 138,699**	$ 131,523	**$ 429,792**	$ 360,558
Net premiums written	**97,014**	96,222	**324,702**	246,459

(1) Allocated Loss Adjustment Expenses (ALAE) are costs relating to a specific claim, such as outside attorney fees.
(2) Total Value Creation equals change in book value plus dividends paid, divided by beginning book value. Quarterly and year-to-date amounts have been annualized.
(3) combined ratio is calculated as ratio of losses and loss expenses incurred, plus other operating expenses, less commission and other income to net premiums earned.

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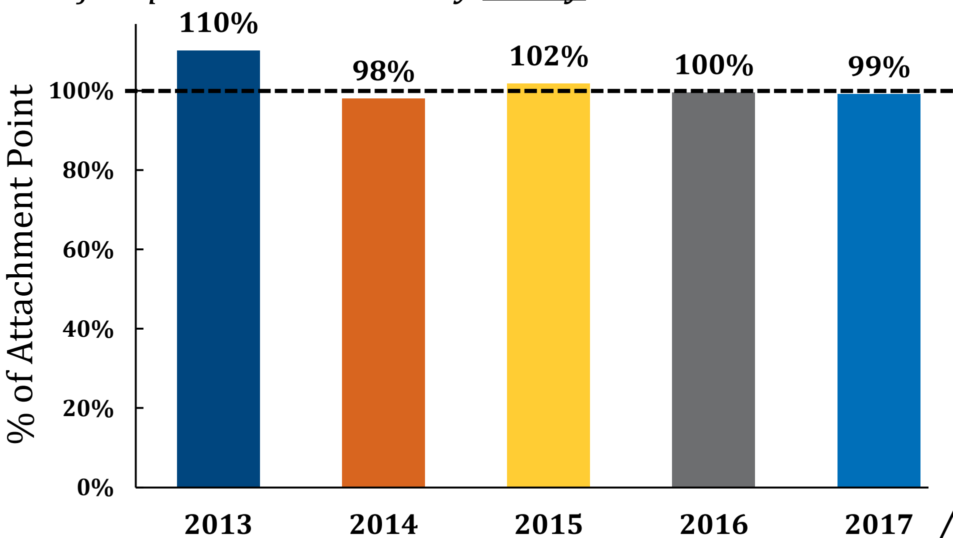
Commercial Auto Reinsurance Treaty Limits Downside

Reinsurance protection helps put much of the problem of adverse prior-year development behind us

Commercial Auto Aggregate Stop-loss

% of Stop-loss Attachment by Treaty Year at Current Loss Picks



	2013	2014	2015	2016	2017
$ to stop-loss threshold	- -	$1.6m	- -	$0.7m	$1.4m
Premium	$74m	$96m	$106m	$174m	$186m *(to date)*

	2013-2017 Treaty Years	
	5% Increase In Ultimate Loss Ratio	10% Increase In Ultimate Loss Ratio
Gross Loss Expense	$32.1	$64.2
Company's Retention	$10.1	$18.2
$/share (after-tax)	$0.54	$0.96

- Dotted black line is the point in each **treaty year** that the aggregate stop-loss reinsurance provision begins
  - Once this aggregate stop-loss level is reached, the Company retains only 25% of any further adverse loss development
- Dollars of gross loss exposure before reaching the stop-loss threshold for each **treaty year**
  - Only $3.7m of gross loss exposure remains before all five **treaty years** are at-or-above the aggregate stop-loss attachment point
- This table provides the financial impact of a 5% or 10% increase in ultimate loss picks for the five most recent reinsurance **treaty years**
  - Even if all five years experienced an additional 10% increase in adverse development, the reinsurance stop-loss protection mitigates the financial impact

*Note: $ in millions. **Treaty years** are for policies attaching to the reinsurance treaty beginning in July of each year and ending in July of the following year (e.g. the 2017 **treaty year** covers policies attaching from 3-Jul-2017 to 2-Jul-2018.*

Near-Term Execution Plan

Focused on: Rate Achievement, Managing Volatility and Expense Discipline

Reinsurance helps put much of the problem of adverse prior-year development behind us.
We're focused on: achieving rate, lowering volatility and expense discipline

- **Rate Achievement**
  - Are accessing our rate need on a granular basis
    - 59 product and distribution channel combinations
  - The commercial auto industry as a whole is seeking rate, thus we believe achieving our rate needs will <u>not</u> leave us at a competitive disadvantage
    - ISO has filed commercial auto liability rate changes in 2018 of +15.9%
- **Managing Volatility**
  - Exploring increased use of facultative insurance
  - Shifting our limit profile
    - Proportionally fewer policies with $5m limits
- **Expense Discipline**
  - Re-examining internal fixed costs
  - Evaluating efficiencies

