

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-5534



**PROTECTIVE INSURANCE CORPORATION**  
(Exact Name of Registrant as Specified in Its Charter)

**Indiana**

(State or Other Jurisdiction of Incorporation or Organization)

**35-0160330**

(I.R.S. Employer Identification No.)

**111 Congressional Boulevard, Carmel, Indiana**

(Address of Principal Executive Offices)

**46032**

(Zip Code)

Registrant's telephone number, including area code: **(317) 636-9800**

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>         | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|------------------------------------|--------------------------|--|
| Class A Common Stock, No Par Value | PTVCA                    | The Nasdaq Stock Market LLC                      |
| Class B Common Stock, No Par Value | PTVCB                    | The Nasdaq Stock Market LLC                      |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of Class A and Class B Common Stock held by non-affiliates of the Registrant as of June 28, 2019, based on the closing trade prices on that date, was approximately \$175,668,000.

The number of shares outstanding of each of the issuer's classes of common stock as of March 1, 2020:

|                             |                     |                   |
|-----------------------------|---------------------|-------------------|
| Common Stock, No Par Value: | Class A (voting)    | 2,603,350         |
|                             | Class B (nonvoting) | <u>11,636,766</u> |
|                             |                     | <u>14,240,116</u> |

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 5, 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K.

---

PROTECTIVE INSURANCE CORPORATION

Form 10-K

For the Fiscal Year Ended December 31, 2019

TABLE OF CONTENTS

|                 |   | Page |
|-----------------|---|------|
| <b>Part I</b>   | Item 1. <u>Business</u>   | 4    |
|                 | Item 1A. <u>Risk Factors</u>  | 13   |
|                 | Item 1B. <u>Unresolved Staff Comments</u>   | 16   |
|                 | Item 2. <u>Properties</u>   | 16   |
|                 | Item 3. <u>Legal Proceedings</u>  | 16   |
|                 | Item 4. <u>Mine Safety Disclosures</u>  | 16   |
|                 | <u>Information About our Executive Officers</u>   | 17   |
| <b>Part II</b>  | Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 18   |
|                 | Item 6. <u>Selected Financial Data</u>  | 20   |
|                 | Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>                        | 21   |
|                 | Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 32   |
|                 | Item 8. <u>Financial Statements and Supplementary Data</u>  | 35   |
|                 | Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>                         | 66   |
|                 | Item 9A. <u>Controls and Procedures</u>   | 66   |
|                 | Item 9B. <u>Other Information</u>   | 68   |
| <b>Part III</b> | Item 10. <u>Directors, Executive Officers and Corporate Governance</u>  | 68   |
|                 | Item 11. <u>Executive Compensation</u>  | 69   |
|                 | Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>              | 69   |
|                 | Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>                                   | 69   |
|                 | Item 14. <u>Principal Accountant Fees and Services</u>  | 69   |
| <b>Part IV</b>  | Item 15. <u>Exhibits, Financial Statement Schedules</u>   | 69   |
|                 | Item 16. <u>Form 10-K Summary</u>   | 70   |
|                 | <u>Signatures</u>   | 79   |

## FORWARD-LOOKING STATEMENTS

The disclosures in this Form 10-K contain "forward-looking statements" (within the meaning of the Private Securities Litigation Reform Act of 1995). All statements, trend analyses and other information contained in this Form 10-K relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "may," "target," "anticipate," "believe," "plan," "estimate," "expect," "intend," "project," and other similar expressions, constitute forward-looking statements.

Investors are cautioned that such forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties that could cause actual results to differ materially from such forward-looking statements, many of which are difficult to predict and generally beyond our control. Investors are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. Investors are also urged to carefully review and consider the various disclosures made by us, which attempt to advise interested parties of the factors that affect our business, including "*Risk Factors*" set forth in Part I, Item 1A hereof and our reports filed with the U.S. Securities and Exchange Commission, or SEC, from time to time. Except to the extent otherwise required by federal securities laws, we do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof.

Factors that could contribute to these differences include, among other things:

- general economic conditions, including weakness of the financial markets, prevailing interest rate levels and stock and credit market performance, which may affect or continue to affect (among other things) our ability to sell our products and to collect amounts due to us, our ability to access capital resources and the costs associated with such access to capital and the market value of our investments;
- our ability to obtain adequate premium rates and manage our growth strategy;
- increasing competition in the sale of our insurance products and services resulting from the entrance of new competitors into, or the expansion of the operations of existing competitors in, our markets and our ability to retain existing customers;
- other changes in the markets for our insurance products;
- the impact of technological advances, including those specific to the transportation industry;
- changes in the legal or regulatory environment, which may affect the manner in which claims are adjusted or litigated, including loss and loss adjustment expense;
- legal or regulatory changes or actions, including those relating to the regulation of the sale, underwriting and pricing of insurance products and services and capital requirements;
- the impact of a downgrade in our financial strength rating;
- technology or network security disruptions or breaches;
- adequacy of insurance reserves;
- availability of reinsurance and ability of reinsurers to pay their obligations;
- our ability to attract and retain qualified employees;
- tax law and accounting changes; and
- legal actions brought against us.

Some of the significant risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described more fully in Part I, Item 1A, "*Risk Factors*" of this Annual Report on Form 10-K. You should read that information in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" in Part II, Item 7 of this Annual Report on Form 10-K and our consolidated financial statements and related notes in Part II, Item 8 of this Annual Report on Form 10-K.

## PART I

### **Item 1. BUSINESS**

Protective Insurance Corporation (referred to herein as "Protective") was incorporated under the laws of the State of Indiana in 1930. Through its subsidiaries, Protective engages in marketing and underwriting property, liability and workers' compensation coverage for trucking and public transportation fleets, as well as coverage for trucking industry independent contractors.

Protective's principal subsidiaries are:

1. Protective Insurance Company (referred to herein as "Protective Insurance Co."), which is licensed by insurance authorities in all 50 states, the District of Columbia, all Canadian provinces and Puerto Rico;
2. Protective Specialty Insurance Company (referred to herein as "Protective Specialty"), which is currently approved for excess and surplus lines business by insurance authorities in 48 states and the District of Columbia and licensed in Indiana;
3. Sagamore Insurance Company (referred to herein as "Sagamore"), which is licensed by insurance authorities in 49 states and the District of Columbia and approved for excess and surplus lines business in one additional state;
4. B&L Brokerage Services, Inc. (referred to herein as "BLBS"), an Indiana-domiciled insurance broker licensed in all 50 states and the District of Columbia; and
5. B&L Insurance, Ltd. (referred to herein as "BLI"), which is domiciled and licensed in Bermuda.

Protective Insurance Co., Protective Specialty, Sagamore and BLI are collectively referred to herein as the "Insurance Subsidiaries." The "Company", "we", "us" and "our", as used herein, refer to Protective and all of its subsidiaries unless the context clearly indicates otherwise.

As is a common practice in the property and casualty insurance industry, the Insurance Subsidiaries share or "cede" portions of their gross premiums written with several non-affiliated reinsurers under excess of loss and quota share treaties covering predetermined groups of risks and by facultative (individual policy-by-policy) placements. Reinsurance is ceded to spread the risk of loss from individual claims or groups of claims among several reinsurers and is an integral part of the Company's business.

In 2019, the Insurance Subsidiaries primarily served the commercial automobile market, although the Insurance Subsidiaries continue to support previously written policies in specialty markets for which the Company has discontinued writing business, and these operations are in run-off. The Company expects targeted growth to occur in its core business of commercial automobile and workers' compensation.

The Company operates as one reportable property and casualty insurance segment based on how its operating results are regularly reviewed by its chief operating decision maker when making decisions about how resources are to be allocated to the segment and assessing its performance.

#### Product Lines

##### *Commercial Automobile*

The Insurance Subsidiaries provide coverage for larger companies in the motor carrier industry that retain substantial amounts of self-insurance, for independent contractors utilized by trucking companies, for medium-sized and small trucking companies on a first-dollar or deductible basis, and for public livery concerns, principally covering fleets of commercial buses. This group of products is collectively referred to as commercial automobile. Large fleet trucking products are marketed both directly to commercial automobile clients and also through relationships with non-affiliated brokers and specialized agents. Products for small and intermediate fleets and independent contractors are marketed through relationships with non-affiliated brokers and specialized agents. In some cases, the Insurance Subsidiaries will provide customized product offerings to specific markets through partnerships with brokers or program administrators. In most cases, the Company's commercial automobile policies are written on an "occurrence" basis. This means that the Company may be liable for claims that occurred when its policy was in place with an insured, regardless of when those claims are reported to the Company, and it may take months or even years for claims to be reported to the Company.

The principal types of commercial automobile insurance marketed by the Insurance Subsidiaries are:

- Commercial motor vehicle liability, physical damage and general liability insurance;
- Workers' compensation insurance;
- Specialized accident (medical and indemnity) insurance for independent contractors in the trucking industry;
- Non-trucking motor vehicle liability insurance for independent contractors;
- Fidelity and surety bonds; and
- Inland marine insurance consisting principally of cargo insurance.

The Insurance Subsidiaries also perform a variety of additional services, primarily for the Company's insureds, including risk surveys and analyses, safety program design and monitoring, government compliance assistance, loss control and cost studies and research, development, and consultation in connection with new insurance programs, including development of systems to assist customers in monitoring their accident data. The Company also provides claims handling services, primarily to excess clients with self-insurance programs.

#### *Workers' Compensation*

The Insurance Subsidiaries provide workers' compensation insurance for the commercial automobile industry, primarily to employees of motor carriers or independent contractors providing services in the transportation industry. In 2017, the Company began marketing workers' compensation coverage beyond commercial automobile clients to a variety of non-transportation operations, such as light manufacturing, restaurants, retailers, and professional services on both a first-dollar and deductible basis. In 2019, the Company took actions to reduce exposure to workers' compensation coverage for non-transportation risks. While the Company may continue to underwrite select non-transportation risks, the Company's primary focus will be underwriting workers' compensation coverage for transportation risks. In most cases, the Company's workers' compensation policies are written on an "occurrence" basis. This means that the Company may be liable for claims that occurred when its policy was in place with an insured, regardless of when those claims are reported to the Company, and it may take months or even years for claims to be reported to the Company.

#### Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses incurred on average comprise approximately two-thirds of the Company's operating expenses.

The Company's consolidated balance sheets as of December 31, 2019 and 2018 set forth in Part II, Item 8 of this Annual Report on Form 10-K include the estimated liability for unpaid losses and loss adjustment expenses ("LAE") of the Insurance Subsidiaries before the application of reinsurance credits (gross reserves). The liabilities for losses and LAE are determined using case basis evaluations and statistical projections and represent estimates of the Company's ultimate exposure for all unpaid losses and LAE incurred through December 31 of each year. These estimates are subject to the effects of trends in claim severity and frequency and are continually reviewed and, as experience develops and new information becomes known, the liability is adjusted as necessary. Such adjustments, either positive or negative, are reflected in current operations as recorded.

The Company's reserves for losses and loss expenses are determined based on evaluations of individual reported claims and by actuarial estimation processes using historical experience, current economic information and, when necessary, available industry statistics. "Case basis" loss reserves are evaluated on an individual case-by-case basis by experienced claims adjusters using established Company guidelines and are monitored by claims management. Additionally, "bulk" reserves are established for (1) those losses which have occurred but have not yet been reported to the Company ("incurred but not reported" claims), (2) provisions for any possible deficiencies in the case reserving process and (3) the expected external and internal costs to fully settle each claim, also referred to as LAE. Common actuarial methods are employed in the establishment of bulk reserves using Company historical loss data, consideration of changes in the Company's business and study of current economic trends affecting ultimate claims costs. LAE reserves include amounts ultimately allocable to individual claims as well as amounts required for the general overhead of the claims handling operation that are not specifically allocable to individual claims. Historical analyses of the ratio of LAE to losses paid on prior closed claims and study of current economic trends affecting loss settlement costs are used to estimate the LAE reserve needs relative to the established loss reserves. Each of these reserve categories contains elements of uncertainty, which assures variability when compared to the ultimate costs to settle the underlying claims for which the reserves are established. For a more detailed discussion of the three categories of reserves, see "Loss and Loss Expense Reserves" under the caption, "Critical Accounting Policies" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K.

Beginning in early 2019, the Company began strategically buying facultative reinsurance on policies with \$5.0 million limits, specifically in our excess automobile and public transportation books of business. This reinsurance coverage has served to lower the loss limit on a significant portion of the Company's commercial automobile liability policies to \$2.0 million for a single occurrence. This action, coupled with the renewal of our annual aggregate deductible treaty at a 35% quota share rate, whereby once the aggregate stop-loss level is reached the Company is responsible for its 65% retention, has significantly reduced the Company's exposure and volatility to large commercial automobile liability losses.

The Company is a cedent under numerous reinsurance treaties covering its product lines. Treaties are typically written on an annual basis, each with its own renewal date. However, treaty terms may occasionally be agreed to for periods beyond one year. Treaty renewals are expected to largely continue to occur annually in the foreseeable future. Because losses from certain of the Company's products can experience delays in being reported and can take years to settle, losses reported to the Company in the current year may be covered by a number of older reinsurance treaties with higher or lower net loss exposures than those provided by current treaty provisions.

