Review of Fourth Quarter 2018

26-Feb-2019

PROTECTIVE
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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/.

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Review of Fourth Quarter 2018

Current accident year severity and mark-to-market of investment portfolio contributed to book value declining by $2.01/sh during Q4-'18. Investments have recovered more than half in Jan-2019

- **Reserving actions:**
  - Current accident year loss ratios were raised due to higher than expected severity
    - $14.5m underwriting loss during Q4-'18
    - $3.1m of underwriting loss was from prior year impacts ($2.2m of unfavorable prior-year loss development; and $0.9m reduction in Net Premiums Earned)
- **Investments**
  - $20.5m decrease from mark-to-market adjustments in Q4-'18 ($15.8m equities/LPs, $4.7m fixed income)
    - ~$10.8m recovered during Jan-2019
- **Quarterly dividend reduced to $0.10 per share**
  - Brings dividend yield and dividend payout ratio in-line with peers
  - Preserves capital
    - Reduces annual dividend by $10.8m to $6.0m
  - Preserves flexibility of capital
    - Excess capital could be redeployed to repurchase shares in the future

($ in thousands, except per share data)	Three Months Ended December 31		Twelve Months Ended Decmeber 31	
	2018	2017	**2018**	2017
Annualized				
Book value/sh at start of period	**$ 25.96**	$ 26.93	**$ 27.83**	$ 26.81
Book value/sh at end of period	**23.95**	27.83	**23.95**	27.83
Change in book value/sh	**$ (2.01)**	$ 0.90	**$ (3.88)**	$ 1.02
Dividends paid	**0.28**	0.27	**1.12**	1.08
Change in BV/sh + dvds paid	**$ (1.73)**	$ 1.17	**$ (2.76)**	$ 2.10
Total value creation [(1)]	**(26.7%)**	17.4%	**(9.9%)**	7.8%
Loss and LAE expense	**$ 101,537**	$ 66,492	**$ 345,864**	$ 247,518
÷ Net premiums earned	**118,671**	97,075	**432,880**	328,145
Loss and LAE ratio	**85.6%**	68.5%	**79.9%**	75.4%
Other operating expenses [(2)]	**$ 34,041**	$ 31,410	**$ 134,025**	$ 113,594
Less: Commissions and other	**2,443**	1,520	**9,932**	5,308
Other op ex less comm & other	**$ 31,598**	$ 29,890	**$ 124,093**	$ 108,286
÷ Net premiums earned	**118,671**	97,075	**432,880**	328,145
Expense ratio	**26.6%**	30.8%	**28.7%**	33.0%
Combined ratio	**112.2%**	99.3%	**108.6%**	108.4%
Gross premiums written	**$ 152,709**	$ 144,179	**$ 582,500**	$ 504,737
Net premiums written	**119,696**	106,930	**444,398**	353,389

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(1) Total Value Creation equals change in book value plus dividends paid, divided by beginning book value. Quarterly amounts are annualized.
(2) Excluding Q4-2018 goodwill impairment charge of $3.2m.

Focusing on Seven Operating Initiatives

We are focused on these initiatives to improve our results and solidify our platform

Rate Achievement and Revised Pricing Methodologies

- **Assessing rate need on a granular basis**
  - 59 product and distribution channel combinations
  - Analyzing >25 factors contributing to outcomes
- **Commercial auto industry is also seeking rate**

Manage Volatility

- **Now placing much of the higher layers of certain commercial auto lines into the facultative market**
  - Reduces our volatility to shock losses
  - Provides price discovery into higher layers

Expense Discipline

- **Currently not hiring any new positions**
  - Continuing to “backfill” replacement headcount
- **Have already begun creating efficiencies in existing organization**

Creating Strategic Digital Partnerships

- **Making progress on establishing partnerships to provide better value to our customers**
  - Streamlining our processes
  - Enhancing data and analytics

Enhance and Improve Infrastructure

- **Strengthening our infrastructure**
  - Creating a more value driven digital platform

Create & Implement a Customer Service Model & Philosophy

- **Defining our customer service model**
  - Building out service capabilities to improve our value proposition