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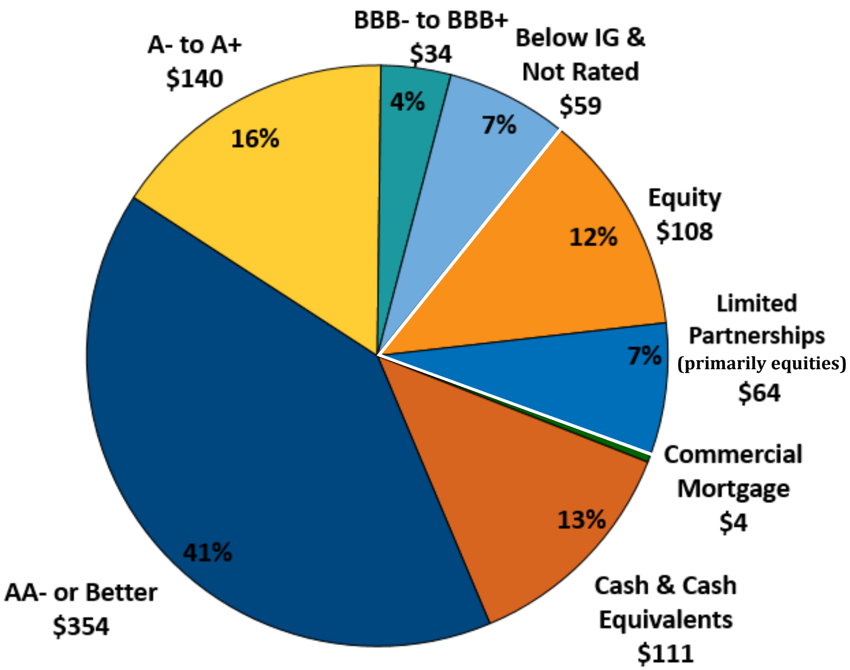
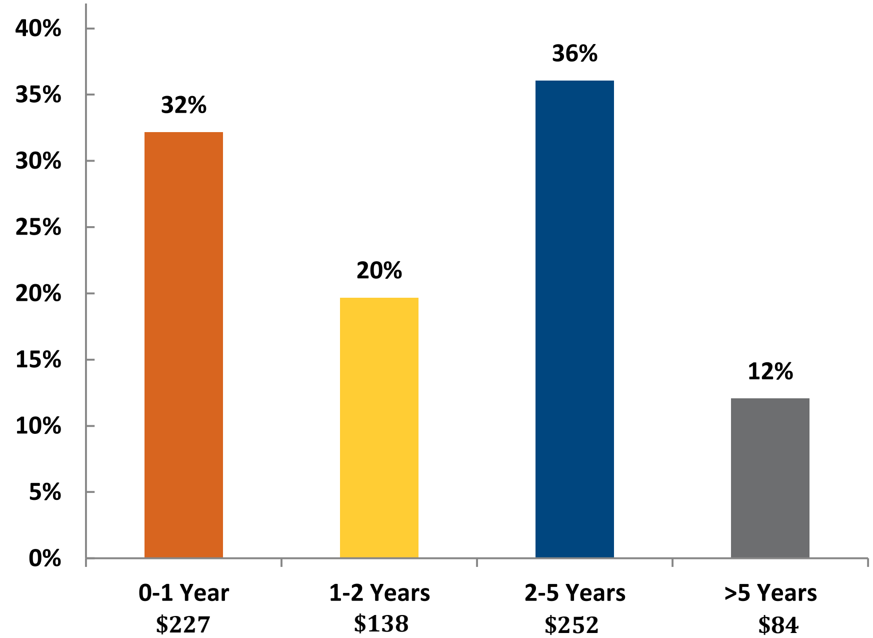
High Quality, Short Duration Investment Portfolio

AA- Weighted Average Rating, 2.5 years Effective Duration, $874m portfolio (including cash)

$874m High Quality Portfolio: AA- Weighted Average Rating

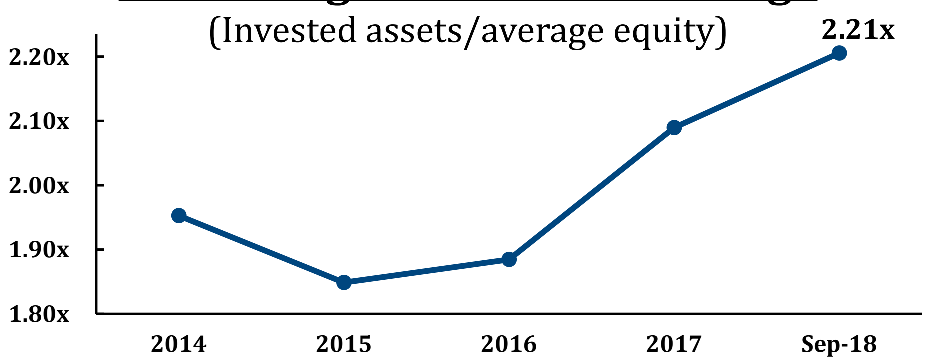


$701m Fixed Income: 2.5 yrs Effective Duration incl. cash(1)
3.2% market yield(2) excluding cash (3.0% incl. cash)



Increasing Investment Leverage

(Invested assets/average equity)



- **Reallocated $98m of equities year-to-date into high quality, short duration fixed income**
  - This had the effect of shifting our investment portfolio to a still more conservative posture

Note: $ in millions. (1) Effective duration is a measure of a fixed income portfolio's sensitivity to interest rates (i.e. for every 100bps increase in rate, our fixed income portfolio would decline by 2.5%). (2) Weighted average market yield to worst, net of management fees.