The table below sets forth a reconciliation of beginning and ending loss and LAE liability balances for 2019, 2018 and 2017. This table includes reserves, net of reinsurance recoverable, to correspond with the presentation in the Company's consolidated statements of operations, but also includes a reconciliation of beginning and ending loss and LAE liability, gross of reinsurance recoverable, as presented in the Company's consolidated balance sheets. All amounts are shown net of reinsurance, unless otherwise indicated.

(dollars in thousands)

|  | 2019       | 2018       | 2017       |
|--|------------|------------|------------|
| Reserves, gross of reinsurance recoverable, at the beginning of the year | \$ 865,339 | \$ 680,274 | \$ 576,330 |
| Reinsurance recoverable on unpaid losses at the beginning of the year    | 375,935    | 308,143    | 251,563    |
| Reserves at the beginning of the year                                    | 489,404    | 372,131    | 324,767    |
| Provision for losses and loss expenses:                                  |            |            |            |
| Claims occurring during the current year                                 | 349,018    | 329,078    | 228,303    |
| Claims occurring during prior years                                      | (550)      | 16,786     | 19,215     |
| Total incurred losses and loss expenses                                  | 348,468    | 345,864    | 247,518    |
| Loss and loss expense payments:  |            |            |            |
| Claims occurring during the current year                                 | 90,364     | 84,738     | 67,234     |
| Claims occurring during prior years                                      | 157,508    | 143,853    | 132,920    |
| Total paid   | 247,872    | 228,591    | 200,154    |
| Reserves at the end of the year  | 590,000    | 489,404    | 372,131    |
| Reinsurance recoverable on unpaid losses at the end of the year          | 398,305    | 375,935    | 308,143    |
| Reserves, gross of reinsurance recoverable, at the end of the year       | \$ 988,305 | \$ 865,339 | \$ 680,274 |

The reconciliation above shows the Company's estimate of net losses on 2018 and prior accident years is approximately \$0.6 million lower at December 31, 2019 than was provided in loss reserves at December 31, 2018 (referred to as a "reserve savings"). This compares to a \$16.8 million reserve deficiency on prior accident years in 2018 and a \$19.2 million reserve deficiency reported in 2017 related to prior accident years.

The following table is a summary of the 2019 calendar year reserve savings by accident year (dollars in thousands):

| Years in Which Losses Were Incurred | Reserve at<br>December 31,<br>2018 | (Savings)<br>Deficiency<br>Recorded<br>During 2019<br>(1) | % (Savings)<br>Deficiency |
|-------------------------------------|------------------------------------|---|---------------------------|
| 2018                                | \$ 244,339                         | \$ (5,168)  | (2.1)%                    |
| 2017                                | 92,770                             | (8,694)   | (9.4)%                    |
| 2016                                | 41,427                             | 1,648   | 4.0%                      |
| 2015                                | 25,545                             | 2,688   | 10.5%                     |
| 2014                                | 23,357                             | 5,016   | 21.5%                     |
| 2013 and prior                      | 61,966                             | 3,960   | 6.4%                      |
|                                     | <u>\$ 489,404</u>                  | <u>\$ (550)</u>   | <u>(.1)%</u>              |

(1) Consists of development on cases known at December 31, 2018, losses reported which were previously unknown at December 31, 2018 (incurred but not reported), unallocated loss expense paid related to accident years 2018 and prior and changes in the reserves for incurred but not reported losses and loss expenses.

The savings shown in accident years 2018 and 2017 in the table above reflect favorable loss development in both short-tail lines of business, such as physical damage, and the Company's independent contractor products (including non-trucking liability, occupational accident and workers' compensation). The deficiencies in accident years 2013 and prior through 2016 are largely the result of several severe transportation losses. The Company took and continues to take action in all accident years to reflect new trends in loss development for commercial automobile products that have emerged over the last several years. These actions include case reserving reviews, as well as continued actuarial product reviews, and resulted in the reserve strengthening noted in accident years 2016 and prior.

Bulk loss reserves are established to provide for potential future adverse development on cases known to the Company and for cases unknown at the reserve date. Changes in the reserves for incurred but not reported losses and loss expenses occur based upon information received on known and newly reported cases during the current year and the effect of that development on the application of standard actuarial methods used by the Company.

The Company continues to incorporate more recent loss development data into its loss reserving formulae; however, the dynamic nature of losses associated with the commercial automobile business, as well as the timing of settlement of large claims, increases the likelihood of variability in loss developments from period to period. While the Company's basic assumptions have remained consistent, the Company continues to update loss data to reflect changing trends, which can be expected to result in fluctuations in loss developments over time.

Management's goal is to produce an overall estimate of reserves which is sufficient and as close to expected ultimate losses as possible. The Company constantly monitors changes in trends related to the number of claims incurred relative to correlative variances with premium volume, average settlement amounts, number of claims outstanding at period ends and the average value per claim outstanding and adjusts actuarial assumptions as necessary to accommodate observed trends.

Ten-Year Historical Development Tables:

The table below presents the development of U.S. generally accepted accounting principles ("GAAP") balance sheet insurance reserves for each year-end from 2009 through 2018, as of December 31, 2019, net of all reinsurance credits.

**ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT--GAAP BASIS**

(Dollars in thousands)

|  | Year Ended December 31 |            |            |             |             |             |             |             |             |            |            |
|--|------------------------|------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|
|  | 2009                   | 2010       | 2011       | 2012        | 2013        | 2014        | 2015        | 2016        | 2017        | 2018       | 2019       |
| Liability for Unpaid Losses and Loss Adjustment Expenses (1) | \$ 203,253             | \$ 218,629 | \$ 290,092 | \$ 289,236  | \$ 288,088  | \$ 295,583  | \$ 301,753  | \$ 324,767  | \$ 372,131  | \$ 489,404 | \$ 590,000 |
| Liability Reestimated as of: (2)                             |                        |            |            |             |             |             |             |             |             |            |            |
| One Year Later   | \$ 194,430             | 208,933    | 280,217    | 283,673     | 277,734     | 285,521     | 315,589     | 343,982     | 388,917     | 488,854    |            |
| Two Years Later  | 198,220                | 201,745    | 272,285    | 282,381     | 268,757     | 303,540     | 340,361     | 369,670     | 393,536     |            |            |
| Three Years Later  | 188,110                | 204,243    | 276,525    | 279,685     | 288,862     | 332,175     | 361,791     | 382,982     |             |            |            |
| Four Years Later   | 192,195                | 202,078    | 268,299    | 291,332     | 313,909     | 343,898     | 373,454     |             |             |            |            |
| Five Years Later   | 187,792                | 198,518    | 275,517    | 298,861     | 313,662     | 352,873     |             |             |             |            |            |
| Six Years Later  | 181,547                | 200,922    | 276,812    | 299,996     | 317,621     |             |             |             |             |            |            |
| Seven Years Later  | 181,998                | 203,692    | 279,598    | 300,450     |             |             |             |             |             |            |            |
| Eight Years Later  | 184,122                | 204,769    | 279,926    |             |             |             |             |             |             |            |            |
| Nine Years Later   | 183,693                | 205,047    |            |             |             |             |             |             |             |            |            |
| Ten Years Later  | 184,280                |            |            |             |             |             |             |             |             |            |            |
| Cumulative Redundancy (Deficiency) (3)                       | \$ 18,973              | \$ 13,582  | \$ 10,166  | \$ (11,214) | \$ (29,533) | \$ (57,290) | \$ (71,701) | \$ (58,215) | \$ (21,405) | \$ 550     |            |
| Cumulative Amount of Liability Paid Through: (4)             |                        |            |            |             |             |             |             |             |             |            |            |
| One Year Later   | \$ 74,182              | \$ 72,393  | \$ 94,003  | \$ 103,941  | \$ 92,275   | \$ 92,870   | \$ 109,228  | \$ 132,920  | \$ 143,853  | \$ 157,508 |            |
| Two Years Later  | 107,413                | 109,382    | 156,271    | 162,087     | 159,282     | 166,642     | 195,951     | 217,376     | 220,502     |            |            |
| Three Years Later  | 125,038                | 133,507    | 193,566    | 205,452     | 166,642     | 222,295     | 250,924     | 275,464     |             |            |            |
| Four Years Later   | 137,460                | 147,462    | 214,873    | 202,803     | 234,158     | 258,576     | 287,311     |             |             |            |            |
| Five Years Later   | 143,461                | 158,172    | 227,359    | 241,533     | 251,696     | 283,107     |             |             |             |            |            |
| Six Years Later  | 148,101                | 166,112    | 234,578    | 252,648     | 263,194     |             |             |             |             |            |            |
| Seven Years Later  | 152,375                | 168,524    | 241,383    | 258,630     |             |             |             |             |             |            |            |
| Eight Years Later  | 153,999                | 173,015    | 246,052    |             |             |             |             |             |             |            |            |
| Nine Years Later   | 157,297                | 176,204    |            |             |             |             |             |             |             |            |            |
| Ten Years Later  | 159,933                |            |            |             |             |             |             |             |             |            |            |

(1) Represents the estimated liability for unpaid losses and LAE recorded at the balance sheet date for each of the indicated years. This liability represents the estimated amount of losses and LAE for claims arising in all prior years that were unpaid at the respective balance sheet date, including incurred but not reported ("IBNR") losses, to the Company.

(2) Represents the re-estimated amount of the previously recorded liability based on additional information available to the Company as of the end of each succeeding year. The estimate is increased or decreased as more information becomes known about the frequency and severity of individual claims and as claims are settled and paid.

(3) Represents the aggregate change in the estimates of each calendar year-end reserve through December 31, 2019.

(4) Represents the cumulative amount paid with respect to the previously recorded calendar year-end liability as of the end of each succeeding year. The payment patterns shown in this table demonstrate the "long-tail" nature of much of the Company's business, whereby portions of claims, principally in workers' compensation coverages, do not fully pay out for more than ten years.

Reserve developments for all years ended in the period 1985 through 2011 have produced redundancies as of December 31, 2019, with deficiencies developing for periods from 2012 to 2018. The \$0.6 million savings developed through one year on the 2018 reserve position reflects (1) action taken by management to respond



to higher than expected adverse commercial automobile case development and (2) continued favorable development in short-tail lines and workers' compensation. The deficiencies that developed in the chart from 2012 through 2018 have been largely attributable to two main factors. First, the Company engaged in new markets between 2008 and 2013, including professional liability and property coverages concentrated in the state of Florida. These products (now discontinued) experienced significant adverse loss development in calendar years 2016 and 2017 as more information emerged and was therefore considered in the reserving process. Second, the Company has experienced increased severity in losses related to its commercial automobile transportation offerings. During 2019, the Company continued to address the rate adequacy and customer segmentation practices of these products in response to these adverse loss trends.

Readers should note the table above does not present accident or policy year development data, which they may be more accustomed to analyzing. Rather, this table is intended to present an evaluation of the Company's ability to establish its liability for losses and loss expenses at a given balance sheet date. In reviewing this information, it is important to understand that this method of presentation causes some development experience to be duplicated. For example, the amount of any redundancy or deficiency related to losses settled in 2012, but incurred in 2009, will be included in the cumulative development amount for each of the years ending December 31, 2009, 2010, and 2011. It is also important to note that conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it would not be appropriate to extrapolate future redundancies or deficiencies based on this table.

The table below presents loss development data on a gross (before consideration of reinsurance) basis for the same ten-year period December 31, 2009 through December 31, 2018, as of December 31, 2019, with a reconciliation of the data to the net amounts shown in the table above.