Enhance Employee Capabilities

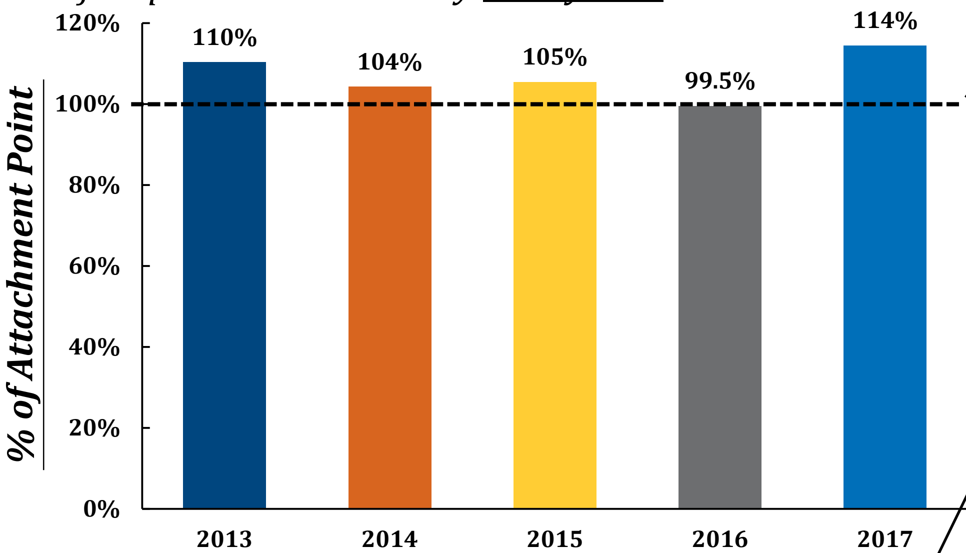
- **Continue investing in our people**
  - Both quantitative and qualitative skillsets
  - Extending training and development

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	- -	- -	- -	**$0.7m**	- -
Premium	**$74m**	**$96m**	**$106m**	**$174m**	**$231m** *(to date)*

2013-2017 Treaty Years	5% Increase In Ultimate Loss Ratio	10% Increase In Ultimate Loss Ratio
Gross Loss Expense	**$34.3**	**$68.7**
Company's Retention	**$9.0**	**$17.6**
$/share (after-tax)	**$0.48**	**$0.94**

- 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 $0.7m 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

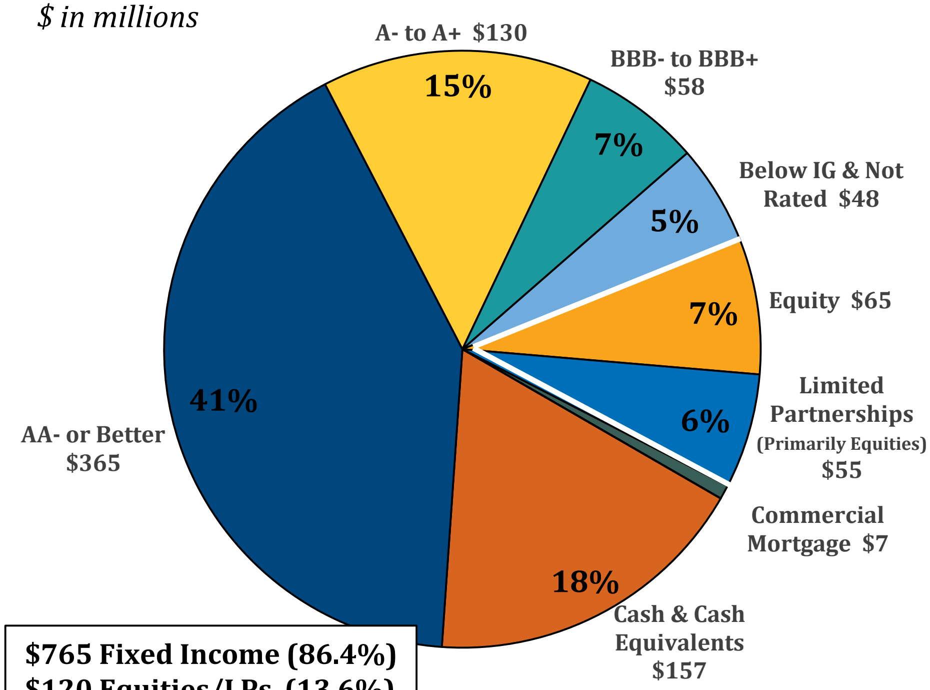
*Note: $ in millions. **Treaty years** are for policies attaching to the reinsurance treaty beginning in July of each year and ending in July of the following year (e.g. the 2017 **treaty year** covers policies attaching from 3-Jul-2017 to 2-Jul-2018).*