#### ANALYSIS OF LOSS AND LOSS ADJUSTMENT EXPENSE DEVELOPMENT--GAAP BASIS

*(Dollars in thousands)*

|  | Year Ended December 31 |                |                |                |                |                |                |                |                |                |            |
|--|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|------------|
|  | 2009                   | 2010           | 2011           | 2012           | 2013           | 2014           | 2015           | 2016           | 2017           | 2018           | 2019       |
| <b>Direct and Assumed:</b>                               |                        |                |                |                |                |                |                |                |                |                |            |
| Liability for Unpaid Losses and Loss Adjustment Expenses | \$ 359,030             | \$ 344,520     | \$ 421,556     | \$ 455,454     | \$ 474,470     | \$ 506,102     | \$ 513,596     | \$ 576,330     | \$ 680,274     | \$ 865,339     | \$ 988,305 |
| Liability Reestimated as of December 31, 2019            | <u>312,879</u>         | <u>335,183</u> | <u>427,008</u> | <u>487,838</u> | <u>538,943</u> | <u>623,982</u> | <u>661,396</u> | <u>676,334</u> | <u>730,261</u> | <u>872,344</u> |            |
| Cumulative Redundancy (Deficiency)                       | \$ 46,151              | \$ 9,337       | \$ (5,452)     | \$ (32,384)    | \$ (64,473)    | \$ (117,880)   | \$ (147,800)   | \$ (100,004)   | \$ (49,987)    | \$ (7,005)     |            |
| <b>Ceded:</b>  |                        |                |                |                |                |                |                |                |                |                |            |
| Liability for Unpaid Losses and Loss Adjustment Expenses | \$ 155,777             | \$ 125,891     | \$ 131,464     | \$ 166,218     | \$ 186,382     | \$ 210,519     | \$ 211,843     | \$ 251,563     | \$ 308,143     | \$ 375,935     | \$ 398,305 |
| Liability Reestimated as of December 31, 2019            | <u>128,599</u>         | <u>130,136</u> | <u>147,082</u> | <u>187,388</u> | <u>221,322</u> | <u>271,109</u> | <u>287,942</u> | <u>293,352</u> | <u>336,725</u> | <u>383,491</u> |            |
| Cumulative Redundancy (Deficiency)                       | \$ 27,178              | \$ (4,245)     | \$ (15,618)    | \$ (21,170)    | \$ (34,940)    | \$ (60,590)    | \$ (76,099)    | \$ (41,789)    | \$ (28,582)    | \$ (7,556)     |            |
| <b>Net:</b>  |                        |                |                |                |                |                |                |                |                |                |            |
| Liability for Unpaid Losses and Loss Adjustment Expenses | \$ 203,253             | \$ 218,629     | \$ 290,092     | \$ 289,236     | \$ 288,088     | \$ 295,583     | \$ 301,753     | \$ 324,767     | \$ 372,131     | \$ 489,404     | \$ 590,000 |
| Liability Reestimated as of December 31, 2019            | <u>184,280</u>         | <u>205,047</u> | <u>279,926</u> | <u>300,450</u> | <u>317,621</u> | <u>352,873</u> | <u>373,454</u> | <u>382,982</u> | <u>393,536</u> | <u>488,854</u> |            |
| Cumulative Redundancy (Deficiency)                       | \$ 18,973              | \$ 13,582      | \$ 10,166      | \$ (11,214)    | \$ (29,533)    | \$ (57,290)    | \$ (71,701)    | \$ (58,215)    | \$ (21,405)    | \$ 550         |            |

Readers are reminded the gross data presented above requires significantly more subjectivity in the estimation of IBNR and loss expense reserves because of the high limits provided by the Company to its commercial automobile and workers' compensation customers, some of which has been covered by excess of loss and facultative reinsurance. This is particularly true of excess of loss treaties in which the Company retains risk in only the lower, more predictable, layers of coverage. Accordingly, one would generally expect more variability in development on a gross basis than on a net basis. The Company's consolidated financial

statements reflect its financial results net of reinsurance.

*Environmental Matters:*

Given that one of the Company's core businesses is insuring commercial automobile companies, on occasion claims involving a commercial automobile accident which has resulted in the spill of a pollutant are made. Certain of the Company's policies may cover these situations on the basis that they were caused by an accident that resulted in the immediate and isolated spill of a pollutant. These claims are typically reported, evaluated and fully resolved within a short period of time.

In general, establishing reserves for environmental claims, other than those associated with "sudden and accidental" losses, is subject to uncertainties that are greater than those represented by other types of claims. Factors contributing to those uncertainties include a lack of historical data, long reporting delays, uncertainty as to the number and identity of insureds with potential exposure, unresolved legal issues regarding policy coverage, and the extent and timing of any such contractual liability. Courts have reached different and sometimes inconsistent conclusions as to when the loss occurred and what policies provide coverage, what claims are covered, whether there is an insured obligation to defend, how policy limits are determined, how policy exclusions are applied and interpreted, and whether cleanup costs represent insured property damage.

Very few environmental claims have historically been reported to the Company. In addition, a review of the businesses of the Company's past and current insureds indicates that exposure to claims of an environmental nature is typically limited because the vast majority of the Company's accounts are not currently, and have not in the past been, involved in the hauling of hazardous substances. Also, the revision of the pollution exclusion in the Company's policies since 1986 limits exposure to such claims.

The Company does not expect to have any significant environmental claims relating to asbestos exposure.

The Company's reserves for unpaid losses and loss expenses at December 31, 2019 did not include significant amounts for liability related to environmental damage claims. The Company does not foresee significant future exposure to environmental damage claims and accordingly has established no reserve for IBNR environmental losses at December 31, 2019.

### Marketing

Historically, the Insurance Subsidiaries have primarily focused their commercial automobile marketing efforts on large and medium-sized trucking fleets, with their biggest market share in larger trucking fleets (over 150 power units). The largest of these fleets (over 250 power units) generally self-insure a significant portion of their risk, and self-insured retention plans are a specialty of the Company. The indemnity contract provided to such customers is designed to cover all aspects of commercial automobile liability, including third-party liability, property damage, physical damage and cargo, whether arising from vehicular accident or other casualty loss. The self-insured program is supplemented with large deductible workers' compensation policies in states which do not allow for self-insurance of this coverage. Fleets with fewer than 250 power units typically purchase full insurance coverage or retain deductibles on each claim. The Company's commercial automobile offerings also include public livery risks, principally small operators of bus fleets, work-related accident insurance, on a group or individual basis, to independent contractors under contract to a fleet sponsor, as well as workers' compensation coverage to employees of independent contractor fleet owners. Large fleet trucking products are marketed both directly to commercial automobile clients and also through relationships with non-affiliated brokers and specialized independent agents.

In addition, the Company offers a program of coverages for "small fleet" trucking concerns (owner-operators generally with one to six power units) and "medium fleet" trucking concerns (7 to 150 power units). Products for small and medium fleets, independent contractors, and non-trucking entities are marketed through relationships with non-affiliated brokers and specialized agents.

In some cases, the Company will provide specific product offerings to specialized markets through partnerships with brokers and program administrators. As the Company has grown, its distribution strategy has moved toward utilization of non-affiliated agents and brokers to place new business for small and intermediate commercial automobile (including independent contractor products). In addition, the Company has developed customized commercial automobile liability and workers' compensation programs, which are marketed through non-affiliated agent partners. These customized programs can include a suite of products selected for its targeted customer base, including commercial automobile liability, general liability, non-trucking liability, cargo, occupational accident, or workers' compensation coverages.

### Investments

The Company's investment portfolio is notionally divided between (1) funds which are considered necessary to support insurance underwriting activities and (2) excess capital funds. Management believes the funds invested in fixed income and short-term securities are more than sufficient to cover underwriting operations while equity securities and limited partnerships are utilized to invest excess capital funds to achieve higher long-term returns. The following discussion will concentrate on the different investment strategies for these two major categories.

At December 31, 2019, the market value of the Company's consolidated investment portfolio was approximately \$968.2 million, consisting of fixed income securities, equity securities, investments in limited partnerships, commercial mortgage loans and short-term and other investments and included \$59.8 million of short-term funds classified as cash equivalents.

A comparison of the allocation of assets within the Company's consolidated investment portfolio, using market value as a basis, is as follows as of December 31:

|  | 2019          | 2018          |
|--|---------------|---------------|
| Fixed income securities                          | 82.2%         | 67.5%         |
| Short-term                                       | 0.1           | 0.1           |
| Cash equivalents                                 | 6.2           | 17.8          |
| Total fixed income and short-term securities     | 88.5          | 85.4          |
| Limited partnerships (equity basis)              | 2.4           | 6.3           |
| Commercial mortgage loans (amortized cost basis) | 1.2           | 0.8           |
| Equity securities                                | 7.9           | 7.5           |
|  | <b>100.0%</b> | <b>100.0%</b> |

#### Fixed Income and Short-Term Investments

Fixed income and short-term securities comprised 88.5% of the market value of the Company's consolidated investment portfolio of \$968.2 million at December 31, 2019. The fixed income portfolio is widely diversified with no concentrations in any single industry, geographic location or municipality. The largest amount invested in any single issuer was \$4.0 million (0.4% of the Company's consolidated investment portfolio). The Company's fixed income portfolio has a short duration compared to the duration of its insurance liabilities and, accordingly, the Company does not actively trade fixed income securities but typically holds such investments until maturity. Exceptions exist in instances where the underlying credit for a specific issue is deemed to be diminished. In such cases, the security will be considered for disposal prior to maturity. In addition, fixed income securities may be sold when realignment of the portfolio is considered beneficial (e.g., moving from taxable to non-taxable issues) or when valuations are considered excessive compared to alternative investments.

Approximately \$61.2 million of the Company's fixed income investments (6.3% of the Company's consolidated investment portfolio, which includes money market instruments classified as cash equivalents) consisted of non-rated bonds and bonds rated as less than investment grade by the National Association of Insurance Commissioners ("NAIC") at year end. These investments had a \$0.7 million aggregate net unrealized gain position at December 31, 2019.

The market value of the consolidated fixed income portfolio included \$12.5 million of net unrealized gains at December 31, 2019 compared to \$7.9 million of net unrealized losses at December 31, 2018. The Company analyzes fixed income securities for other-than-temporary impairment ("OTTI") in accordance with the Financial Accounting Standards Board OTTI guidance. As has been the Company's consistent policy, OTTI is considered for any individual issue which has sustained a decline in current market value of at least 20% below original or adjusted cost, and the decline is ongoing for more than six months, regardless of the evaluation of the creditworthiness of the issuer or the specific issue. Additionally, the Company takes into account any known subjective information in evaluating for impairment without consideration of the Company's 20% threshold. The current net unrealized gain on fixed income securities consists of \$3.6 million of gross unrealized losses and \$16.1 million of gross unrealized gains. The gross unrealized losses equal approximately 0.5% of the cost of all fixed income securities. See also "Critical Accounting Policies" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K for additional details regarding the Company's investment valuation.

#### Equity Securities

Because of the large amount of high-quality fixed income investments owned, relative to the Company's loss and loss expense reserves (net of reinsurance recoverables) and other liabilities, amounts invested in equity securities are not needed to fund current operations and, accordingly, can be committed for longer periods of time. Equity securities comprised 7.9% of the market value of the Company's consolidated investment portfolio of \$968.2 million at December 31, 2019. The Company's equity securities portfolio consists of various securities with diversification from large to small capitalization issuers and among several industries. The largest single-equity issue owned had a market value of \$3.9 million at December 31, 2019 (0.4% of the Company's consolidated investment portfolio).

Realized gains related to the sale of equity securities during 2019 recognized in the consolidated statement of operations for the year ended December 31, 2019 were \$1.9 million before taxes. Net unrealized gains on equity securities held at December 31, 2019 included in the consolidated statement of operations for the year ended December 31, 2019 were \$9.3 million.

An individual equity security will be disposed of when it is determined by the Company's external investment managers or the Board of Directors' Investment Committee that there is little potential for future appreciation or to reallocate from equity to fixed income securities. Securities are disposed of only when market conditions dictate, regardless of the impact, positively or negatively, on current period earnings.

As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). The amendments in ASU 2016-01 changed the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Previously, the Company's equity securities were classified as available-for-sale and changes in fair value were recognized in accumulated other comprehensive income (loss) as a component of shareholders' equity.

During 2018, the Company's external investment managers and the Board of Directors' Investment Committee determined that reallocation of the Company's equity portfolio would be beneficial and sold \$149.2 million of its equity portfolio, resulting in a gain on sale of \$51.9 million. The majority of these gains were included in unrealized gains within other comprehensive income (loss) at December 31, 2017 and, as a result of the adoption of ASU 2016-01, were reclassified to retained earnings as of January 1, 2018 and were therefore not recognized in the consolidated statement of operations for the year ended December 31, 2018.

### Limited Partnerships

The Company invests in various limited partnerships engaged in long-short equities, private equity, country-focused funds and real estate development as an alternative to direct equity investments. The funds used for these investments are part of the Company's excess capital strategy. At December 31, 2019, the aggregate carrying value was \$23.3 million, comprising 2.4% of the market value of the Company's consolidated investment portfolio.

As a group, these investments increased in value during 2019, with the aggregate of the Company's share of such gains reported by the limited partnerships totaling approximately \$1.6 million.

The Company follows the equity method of accounting for its limited partnership investments and, accordingly, records the total change in value as a component of net unrealized gains (losses) on equity securities and limited partnership investments. Readers are cautioned that reported increases and decreases in equity value of the Company's limited partnerships can change quickly as a result of volatile market conditions. Limited partnerships also are highly illiquid investments, and the Company's ability to withdraw funds is generally subject to significant restrictions.

### Investment Yields

Pre-tax net investment income increased \$4.2 million, or 19%, during 2019, reflecting higher interest rates for shorter duration securities, increased dividends and increased invested assets from continuing positive cash flow from operations. A comparison of consolidated investment yields, before consideration of investment management expenses, is as follows:

|  | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Before federal tax:                              |             |             |
| Investment income                                | 3.3%        | 3.0%        |
| Investment income plus investment gains (losses) | 4.8         | (0.1)       |
| After federal tax:                               |             |             |
| Investment income                                | 3.3         | 2.7         |
| Investment income plus investment gains (losses) | 4.2         | (0.6)       |

See also "Results of Operations" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K for additional details of the Company's investment operations.

### Regulatory Framework

The Insurance Subsidiaries are currently subject to insurance industry regulation by each of the jurisdictions in which they are licensed. In addition, minor portions of the Insurance Subsidiaries' business are subject to regulation by Bermudian and Canadian federal and provincial authorities. As an insurance holding company, Protective is also subject to oversight from the Indiana Department of Insurance. There can be no assurance that laws and regulations will not be changed by one or more of these regulatory bodies in ways that will require the Company to modify its business models and objectives. In particular, the United States federal government continuously reviews the regulation and supervision of financial institutions, including insurance companies, as well as tax laws and regulation, which could impact the Company's operations and performance.

Additionally, changes in laws and regulations governing the insurance industry could have an impact on the Company's ability to generate historical levels of income from its insurance operations. The Company is obligated to comply with numerous complex and varied governmental regulations in order to maintain its authority to write insurance business. While the Company has continuously maintained each of its licenses without exception, failure to maintain compliance could result in governmental regulators temporarily preventing the Company from writing new business, thus having a detrimental effect on the Company. Also, the ability of the Insurance Subsidiaries to modify certain insurance rates, specifically workers' compensation rates, is heavily regulated, and such rate increases are often denied or delayed for substantial periods by regulators.

Investments made by the Company's domestic Insurance Subsidiaries are regulated by guidelines promulgated by the NAIC, which are designed to provide protection for both policyholders and shareholders. The statutory capital of each of the Insurance Subsidiaries substantially exceeds the minimum risk-based capital requirements set by the NAIC. State regulatory authorities prescribe calculations of the minimum amount of statutory capital and surplus necessary for each insurance company to remain authorized. These computations are referred to as risk-based capital requirements and are based on a number of complex factors, taking into consideration the quality and nature of assets, the historical adequacy of recorded liabilities and the specific nature of business conducted. At December 31, 2019, the minimum statutory capital and surplus requirements of the Insurance Subsidiaries was \$131.6 million. Actual consolidated statutory capital and surplus at December 31, 2019 exceeded this requirement by \$240.2 million.

## Employees

As of December 31, 2019, the Company had 500 employees.

## Revenue Concentration

The Company derives a significant percentage of its direct premium volume from certain FedEx Corporation subsidiaries and operating companies ("FedEx"), and from insurance coverage provided to FedEx's contracted service providers. FedEx represented approximately \$4.7 million, \$16.2 million and \$18.5 million of the Company's consolidated gross premiums written in 2019, 2018 and 2017, respectively. The decrease in 2019 is related to the non-renewal of certain excess coverage policies in late 2018. An additional \$172.8 million, \$174.7 million and \$189.4 million in 2019, 2018 and 2017, respectively, was placed with the Company by a non-affiliated broker on behalf of contracted service providers of FedEx, but this additional business was not dependent upon the Company's direct business with FedEx.

## Competition

Insurance underwriting is highly competitive. The Insurance Subsidiaries compete with other stock and mutual companies and inter-insurance exchanges (reciprocal). There are numerous insurance companies offering the lines of insurance which are currently written or may in the future be written by the Insurance Subsidiaries. Many of these companies have been in business for longer periods of time, have significantly larger volumes of business, offer more diversified lines of insurance coverage and have significantly greater financial resources than the Company. In many cases, competitors are willing to provide coverage for rates lower than those charged by the Insurance Subsidiaries. Many potential clients self-insure workers' compensation and other risks for which the Company offers coverage, and some have organized "captive" insurance companies as subsidiaries through which they insure their own operations. Some states have workers' compensation funds that preclude private companies from writing this business in those states. Federal law also authorizes the creation of "Risk Retention Groups," which may write insurance coverages similar to those offered by the Company.

The Company believes it has a competitive advantage in its major lines of business as the result of its management and staff, its service and products, its willingness to custom build insurance programs for its customers, its centralized location with ready access to skilled employees, its proprietary databases and the use of technology with respect to its insureds. However, should competitors determine to "buy" market share with unprofitable rates, the Insurance Subsidiaries will generally experience a decline in business until pricing returns to profitable levels.

## Availability of Documents

The Company is an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and is required, pursuant to Item 101 of Regulation S-K, to provide certain information regarding its website and the availability of certain documents filed with or furnished to the U.S. Securities and Exchange Commission (the "SEC"). The Company's Internet website is [www.protectiveinsurance.com](http://www.protectiveinsurance.com). The Company has included its Internet website address throughout this Annual Report on Form 10-K as a textual reference only. The information contained on, or accessible through, the Company's Internet website is not incorporated by reference into this Annual Report on Form 10-K.

The Company makes available, free of charge, through its Internet website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after it electronically files such material with or furnishes it to the SEC. The Company also includes on its Internet website its Code of Business Conduct and the charter of each permanent committee of its Board of Directors (the "Board"). In addition, the Company intends to disclose on its Internet website any amendments to, or waivers from, its Code of Business Conduct that are required to be publicly disclosed pursuant to rules of the SEC and the Nasdaq Stock Market LLC ("Nasdaq").

**Shareholders may obtain, without charge, a copy of this Annual Report on Form 10-K, including the consolidated financial statements and schedules thereto, without the accompanying exhibits, upon written request to Protective Insurance Corporation, 111 Congressional Boulevard, Carmel, Indiana 46032, Attention: Investor Relations. A list of exhibits is included in this Annual Report on Form 10-K, and exhibits are available from the Company upon payment to the Company of the cost of furnishing the exhibits.**

## **Item 1A. RISK FACTORS**

The following is a description of the risk factors that could cause our actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by management from time to time. Such factors may have a material adverse effect on our business, financial condition and results of operations, and you should carefully consider them before deciding to invest in, or retain, shares of our common stock. These risk factors do not identify all risks that we face; our operations could also be affected by factors that are not presently known to us or that we currently consider to be immaterial to our operations. Due to risks and uncertainties, known and unknown, our past financial results may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.

### **We compete with a large number of companies in the insurance industry for underwriting revenues.**

We compete with a large number of other companies in our selected lines of business. During periods of intense competition for premium, we are vulnerable to the actions of other companies who may seek to write business without what we believe to be an appropriate regard for ultimate profitability. During these times, it is very difficult to grow or maintain premium volume without sacrificing underwriting discipline and income.

Insurance underwriting is highly competitive. We compete with other stock and mutual companies and inter-insurance exchanges (reciprocals). There are numerous insurance companies offering the lines of insurance which are currently written or may in the future be written by us. Many of these companies have been in business for longer periods of time, have significantly larger volumes of business, offer more diversified lines of insurance coverage and have significantly greater financial resources than us. In many cases, competitors are willing to provide coverage for rates lower than those charged by us. Many potential clients self-insure workers' compensation and other risks for which we offer coverage, and some have organized "captive" insurance companies as subsidiaries through which they insure their own operations. Some states have workers' compensation funds that preclude private companies from writing this business in those states. Federal law also authorizes the creation of "Risk Retention Groups," which may write insurance coverages similar to those offered by us.

We may incur increased costs in competing for underwriting revenues as we seek to expand our business. Increased costs associated with attracting and writing new clients may negatively impact underwriting revenue. If we are unable to compete effectively, our underwriting revenues may decline, as well as our overall business results.

New competition could cause the supply and/or demand for insurance or reinsurance to change, which could affect our ability to price our coverages at attractive rates and thereby adversely affect our underwriting results.

### **Changes in laws and regulations governing the insurance industry could have a negative impact on our ability to generate income from our insurance operations.**

One or more of our Insurance Subsidiaries are regulated and/or licensed in all 50 of the United States, the District of Columbia, all Canadian provinces, Puerto Rico and Bermuda. We are obligated to comply with numerous complex and varied governmental regulations in order to maintain our authority to write insurance business. Failure to maintain compliance could result in governmental regulators preventing us from writing new business, which would have a material adverse impact on us, our results of operations and our financial condition. Further, the ability of our Insurance Subsidiaries to adjust insurance rates and other product offerings is regulated for significant portions of our business, and needed rate adjustments can be denied or delayed for substantial periods by regulators, which could have a material adverse effect on our results of operations and our financial condition.

### **A material decline in our financial strength rating could adversely affect our position in the insurance market and cause a significant reduction in our premiums and earnings.**

Our main insurance subsidiary, Protective Insurance Co., currently has a financial strength rating of "A" (Excellent) with a negative outlook by A.M. Best Company, Inc. ("A.M. Best"), which represents a downgrade from the "A+" (Superior) financial strength rating with a negative outlook Protective Insurance Co. had prior to November 20, 2018. Financial ratings are an important factor influencing the competitive position of insurance companies. A.M. Best ratings, which are commonly used in the insurance industry, currently range from "A++" (Superior) to "F" (In Liquidation). The objective of A.M. Best's rating system is to provide potential policyholders and other interested parties with an expert independent opinion of an insurer's financial strength and ability to meet ongoing obligations, including paying claims. This rating is subject to periodic review and may be revised downward, upward or revoked at the sole discretion of A.M. Best. A future downgrade by A.M. Best could result in the loss of a number of insurance contracts we write and in a substantial loss of business to other competitors, which would have a material adverse effect on our results of operations.

### **We have two classes of common stock with unequal voting rights that are effectively controlled by our principal shareholders and management, which limits other shareholders' ability to influence our operations.**

Our principal shareholders, directors and executive officers and their affiliates control approximately 49% of the outstanding shares of voting Class A Common Stock and approximately 25% of the outstanding shares of non-voting Class B Common Stock. These parties effectively control us, direct our affairs, and exert significant influence in the election of directors and approval of significant corporate transactions. The interests of these shareholders may conflict with those of other shareholders, and this concentration of voting power may limit the marketability of our stock and has the potential to delay, defer or prevent a change in control that other shareholders may believe to be in their best interests.



**We are subject to credit risk relating to our ability to recover amounts due from reinsurers.**

We limit our risk of loss from policies of insurance issued by our Insurance Subsidiaries through the purchase of reinsurance coverage from other insurance companies. Such reinsurance does not relieve us of our responsibility to policyholders should the reinsurers be unable to meet their obligations to us under the terms of the underlying reinsurance agreements. While we have not experienced any significant reinsurance losses for over 25 years, in the past, a small number of our less significant reinsurance carriers have experienced deteriorating financial conditions or have been downgraded by rating agencies, and provisions for potential uncollectible balances from these reinsurers have been established. If we are unable to collect the amounts due to us from reinsurers, any unreserved credit losses could adversely affect our results of operations, equity, business and insurer financial strength rating.

**We may incur additional losses if our loss reserves are inadequate.**

A large portion of our provision for losses recorded is composed of estimates of future loss payments to be made. Such estimates of future loss payments may prove to be inadequate. Loss and loss expense reserves represent our best estimate at a given point in time but are not an exact calculation of ultimate liability. Rather, they are complex estimates derived by utilizing a variety of reserve estimation techniques from numerous assumptions and expectations about future events, many of which are highly uncertain, such as estimates of claims severity, frequency of claims, inflation, claims handling, case reserving policies and procedures, underwriting and pricing policies, changes in the legal and regulatory environment and the lag time between the occurrence of an insured event and the time of its ultimate settlement. Many of these uncertainties are not precisely quantifiable and require significant judgment on our part. As trends in underlying claims develop, particularly in so-called “long tail” lines in which the adjudication of claims can take many years and which have seen an increase in claim severity, management is sometimes required to revise reserves. This results in a charge to our earnings in the amount of the adjusted reserves, recorded in the period the change in estimate is made. These charges can be substantial and can potentially have a material impact, either positively or negatively, on results of operations and shareholders’ equity.

**The loss of our major customer could severely impact our revenue and earnings potential and A.M. Best rating.**

We derive a significant percentage of our direct premium volume from FedEx, and from insurance coverage provided to FedEx’s contracted service providers. The loss of this major customer would likely materially adversely impact our revenue and earnings potential, as well as our A.M. Best rating. Insurance programs provided to FedEx and programs provided to the contracted service providers are not necessarily dependent upon one another.

**Our collateral held may prove to be insufficient.**

We require collateral from our large insureds covering the insureds’ obligations for self-insured retentions or deductibles related to policies of insurance provided. Should we, as surety, become responsible for such insured obligations, the collateral held may prove to be insufficient. In this regard, FedEx utilizes significant self-insured retentions and deductibles under policies of insurance provided by us. In the case of FedEx, we have determined that the financial strength of the customer is sufficient to allow for holding only partial collateral at this time. Should we become responsible for this customer’s entire self-insured retention and deductible obligations, the collateral held would be insufficient, and we would sustain a significant operating loss.

**A material drop in interest rates, or disruption in the fixed income markets, could have an adverse impact on our earnings and, potentially, our financial position.**

Given our significant interest-bearing investment portfolio, if interest rates materially drop or the fixed income markets are otherwise disrupted, our income from these investments could be materially reduced, which would reduce our results of operations, equity, business and insurer financial strength rating. The functioning of the fixed income markets, the values of the investments we hold and our ability to liquidate them may be adversely affected if those markets are disrupted by a change in interest rates or otherwise affected by significant negative factors, including, without limitation: local, national, or international events, such as regulatory changes, wars, or terrorist attacks; a recession, depression, or other adverse developments in either the U.S. or other economies that adversely affects the value of securities held in our portfolio; financial weakness or failure of one or more financial institutions that play a prominent role in securities markets or act as a counterparty for various financial instruments, which could further disrupt the markets; inactive markets for specific kinds of securities, or for the securities of certain issuers or in certain sectors, which could result in decreased valuations and impact our ability to sell a specific security or a group of securities at a reasonable price when desired; a significant change in inflation expectations; or the onset of deflation or stagflation.