High Quality, Short Duration Investment Portfolio

$885m portfolio: AA- Weighted Average Rating, Effective Duration of 2.3[(1)] (including cash)

$885m High Quality Portfolio: AA- Weighted Average Rating

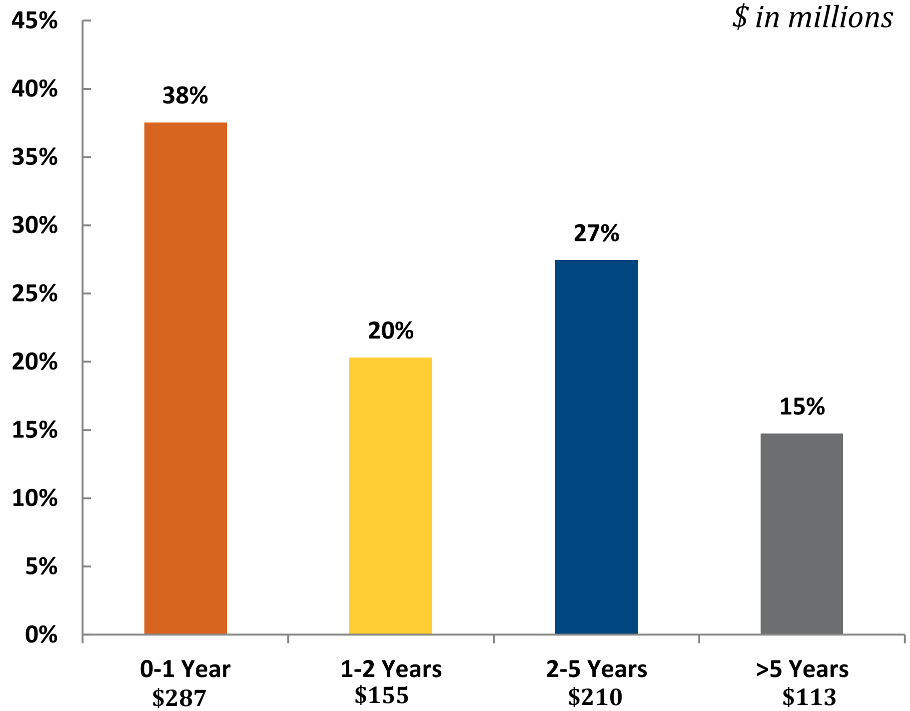
$ in millions

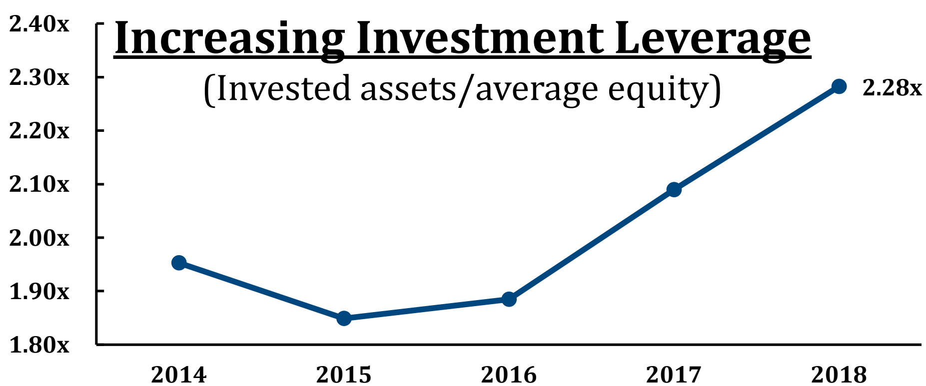


$765 Fixed Income (86.4%)
$120 Equities/LPs (13.6%)

$765m Fixed Income: Effective Duration of 2.3 incl. cash[(1)] 3.3% market yield[(2)] excluding cash (3.0% incl. cash)

$ in millions





- **Reallocated $122m of equities and limited partnerships during 2018 into high quality, short duration fixed income**
  - This had the effect of shifting our investment portfolio to a still more conservative posture
  - Another $18.7m of limited partnerships redeemed in Jan-'19, being reallocated during Q1-'19

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 2.3%). (2) Weighted average market yield to worst, net of management fees.