**Our investment portfolio is subject to market and credit risks, which could affect our financial results and ability to conduct business.**

We have a large portfolio of securities and limited partnership investments which can fluctuate in value with a wide variety of market conditions. A decline in the aggregate value of the securities and limited partnership investments would result in a commensurate decline in our shareholders’ equity, either through the income statement or directly to equity. The resultant decline could, at least temporarily, materially adversely affect our results of operations, equity, business and insurer financial strength ratings.

**Technological advances, including those specific to the transportation industry, could present us with added competitive risks.**

An increase in accident prevention technologies and the growth of autonomous or partially autonomous vehicles could reduce the amount of accidents over time and shift the liability from the owner of the vehicle to the manufacturer, which would cause automobile insurance to become a smaller portion of our overall property and casualty insurance book of business. Innovations in telematics and the increase in usage-based information have become more important and will likely change the way premiums are determined in the future. These advances in technology could materially change the way products in the transportation industry are designed, priced and underwritten, and if we fail to adjust to these changes in a timely manner, our business and results of operations could be materially adversely affected.

**The failure of our information technology systems and other operational systems to operate properly or disruptions or breaches of our information systems could adversely affect our business, results of operations and financial condition.**

We rely upon complex and expensive information technology systems and other operational systems and on the integrity and timeliness of our data to run our businesses, service our customers and interact with policyholders, brokers and employers. The pace at which information systems must be upgraded is continually increasing, requiring an ongoing commitment of significant resources to maintain or upgrade to current standards. Our success may be impacted if we are not able to develop and expand the effectiveness of existing systems and to continue to enhance information systems that support our operations in a cost-effective manner. Our networking infrastructure and related assets may also be subject to employee errors or other unforeseen activities that could result in the disruption of business processes, network degradation and system downtime. To the extent that such disruptions occur, our business, results of operations and financial condition could be materially and adversely affected, resulting in a possible loss of business.

In addition, our daily business operations require us to retain sensitive data such as proprietary business information and data related to customers, claimants and business partners within our network infrastructure. Cybersecurity attacks and intrusion efforts are continuous and evolving. The scope and severity of risks that cyber threats present have increased dramatically, and include, but are not limited to, disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data. Our information technology and other systems have been, and in the future could be, subject to physical or electronic break-ins; attempts to gain unauthorized access to data from our employees, vendors or third parties; unauthorized tampering; exploitation of weaknesses related to our vendors or other third parties; denials of service; computer viruses and other malicious software; or other cybersecurity attacks or breaches, resulting in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to our customers and business partners, or in the theft of intellectual property or proprietary information. We evaluate the adequacy of our third-party service providers' cybersecurity measures through periodic due diligence and contractual obligations. Despite these safeguards, disruptions to and breaches of our information technology systems or providers' are possible and may negatively impact our business.

We cannot ensure that we will be able to identify, prevent or contain the effects of any future cyber attacks or other cybersecurity incidents that bypass our security measures or disrupt our information technology systems or business. Any failure to maintain proper security, confidentiality or privacy of sensitive data residing on our information technology and other operational systems could delay or disrupt our ability to do business and service clients, harm our reputation, require us to incur significant remediation costs, subject us to litigation, regulatory fines, a loss of customers and revenues or otherwise have a material adverse effect on our business, results of operations and financial condition.

**Legal and regulatory proceedings are unpredictable and could produce one or more unexpected verdicts against us that could materially and adversely affect our financial results for any given period.**

We are currently, and from time to time have been, involved in lawsuits, regulatory inquiries and other legal proceedings arising out of the ordinary course of business. Some of these proceedings may involve matters particular to Protective or one or more of our Insurance Subsidiaries, while others may pertain to business practices in the industry in which we operate. These matters often raise difficult factual and legal issues and are subject to uncertainties and complexities. The outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular stages in the proceedings are in most cases difficult or impossible to ascertain. A further complication is that even where the possibility of an adverse outcome is remote under traditional legal analysis, juries sometimes substitute their subjective views in place of facts and established legal principles. Given the unpredictability of the legal and regulatory landscape in which we operate, there can be no assurance that one or more of these matters will not produce a result that could materially and adversely affect our financial results for any given period.

For information about our pending legal proceedings, see Note T, "Litigation, Commitments and Contingencies," of the notes to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K.

**Changes in current accounting practices and future pronouncements may materially impact our reported financial results.**

Developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, net equity and other historical financial statement line items that are important to users of our financial statements. Changes could also introduce significant volatility in our results of operations, equity, business and insurer financial strength rating.

**We may be unable to attract and retain qualified employees.**

We depend on our ability to attract and retain qualified executive officers, experienced underwriters, claims professionals and other skilled employees who are knowledgeable about our specialty lines of business. If we are unable to attract and retain such individuals, we may be unable to maintain our current competitive position in the specialty markets in which we operate and may be unable to achieve our growth strategy.



**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

The Company owns its home office building and the adjacent real estate in Carmel, Indiana. The home office building contains a total of 181,000 square feet of usable space, and the Company currently occupies approximately 74% of this space, with the remainder being leased to non-affiliated entities on short-term leases expiring through 2023.

The Company also owns a building and the adjacent real estate in Indianapolis, approximately nine miles from its main office in Carmel. The building contains approximately 15,000 square feet of usable space, and is used primarily for off-site data storage and as a contingent back-up and disaster recovery site.

The Company's entire operations are conducted from these two facilities. The current facilities are expected to be adequate for the Company's operations for the near future.

**Item 3. LEGAL PROCEEDINGS**

The information required with respect to this item can be found in Note T, "Litigation, Commitments and Contingencies," of the notes to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K and is incorporated by reference into this Item 3.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following summary sets forth certain information concerning the Company's executive officers as of February 28, 2020:

| Name                         | Age | Title                      | Served in Such Capacity Since |
|------------------------------|-----|----------------------------|-------------------------------|
| Jeremy D. Edgecliffe-Johnson | 49  | Chief Executive Officer    | 2019 (1)                      |
| John R. Barnett              | 52  | Chief Financial Officer    | 2019 (2)                      |
| Bahr D. Omidfar              | 59  | Chief Information Officer  | 2019 (3)                      |
| Jeremy F. Goldstein          | 48  | Executive Vice President   | 2017 (4)                      |
| Patrick S. Schmiedt          | 39  | Chief Underwriting Officer | 2018 (5)                      |

- (1) Mr. Edgecliffe-Johnson joined the Company in May 2019 as Chief Executive Officer. Prior to joining the Company, Mr. Edgecliffe-Johnson served as President, U.S. Commercial of American International Group, Inc. ("AIG") from February 2016 to December 2017, with responsibility for underwriting, operations, claims and distribution in the U.S., Canada, Brazil, Mexico and Puerto Rico. He served as Chief Executive Officer and President of Lexington Insurance Company, AIG's excess and surplus lines unit, from February 2013 to December 2017. Mr. Edgecliffe-Johnson served in various executive leadership roles at AIG between 2000 and 2013, including Specialty Product Line Executive, U.S. & Canada; President of Cat Excess Liability; U.S. Executive for Energy Excess Casualty; and Regional Vice President for the Mid-Atlantic territory. Prior to joining AIG, Mr. Edgecliffe-Johnson served as a broker for Sedgwick, Inc. and Marsh, Inc.
- (2) Mr. Barnett joined the Company in September 2019 as Chief Financial Officer. Prior to joining the Company, Mr. Barnett served as Chief Financial Officer and Executive Vice President of First Acceptance Corporation, a non-standard auto insurance underwriter ("First Acceptance"), since October 2018 and served as Senior Vice President, Finance of First Acceptance from May 2007 to March 2013. Mr. Barnett's responsibilities at First Acceptance included financial reporting, accounting, planning and analysis, investments, actuarial, and treasury operations. From March 2013 to October 2018, Mr. Barnett served as Vice President, Finance of Broadcast Music, Inc., a music rights management company. Prior to his time at First Acceptance, Mr. Barnett served in various management and manufacturing roles during his career, including as Senior Manager, Planning and Analysis of Anheuser-Busch Companies from 1999 to 2007.
- (3) Mr. Omidfar joined the Company in September 2019 as Chief Information Officer. Prior to joining the Company, Mr. Omidfar most recently served as Chief Technology Officer at CNA Financial Corporation from January 2018 to April 2019, where he developed, executed and led various initiatives, including the implementation of a new operating model; led strategic partnerships; and created a technology strategy and roadmap for the enterprise. Mr. Omidfar served in various Senior Vice President roles with Fidelity Investments, Inc. from August 2013 until January 2018, focusing on technology and security. Mr. Omidfar has also held roles at Rockwell Automation, Inc., Raytheon Company, Motorola, Inc., Deloitte LLP and Northrop Grumman Corporation and holds multiple certifications, including a Six Sigma Black Belt.
- (4) Mr. Goldstein was elected Executive Vice President in November 2017. He previously served as Senior Vice President of the Company from 2015 to 2017, as Vice President from 2011 to 2015 and as Corporate Secretary from 2016 to 2018.
- (5) Mr. Schmiedt was elected Chief Underwriting Officer in October 2018. He previously served as Senior Vice President of Underwriting from 2016 to 2018, as Vice President of Underwriting from 2015 to 2016 and as Assistant Vice President of Underwriting from 2013 to 2015.

## PART II

### **Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Shares of the Company's Class A and Class B Common Stock are traded on Nasdaq under the symbols PTVCA and PTVCB, respectively. The Class A and Class B common shares have identical rights and privileges, except that Class B shares have no voting rights other than on matters for which Indiana law requires class voting. As of February 28, 2020, there were approximately 27 record holders of Class A Common Stock and approximately 56 record holders of Class B Common Stock.

The Company has paid quarterly cash dividends continuously since 1974. The Company paid a quarterly dividend of \$.10 per share during 2019. In the first quarter of 2020, the Company declared a dividend of \$.10 per share. The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements and financial conditions and are subject to regulatory restrictions. At December 31, 2019, \$131.6 million, or 36.1% of shareholders' equity, represented net assets of the Company's Insurance Subsidiaries which, at that time, could not be transferred in the form of dividends, loans or advances to Protective because of minimum statutory capital requirements. However, management believes that these restrictions do not currently pose any material dividend payment concerns for the Company. The Board intends to address the subject of dividends at each of its future meetings and will consider the Company's earnings, returns on investments and its capital needs.

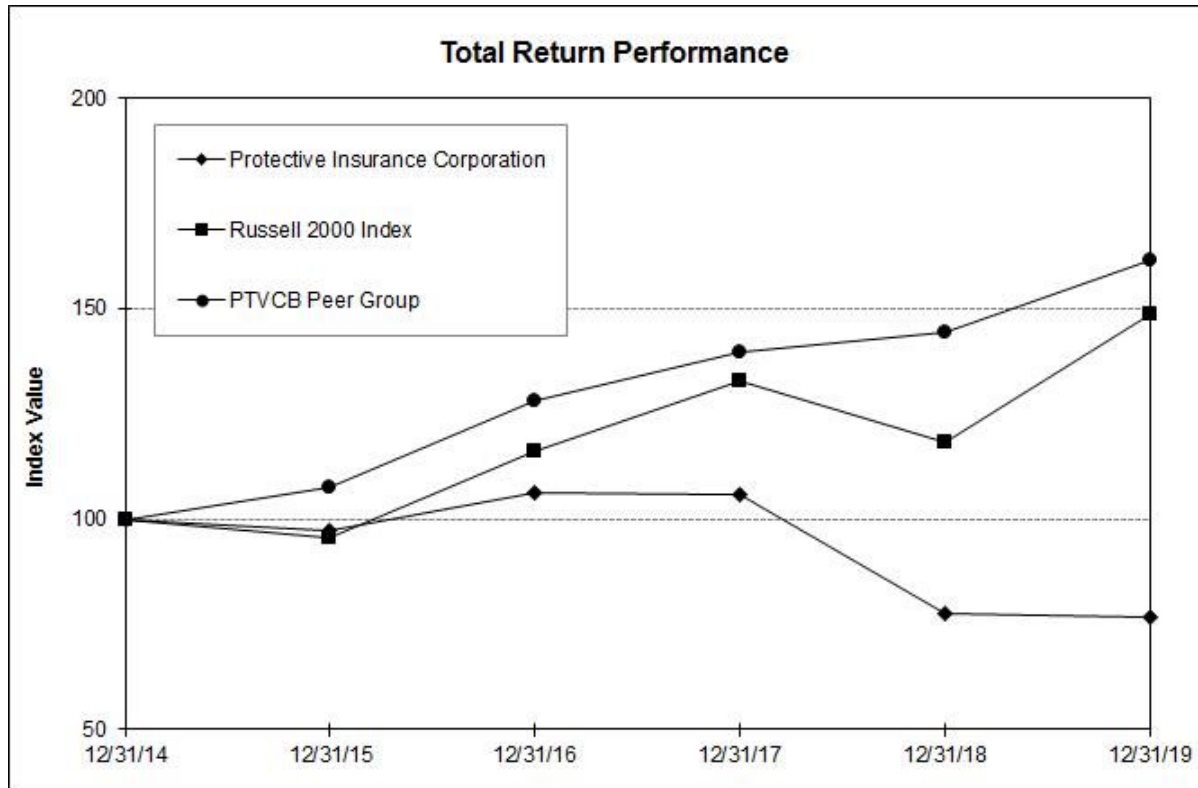
The following table presents information regarding the Company's repurchases of its Common Stock for the periods indicated:

| Period                         | Total number of<br>shares<br>purchased | Average<br>price paid<br>per share | Total number<br>of shares<br>purchased as<br>part of publicly<br>announced<br>plans or<br>programs (1) | Maximum<br>number of<br>shares<br>that may yet be<br>purchased<br>under the plans<br>or programs (1) |
|--------------------------------|--|------------------------------------|--|--|
| October 1 - October 31, 2019   | 16,136                                 | \$ 16.73                           | 16,136   | 1,561,599  |
| November 1 - November 30, 2019 | 30,598                                 | 16.03                              | 30,598   | 1,531,001  |
| December 1 - December 31, 2019 | 28,508                                 | 16.03                              | 28,508   | 1,502,493  |
| Total                          | <u>75,242</u>                          |                                    | <u>75,242</u>  |  |

- (1) On August 31, 2017, the Company's Board of Directors authorized the reinstatement of the Company's share repurchase program for up to 2,464,209 shares of the Company's Class A or Class B Common Stock. On August 6, 2019, the Company's Board of Directors reaffirmed the Company's share repurchase program, but also provided that the aggregate dollar amount of shares of the Company's Common Stock that may be repurchased under the share repurchase program between August 6, 2019 and August 6, 2020 may not exceed \$25.0 million and added a limit of no more than \$6.25 million in repurchases per quarter. The repurchases may be made in the open market or through privately negotiated transactions, from time to time, and in accordance with applicable laws, rules and regulations. Pursuant to this share repurchase program, the Company entered into a Rule 10b5-1 plan on December 30, 2019, which authorized the repurchase of up to \$0.6 million of the Company's outstanding common shares at various pricing thresholds, in accordance with guidelines specified under Rule 10b5-1 of the Exchange Act. The Rule 10b5-1 plan expired on February 26, 2020. No duration has been placed on the Company's share repurchase program, and the Company reserves the right to amend, suspend or discontinue it at any time. The share repurchase program does not commit the Company to repurchase any shares of its Common Stock. The Company has funded, and intends to continue to fund, the share repurchase program from cash on hand.

**Corporate Performance**

The following graph shows a five-year comparison of cumulative total return for the Company's Class B Common Stock, the Russell 2000 Index and the Company's peer group as determined by management (the "PTVCB Peer Group"). The basis of comparison is a \$100 investment at December 31, 2014, in each of (i) Protective, (ii) the Russell 2000 Index and (iii) the PTVCB Peer Group. All dividends are assumed to be reinvested.



| Index                            | Year Ended December 31 |          |           |           |          |          |
|----------------------------------|------------------------|----------|-----------|-----------|----------|----------|
|                                  | 2014                   | 2015     | 2016      | 2017      | 2018     | 2019     |
| Protective Insurance Corporation | \$ 100.00              | \$ 97.34 | \$ 106.34 | \$ 105.93 | \$ 77.42 | \$ 76.59 |
| Russell 2000 Index               | 100.00                 | 95.59    | 115.95    | 132.94    | 118.30   | 148.49   |
| PTVCB Peer Group                 | 100.00                 | 107.56   | 128.17    | 139.73    | 144.22   | 161.68   |

**PTVCB Peer Group**

|                                   |                                    |
|-----------------------------------|------------------------------------|
| Amerisafe, Inc.                   | HCI Group, Inc.                    |
| Atlas Financial Holdings, Inc.    | Heritage Insurance Holdings, Inc.  |
| Donegal Group Inc.                | James River Group Holdings, Ltd.   |
| EMC Insurance Group Inc.          | NMI Holdings, Inc.                 |
| Employers Holdings, Inc.          | Safety Insurance Group, Inc.       |
| FedNat Holding Company            | United Insurance Holdings Corp.    |
| Hallmark Financial Services, Inc. | Universal Insurance Holdings, Inc. |

**Item 6. SELECTED FINANCIAL DATA**

The table below provides selected consolidated financial data of the Company. The information has been derived from our consolidated financial statements for each of the years in the five-year period ended December 31, 2019. You should read this selected consolidated financial data in conjunction with the audited consolidated financial statements and notes as of and for the year ended December 31, 2019 included in Part II, Item 8 "Financial Statements and Supplementary Data", and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this Annual Report on Form 10-K.

|  | <b>Year Ended December 31</b>                        |                   |                   |                   |                   |
|--|--|-------------------|-------------------|-------------------|-------------------|
|  | <b>2019</b>  | <b>2018</b>       | <b>2017</b>       | <b>2016</b>       | <b>2015</b>       |
|  | <i>(Dollars in thousands, except per share data)</i> |                   |                   |                   |                   |
| <b>Gross premiums written</b>                                    | <b>\$ 574,918</b>                                    | <b>\$ 582,500</b> | <b>\$ 504,737</b> | <b>\$ 403,004</b> | <b>\$ 383,553</b> |
| <b>Net premiums earned</b>                                       | <b>447,288</b>                                       | <b>432,880</b>    | <b>328,145</b>    | <b>276,011</b>    | <b>263,335</b>    |
| <b>Net investment income</b>                                     | <b>26,249</b>  | <b>22,048</b>     | <b>18,095</b>     | <b>14,483</b>     | <b>12,498</b>     |
| <b>Net realized and unrealized gains (losses) on investments</b> | <b>12,889</b>  | <b>(25,691)</b>   | <b>19,686</b>     | <b>23,228</b>     | <b>(1,261)</b>    |
| <b>Losses and loss expenses incurred</b>                         | <b>348,468</b>                                       | <b>345,864</b>    | <b>247,518</b>    | <b>186,481</b>    | <b>155,750</b>    |
| <b>Net income (loss)</b>   | <b>7,347</b>   | <b>(34,075)</b>   | <b>18,323</b>     | <b>28,945</b>     | <b>23,283</b>     |
| <b>Earnings (loss) per share -- net income (loss) (1)</b>        | <b>0.50</b>  | <b>(2.28)</b>     | <b>1.21</b>       | <b>1.92</b>       | <b>1.55</b>       |
| <b>Cash dividends per share</b>                                  | <b>0.40</b>  | <b>1.12</b>       | <b>1.08</b>       | <b>1.04</b>       | <b>1.00</b>       |
| <b>Investment portfolio (2)</b>                                  | <b>968,205</b>                                       | <b>878,638</b>    | <b>854,595</b>    | <b>749,501</b>    | <b>729,877</b>    |
| <b>Total assets</b>  | <b>1,634,360</b>                                     | <b>1,490,131</b>  | <b>1,357,016</b>  | <b>1,154,137</b>  | <b>1,085,771</b>  |
| <b>Shareholders' equity</b>                                      | <b>364,316</b>                                       | <b>356,082</b>    | <b>418,811</b>    | <b>404,345</b>    | <b>394,498</b>    |
| <b>Book value per share</b>                                      | <b>25.51</b>   | <b>23.95</b>      | <b>27.83</b>      | <b>26.81</b>      | <b>26.25</b>      |

(1) Earnings (loss) per share are adjusted for the dilutive effect of restricted stock outstanding for 2015-2017 and 2019.

(2) Includes money market instruments classified as cash equivalents in the consolidated balance sheets.



## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Protective Insurance Corporation is a property-casualty insurer specializing in marketing and underwriting property, liability and workers' compensation coverage for trucking and commercial automobile fleets, as well as coverage for trucking industry independent contractors. We operate as one reportable property and casualty insurance segment, offering a range of products and services, the most significant being commercial automobile and workers' compensation insurance products.

The term "Protective," as used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), refers to Protective Insurance Corporation, the parent company. The terms the "Company," "we," "us" and "our," as used throughout this MD&A, refer to Protective and all of its subsidiaries, unless the context clearly indicates otherwise. The term "Insurance Subsidiaries," as used throughout this MD&A, refers to Protective Insurance Company, Protective Specialty Insurance Company, Sagamore Insurance Company and B&L Insurance, Ltd.

Effective August 1, 2018, we changed our name to Protective Insurance Corporation to better align our holding company's and Insurance Subsidiaries' identities and to reflect our position within the insurance industry.

Effective January 1, 2018, we adopted Accounting Standards Update ("ASU") 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01, resulting in a cumulative-effect adjustment of \$71.0 million (\$46.2 million, net of tax). This adjustment moved our historical unrealized gains and losses, net of tax, on our equity portfolio from accumulated other comprehensive income (loss) to retained earnings, but had no impact on overall shareholders' equity. In addition, for 2018 and forward, the change in fair value for equity securities is required to be recognized in net earnings rather than in other comprehensive income (loss). The impact to our consolidated statements of operations will vary depending upon the level of volatility in the performance of the securities held in our equity portfolio and the overall market.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "U.S. Tax Act") was signed into law, which lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, we recorded a tax benefit of \$9.6 million related to the remeasurement of our deferred tax assets and liabilities at December 31, 2017. As of December 31, 2017, the Internal Revenue Service ("IRS") had not yet published all of the detailed regulations resulting from the enactment of the U.S. Tax Act; therefore, while we had not completed our accounting for the tax effects, we made a reasonable estimate of the tax effects on our existing deferred tax balances at December 31, 2017. We finalized our accounting for the tax effects of the U.S. Tax Act during 2018. No material adjustments to income tax expense (benefit) were recorded during 2018.

On August 23, 2019, A.M. Best Company, Inc. ("A.M. Best") affirmed our financial strength rating of "A" (Excellent). A.M. Best continues to categorize our balance sheet as "very strong" and our operating performance as "adequate," but its outlook remains negative.

### **Liquidity and Capital Resources**

The primary sources of our liquidity are (1) funds generated from insurance operations, including net investment income, (2) proceeds from the sale of investments, and (3) proceeds from maturing investments.

We generally experience positive cash flow from operations. Premiums are collected on insurance policies in advance of the disbursement of funds for payment of claims. Operating costs of our property/casualty Insurance Subsidiaries, other than loss and loss expense payments and commissions paid to related agency companies, average less than one-third of net premiums earned on a consolidated basis and the remaining amount is available for investment for varying periods of time depending on the type of insurance coverage provided and the timing of the claim payments. Because losses are often settled in periods subsequent to when they are incurred, operating cash flows may, at times, become negative as loss settlements on claim reserves established in prior years exceed current revenues. Our cash flow relating to premiums is significantly affected by reinsurance programs in effect, whereby we cede both premium and risk to other insurance and reinsurance companies. These programs vary significantly among products and certain contracts call for reinsurance payment patterns, which do not coincide with the collection of premiums by us from our insureds.

On August 31, 2017, our Board of Directors authorized the reinstatement of our share repurchase program for up to 2,464,209 shares of our Class A or Class B Common Stock. On August 6, 2019, our Board of Directors reaffirmed our share repurchase program, but also provided that the aggregate dollar amount of shares of our common stock that may be repurchased under the share repurchase program between August 6, 2019 and August 6, 2020 may not exceed \$25.0 million and added a limit of no more than \$6.25 million in repurchases per quarter. The repurchases may be made in the open market or through privately negotiated transactions, from time-to-time, and in accordance with applicable laws, rules and regulations. On December 30, 2019, we entered into a stock repurchase plan for the purpose of repurchasing up to \$0.6 million of shares of our common stock, at various pricing thresholds, in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended (the "Rule 10b5-1 Plan"). The Rule 10b5-1 Plan was established pursuant to, and as part of, our share repurchase program and permits shares to be repurchased in accordance with pre-determined criteria when repurchases would otherwise be prohibited, such as during self-imposed blackout periods, or under insider trading laws. The Rule 10b5-1 Plan expired on February 26, 2020. The share repurchase program may be amended, suspended or discontinued at any time and does not commit us to repurchase any shares of our common stock. We have funded, and intend to continue to fund, the share repurchase program from cash on hand. The actual number and value of the shares to be purchased will depend on the performance of our stock price, market volume and other market conditions. During the year ended December 31, 2019, we paid \$11.5 million to repurchase 11,989 shares of Class A and 665,099 shares of Class B Common Stock under the share repurchase program.

For several years, our investment philosophy has emphasized the purchase of short-term bonds with high quality and liquidity. Our fixed income investment portfolio continues to emphasize shorter-duration instruments. If there was a hypothetical increase in interest rates of 100 basis points, the price of our fixed income portfolio, including cash, at December 31, 2019 would be expected to fall by approximately 2.6%. The credit quality of our fixed income securities remains high with a weighted average rating of AA-, including cash. The average contractual life of our fixed income and short-term investment portfolio was 6.9 years at December 31, 2019 compared to 5.5 years at December 31, 2018. The average duration of our fixed income portfolio remains shorter than the average duration of our liabilities. We also remain an active participant in the equity securities market, using capital in excess of amounts considered necessary to fund our current operations. The long-term horizon for our equity investments allows us to invest in positions where ultimate value, and not short-term market fluctuation, is the primary focus. Investments made by our domestic property/casualty Insurance Subsidiaries are regulated by guidelines promulgated by the National Association of Insurance Commissioners (the "NAIC"), which are designed to provide protection for both policyholders and shareholders.

Net cash flows from operations decreased \$14.0 million to \$86.7 million for 2019 compared to \$100.7 million in 2018. The decrease in operating cash flows was primarily related to an increase in payments for losses and loss adjustment expenses and operating expenses, partially offset by higher premium volume as well as higher investment income during 2019. Net cash flows from operations increased \$3.0 million to \$100.7 million for 2018 compared to \$97.7 million in 2017, primarily due to higher premium volume in 2018 compared to 2017.

Net cash used in investing activities was \$151.9 million for 2019 compared to net cash provided by investing activities of \$23.7 million in 2018. The \$175.6 million change was primarily the result of a decrease in proceeds from sales of our fixed income and equity securities of \$229.7 million compared to 2018. We also had higher purchases of fixed income and equity securities of \$8.2 million during 2019 compared to 2018. These cash outflows were partially offset by \$33.4 million in distributions received from our limited partnership investments in 2019 compared to \$6.9 million in 2018 and \$20.4 million higher proceeds from maturities of fixed income securities during 2019 compared to 2018. Additionally, during 2018, we purchased \$10.0 million of company-owned life insurance, which did not recur in 2019. Net cash provided by investing activities was \$23.7 million for 2018 compared to net cash used in investing activities of \$74.3 million in 2017. The \$98.0 million change was primarily related to higher proceeds from sales of fixed income and equity securities and lower purchases of fixed income and equity security investments. These increases were partially offset by lower proceeds from maturities of our fixed income securities and lower distributions from our limited partnership investments during 2018, in addition to the purchase of \$10.0 million of company-owned life insurance in the first quarter of 2018.

Net cash used in financing activities for 2019 consisted of regular cash dividend payments to shareholders of \$5.9 million (\$0.40 per share) and \$11.5 million to repurchase 677,088 shares of our common stock. Financing activities for 2018 consisted of regular cash dividend payments to shareholders of \$16.8 million (\$1.12 per share) and \$4.6 million to repurchase 199,668 shares of our common stock. Financing activities for 2017 consisted of regular cash dividend payments to shareholders of \$16.3 million (\$1.08 per share) and \$1.9 million to repurchase 84,960 shares of our common stock.

Our assets at December 31, 2019 included \$59.8 million of investments included within cash and cash equivalents on the consolidated balance sheet that are readily convertible to cash without market penalty and an additional \$86.4 million of fixed income investments maturing in less than one year. We believe these liquid investments, plus the expected cash flow from premium collections, are sufficient to provide for projected claim payments and operating cost demands. In the event competitive conditions produce inadequate premium rates and we choose to further restrict volume, the liquidity of our investment portfolio would permit us to continue to pay claims as settlements are reached without requiring the disposal of investments at a loss, regardless of interest rates in effect at the time. In addition, our reinsurance program is structured to avoid significant cash outlays that accompany large losses.

We maintain a revolving credit facility with a \$40.0 million limit, with the option for up to an additional \$35.0 million in incremental loans at the discretion of the lenders, which has an expiration date of August 9, 2022. Interest on this revolving credit facility is referenced to the London Interbank Offered Rate ("LIBOR") and can be fixed for periods of up to one year at our option. Outstanding drawings on this revolving credit facility were \$20.0 million as of December 31, 2019. At December 31, 2019, the effective interest rate was 2.88% and we had \$20.0 million remaining under the revolving credit facility. The current outstanding borrowings were used to repay our previous line of credit. Our revolving credit facility has two financial covenants, each of which were met as of December 31, 2019. These covenants require us to have a minimum U.S. generally accepted accounting principles ("GAAP") net worth and a maximum consolidated debt to equity ratio of 0.35.

Annualized net premiums written by our Insurance Subsidiaries for 2019 equaled approximately 120.7% of the combined statutory surplus of these subsidiaries. According to the NAIC, acceptable ranges for the ratio of net premiums written to statutory surplus include results of up to 300%. This ratio is designed to measure our ability to absorb above-average losses and our financial strength. Additionally, the statutory capital of each of our Insurance Subsidiaries substantially exceeded minimum risk-based capital requirements set by the NAIC as of December 31, 2019. As a result, we have the ability to increase our business without seeking additional capital to meet regulatory guidelines.

Consolidated shareholders' equity is composed largely of GAAP shareholders' equity of our Insurance Subsidiaries. As such, there are statutory restrictions on the transfer of substantial portions of this equity to Protective. At December 31, 2019, \$37.9 million may be transferred by dividend or loan to Protective without approval by, or prior notification to, regulatory authorities. An additional \$201.0 million of shareholders' equity of our Insurance Subsidiaries could be advanced or loaned to Protective with prior notification to, and approval from, regulatory authorities, although transfers of this size would not be practical. We believe these restrictions pose no material liquidity concerns for us. We also believe the financial strength and stability of our Insurance Subsidiaries would permit access by Protective to short-term and long-term sources of credit when needed. Protective had cash and marketable securities valued at \$7.1 million at December 31, 2019.

## Non-GAAP Measures

We believe investors' understanding of our performance is enhanced by our disclosure of underwriting income (loss), which is a measure that is not calculated in accordance with GAAP. Underwriting income (loss) represents the pre-tax profitability of our insurance operations and is derived by subtracting net realized and unrealized gains (losses) on investments and net investment income from income (loss) before federal income tax expense (benefit). For 2018, we also had a goodwill impairment charge, which was excluded from the calculation of 2018 underwriting income (loss). We use underwriting income (loss) as an internal performance measure in the management of our operations because we believe it gives us and users of our financial information useful insight into our results of operations, our underlying business performance and our ongoing operating trends. Underwriting income (loss) should not be viewed as a substitute for income (loss) before federal income tax expense (benefit) calculated in accordance with GAAP, and other companies may define underwriting income (loss) differently.

The ratio of consolidated other operating expenses, less commissions and other income, to net premiums earned, or our expense ratio, and the ratio of losses and loss expenses incurred, plus other operating expenses, less commissions and other income, to net premiums earned, or our combined ratio, are measures of our profitability that we believe increase the period-to-period comparability of our operational results. For 2018, the goodwill impairment charge was excluded from other operating expenses when calculating our expense ratio and our combined ratio, as these ratios are intended to depict our underlying business performance and ongoing operating trends. Our management uses these ratios to evaluate performance, allocate resources and forecast future operating periods. While expense ratios and combined ratios are widely used within our industry, our use of such ratios may not be directly comparable to similarly titled measures reported by other companies.

| <i>(dollars in thousands)</i>   | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|-------------|-------------|-------------|
| Income (loss) before federal income tax expense (benefit)                         | \$ 8,673    | \$ (43,872) | \$ 10,122   |
| Less: Net realized and unrealized gains (losses) on investments                   | 12,889      | (25,691)    | 19,686      |
| Less: Net investment income   | 26,249      | 22,048      | 18,095      |
| Less: Goodwill impairment charge included in other operating expenses (see below) | —           | (3,152)     | —           |
| Underwriting income (loss)  | \$ (30,465) | \$ (37,077) | \$ (27,659) |
| Other operating expenses  | \$ 138,456  | \$ 137,177  | \$ 113,594  |
| Less: Goodwill impairment charge  | —           | 3,152       | —           |
| Other operating expenses, excluding goodwill impairment charge                    | \$ 138,456  | \$ 134,025  | \$ 113,594  |
| <b>Ratios</b>   |             |             |             |
| Losses and loss expenses incurred   | \$ 348,468  | \$ 345,864  | \$ 247,518  |
| Net premiums earned   | 447,288     | 432,880     | 328,145     |
| Loss ratio  | 77.9%       | 79.9%       | 75.4%       |
| Other operating expenses  | \$ 138,456  | \$ 137,177  | \$ 113,594  |
| Less: Commissions and other income  | 9,171       | 9,932       | 5,308       |
| Other operating expenses, less commissions and other income                       | 129,285     | 127,245     | 108,286     |
| Net premiums earned   | 447,288     | 432,880     | 328,145     |
| Expense ratio   | 28.9%       | 29.4%       | 33.0%       |
| Impact of goodwill impairment charge  | —           | (0.7)%      | —           |
| Expense ratio, excluding goodwill impairment charge                               | 28.9%       | 28.7%       | 33.0%       |
| Combined ratio  | 106.8%      | 109.3%      | 108.4%      |
| Combined ratio, excluding goodwill impairment charge                              | 106.8%      | 108.6%      | 108.4%      |

## Results of Operations

### 2019 Compared to 2018

|   | 2019              | 2018               | Change           | % Change |
|---|-------------------|--------------------|------------------|----------|
| Gross premiums written                                    | \$ 574,918        | \$ 582,500         | \$ (7,582)       | (1.3)%   |
| Ceded premiums written                                    | (122,676)         | (138,102)          | 15,426           | (11.2)%  |
| Net premiums written                                      | <u>\$ 452,242</u> | <u>\$ 444,398</u>  | <u>\$ 7,844</u>  | 1.8%     |
| Net premiums earned                                       | \$ 447,288        | \$ 432,880         | \$ 14,408        | 3.3%     |
| Net investment income                                     | 26,249            | 22,048             | 4,201            | 19.1%    |
| Commissions and other income                              | 9,171             | 9,932              | (761)            | (7.7)%   |
| Net realized and unrealized gains (losses) on investments | 12,889            | (25,691)           | 38,580           | (150.2)% |
| Total revenue   | <u>495,597</u>    | <u>439,169</u>     |                  |          |
| Losses and loss expenses incurred                         | 348,468           | 345,864            | 2,604            | 0.8%     |
| Other operating expenses                                  | 138,456           | 137,177            | 1,279            | 0.9%     |
| Total expenses  | <u>486,924</u>    | <u>483,041</u>     |                  |          |
| Income (loss) before federal income tax expense (benefit) | 8,673             | (43,872)           | 52,545           |          |
| Federal income tax expense (benefit)                      | 1,326             | (9,797)            | 11,123           |          |
| Net income (loss)   | <u>\$ 7,347</u>   | <u>\$ (34,075)</u> | <u>\$ 41,422</u> |          |

Gross premiums written for 2019 decreased \$7.6 million (1.3%) due to the non-renewal of unprofitable business during the year, while net premiums earned increased \$14.4 million (3.3%), as compared to 2018. The higher net premiums earned in 2019 were primarily the result of lower premiums ceded when compared to 2018, as discussed below. The difference in the percentage change for premiums written compared to earned was reflective of the normal differences in the financial statement recognition of earned premiums compared to written, as well as differences in reinsurance ceding rates on the mix of business in-force.

Premiums ceded to reinsurers on our insurance business averaged 21.3% of gross premiums written for 2019 compared to 23.7% for 2018. During 2018, we had reserve strengthening that resulted in ceding an additional \$17.3 million in premium from prior treaty years related to the variable premium adjustment provisions in our historical reinsurance treaties. In comparison the 2019 period reflected the ceding of only an additional \$1.6 million in commercial automobile premium from prior treaty years related to variable premium adjustment provisions in our historical reinsurance treaties. This was partially offset by higher gross premiums written in workers' compensation coverages, which carry a higher reinsurance ceding rate in 2019 compared to 2018.

Losses and loss expenses incurred during 2019 increased \$2.6 million (0.8%) to \$348.5 million compared to \$345.9 million in 2018, while the loss ratio decreased to 77.9% for 2019 compared to 79.9% for 2018. The loss ratio is calculated as the percentage of losses and loss expenses incurred to net premiums earned. The increased losses and loss expenses incurred reflected an increase in current accident year losses driven by continued emergence of severity. This current accident year development was partially offset by prior accident year net savings of \$0.6 million that developed during 2019, primarily due to favorable loss development in workers' compensation coverages. Including the impact of the additional \$1.6 million of ceded premium discussed above, total prior accident years had an unfavorable impact of \$1.0 million in 2019. Losses and loss expenses for 2018 reflected reserve adjustments of \$16.8 million related to unfavorable prior accident year loss development in commercial automobile coverages. Including the impact of the additional \$17.3 million of ceded premium discussed above, total prior accident years had an unfavorable impact of \$34.1 million in 2018.

Commercial automobile products covered by our reinsurance treaties from July 2013 through June 2019 are subject to an unlimited aggregate stop-loss provision. Currently each of these treaty years is reserved at or above the attachment level of these treaties. For every \$100 of additional loss, we are only responsible for our \$25 retention. The following table illustrates the benefit of these reinsurance treaties based on select theoretical scenarios. For these theoretical scenarios, the net financial loss to the Company is approximately 25% of the gross loss.

|  | 5% Increase in<br>Ultimate Loss<br>Ratio | 10% Increase in<br>Ultimate Loss<br>Ratio |
|--|--|---|
| Gross loss expense from further strengthening current reserve position | \$ 47.2                                  | \$ 94.5                                   |
| Net financial loss   | \$ 11.8                                  | \$ 23.6                                   |
| \$/share (after tax)   | \$ 0.64                                  | \$ 1.28                                   |

Commercial automobile products covered by our reinsurance treaty from July 2019 through June 2020 are also subject to an unlimited aggregate stop-loss provision. Once the aggregate stop-loss level is reached, for every \$100 of additional loss, we are responsible for our \$65 retention. This increase in our retention compared to recent years, reflects the combination of 1) a decreased need for stop loss reinsurance protection resulting from a significant decrease in our commercial automobile subject limits profile, 2) a higher cost for this cover and 3) our confidence in profitability improvements given the limits reductions and rate increases on our commercial automobile products.

Net investment income for 2019 increased 19.1% to \$26.2 million compared to \$22.0 million for 2018. The increase reflected an increase in average funds invested resulting from positive cash flow, as well as a reallocation from equity investments held in limited partnerships into short-duration, high-quality bonds.

Net realized and unrealized gain on investments of \$12.9 million during 2019 were primarily driven by \$9.3 million in unrealized gains on equity securities during the period, net realized gains on sales of securities, excluding impairment losses, of \$2.5 million and a \$1.6 million increase in the value of our limited partnership investments, partially offset by other-than-temporary impairments on our fixed income securities of \$0.5 million recognized during the period. Comparative 2018 net realized and unrealized losses on investments of \$25.7 million were driven by \$9.7 million in unrealized losses on equity securities during the period, a \$9.3 million decrease in the value of our limited partnership investments and net realized losses on sales of fixed income and equity securities of \$6.6 million. Realized investment gains and losses result from decisions regarding overall portfolio realignment as well as the sale of individual securities, including the change in the aggregate value of limited partnerships and, as such, should not be expected to be consistent from period to period.

Other operating expenses for 2019 increased \$1.3 million (0.9%), to \$138.5 million compared to 2018. The increase was driven primarily by higher commission expenses as a result of premium written mix and higher salary and benefit expenses during 2019, partially offset by a non-cash goodwill impairment charge of \$3.2 million recorded in 2018, which did not recur in 2019. The ratio of consolidated other operating expenses less commissions and other income to net premiums earned (the "expense ratio") was 28.9% during 2019, compared to 28.7% for 2018.

Federal income tax expense was \$1.3 million for 2019 compared to a federal income tax benefit of \$9.8 million in 2018. The effective tax rate for 2019 was 15.3% compared to 22.3% in 2018. The effective federal income tax rate in 2019 differed from the normal statutory rate primarily as a result of tax-exempt investment income and the dividends received deduction.

As a result of the factors discussed above, net income for 2019 was \$7.3 million compared to net loss of \$34.1 million in 2018, a change of \$41.4 million.

### 2018 Compared to 2017

|   | 2018               | 2017              | Change             | % Change |
|---|--------------------|-------------------|--------------------|----------|
| Gross premiums written                                    | \$ 582,500         | \$ 504,737        | \$ 77,763          | 15.4%    |
| Ceded premiums written                                    | (138,102)          | (151,348)         | 13,246             | (8.8)%   |
| Net premiums written                                      | <u>\$ 444,398</u>  | <u>\$ 353,389</u> | <u>\$ 91,009</u>   | 25.8%    |
| Net premiums earned                                       | \$ 432,880         | \$ 328,145        | \$ 104,735         | 31.9%    |
| Net investment income                                     | 22,048             | 18,095            | 3,953              | 21.8%    |
| Commissions and other income                              | 9,932              | 5,308             | 4,624              | 87.1%    |
| Net realized and unrealized gains (losses) on investments | (25,691)           | 19,686            | (45,377)           | (230.5)% |
| Total revenue   | 439,169            | 371,234           |                    |          |
| Losses and loss expenses incurred                         | 345,864            | 247,518           | 98,346             | 39.7%    |
| Other operating expenses                                  | 137,177            | 113,594           | 23,583             | 20.8%    |
| Total expenses  | <u>483,041</u>     | <u>361,112</u>    |                    |          |
| Income (loss) before federal income tax benefit           | (43,872)           | 10,122            | (53,994)           |          |
| Federal income tax benefit                                | (9,797)            | (8,201)           | (1,596)            |          |
| Net income (loss)   | <u>\$ (34,075)</u> | <u>\$ 18,323</u>  | <u>\$ (52,398)</u> |          |

Gross premiums written for 2018 increased \$77.8 million (15.4%), while net premiums earned increased \$104.7 million (31.9%), as compared to 2017. The higher gross premiums written and net premiums earned were the result of continued growth in our commercial automobile and workers' compensation products in both our retail and program distribution channels. The difference in the percentage change for premiums written compared to earned was reflective of the normal differences in the financial statement recognition of earned premiums compared to written, as well as differences in reinsurance ceding rates on the mix of business in-force.

Premiums ceded to reinsurers on our insurance business averaged 23.7% of gross premiums written for 2018 compared to 30.0% for 2017. The percentage of premiums ceded to reinsurance decreased as a result of changes in our reinsurance structure. In the third quarter of 2017, we lowered the quota share rate on our workers' compensation premiums to reflect growing profitability and confidence in this book of business. We also restructured our commercial automobile reinsurance treaty, moving away from variable premium ceded rates (based on loss performance) to a flat ceding arrangement with no material changes to the economic risks taken for these products (i.e., ceded losses will decrease by a similar amount as ceded premiums). The impact of these changes to our reinsurance structure was partially offset by reserve strengthening in 2018 that resulted in ceding an additional \$17.3 million in premium from prior treaty years related to variable premium adjustment provisions in our historical reinsurance treaties. Our historical commercial automobile reinsurance treaties cause an adjustment to premiums ceded when the ultimate loss estimate changes for a reinsurance treaty year. Reserve strengthening in 2017 also resulted in ceding an additional \$13.7 million in premium related to these variable premium adjustment provisions in 2017.

Losses and loss expenses incurred during 2018 increased \$98.3 million (39.7%) to \$345.9 million compared to \$247.5 million in 2017. The loss ratio also increased to 79.9% for 2018 compared to a loss ratio of 75.4% for 2017. The loss ratio is calculated as the percentage of losses and loss expenses incurred to net premiums earned. The increased losses and loss expenses and loss ratio in 2018 reflected reserve adjustments of \$16.8 million related to unfavorable prior accident year loss development in commercial automobile coverages. These unfavorable loss developments were the result of increased claim severity due to a more challenging litigation environment, as well as an unexpected increase in the time to settle claims leading to an unfavorable change in claim settlement patterns. The 2018 loss ratio also reflected an increase in current accident year losses driven by severe commercial automobile losses, including continued emergence of severity. The 2017 loss ratio also reflected a \$19.2 million reserve strengthening related to prior accident year deficiencies that developed as a result of unfavorable loss development from commercial automobile coverages, particularly from severe transportation loss events that occurred primarily during the first six months of 2017 and higher than expected loss development for discontinued lines of business.

Commercial automobile products covered by our reinsurance treaties are subject to an aggregate stop-loss provision. Once this aggregate stop-loss level is reached, for every \$100 of additional loss, we are responsible only for our \$25 retention. The following table illustrates the financial impact of a further 5% or 10% increase in ultimate losses for the 2013-2017 reinsurance treaty years covering these commercial automobile products:

|  | 5% Increase in<br>Ultimate Loss<br>Ratio | 10% Increase in<br>Ultimate Loss<br>Ratio |
|--|--|---|
| Gross loss expense from further strengthening current reserve position | \$ 34.3                                  | \$ 68.7                                   |
| Net financial loss   | \$ 9.0                                   | \$ 17.6                                   |
| \$/share (after tax)   | \$ 0.48                                  | \$ 0.94                                   |

Net investment income for 2018 increased 21.8% to \$22.0 million compared to \$18.1 million for 2017. The increase reflected an increase in average funds invested resulting from positive cash flow, as well as higher interest rates, which led to higher reinvestment yields for our short-duration fixed income portfolio.

Net realized and unrealized losses on investments of \$25.7 million during 2018 were driven by \$9.7 million in unrealized losses on equity securities during the period, a \$9.3 million decrease in the value of our limited partnership investments and net realized losses on sales of fixed income and equity securities of \$6.6 million. During 2018, we sold \$149.2 million in equity securities resulting in a gain on sale of \$51.9 million. The majority of this gain was included in unrealized gains within other comprehensive income (loss) at December 31, 2017 and, as a result of the adoption of ASU 2016-01, was reclassified to retained earnings as of January 1, 2018 and not recognized in the consolidated statements of operations for 2018. These equity sales further solidified the conservative nature of our high quality, short-duration investment portfolio; opportunistically utilized the new lower corporate tax rate of 21%, which was beneficial given the low tax basis of many of these equity positions; and were accretive to income, given the increase in yields at the shorter end of the yield curve. Comparative 2017 net realized investment gains were \$19.7 million, consisting primarily of \$12.5 million in gains reported from our investments in limited partnerships and \$7.4 million in net realized gains from sales of securities. Realized investment gains and losses result from decisions regarding overall portfolio realignment as well as the sale of individual securities, including the change in aggregate value of limited partnerships and, as such, should not be expected to be consistent from period to period.

Other operating expenses for 2018 increased \$23.6 million, or 20.8%, to \$137.2 million compared to 2017. The increase in other operating expenses was primarily due to increased commission expenses as a result of increased premiums written, higher salary and benefit expense and a non-cash impairment charge of \$3.2 million recorded in the fourth quarter of 2018 to write off our entire goodwill balance. See Note M, "Acquisition and Related Goodwill and Intangibles" to the consolidated financial statements in Part II, Item 8 of this Annual Report on form 10-K for further discussion. The expense ratio was 29.4% during 2018, or 28.7% excluding the impact of the goodwill impairment charge, compared to 33.0% for 2017. The decrease in the expense ratio was primarily related to the leveraging effect of higher net premiums earned in 2018 compared to 2017.

Federal income tax benefit was \$9.8 million for 2018 compared to \$8.2 million in 2017. The effective tax rate for 2018 was 22.3% compared to (81.0%) in 2017. The effective federal income tax rate in 2018 differed only slightly from the normal statutory rate primarily as a result of tax-exempt investment income. In the fourth quarter of 2017, we recorded a benefit of \$9.6 million related to the remeasurement of deferred tax assets and liabilities pursuant to the U.S. Tax Act, which impacted our effective federal income tax rate for 2017.

As a result of the factors discussed above, the net loss for 2018 was \$34.1 million compared to net income of \$18.3 million in 2017, a change of \$52.4 million.

### **Critical Accounting Policies**

The Company's significant accounting policies that are material and/or subject to significant degrees of judgment are highlighted below.

#### **Investment Valuation**

All marketable securities are included in the Company's balance sheets at current fair market value.

Approximately 60% of the Company's assets are composed of investments at December 31, 2019. Approximately 90% of these investments are publicly-traded, owned directly and have readily-ascertainable market values. The remaining 10% of investments are composed primarily of minority interests in several limited partnerships. These limited partnerships are engaged in long-short equities, private equity, country-focused funds and real estate development as an alternative to direct equity investments. These partnerships do not have readily-determinable market values themselves. Rather, the values recorded are those provided to the Company by the respective partnerships based on the underlying assets of the limited partnerships. While a substantial portion of the underlying assets are publicly-traded securities, those which are not publicly-traded have been valued by the respective limited partnerships using their experience and judgment.



Under Financial Accounting Standards Board ("FASB") guidance, if a fixed income security is in an unrealized loss position and the Company has the intent to sell the security, or it is more likely than not that the Company will have to sell the security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to net realized gains (losses) on investments in the consolidated statements of operations. For impaired fixed income securities that the Company does not intend to sell or it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in net realized gains (losses) on investments in the consolidated statements of operations and the non-credit component of the other-than-temporary impairment is recognized directly in shareholders' equity within accumulated other comprehensive income (loss).

In conjunction with the adoption of ASU 2016-01, unrealized gains or losses on equity securities are now recognized in the consolidated statements of operations and are no longer evaluated for other-than-temporary declines.

It is important to note that all available-for-sale securities included in the Company's consolidated financial statements are valued at current fair market values. The evaluation process for determination of an other-than-temporary decline in the value of investments, as described above, does not change these valuations but, rather, determines when a decline in value will be recognized in the consolidated statements of operations (other-than-temporary decline), as opposed to a charge to shareholders' equity (temporary decline). This evaluation process is subject to risks and uncertainties because it is not always clear what has caused a decline in value of an individual security or because some declines may be associated with market conditions or economic factors, which relate to an industry in general, but not necessarily to an individual issue. The Company has attempted to minimize many of these uncertainties by adopting a largely objective evaluation process as described above. However, to the extent that certain declines in value are reported as unrealized at December 31, 2019, it is possible that future earnings charges will result should the declines in value increase or persist or should the security actually be disposed of while market values are less than cost. At December 31, 2019, the total gross unrealized loss included in the Company's fixed income portfolio was approximately \$3.6 million. No individual issue constituted a material amount of this total. Had this entire amount been considered other-than-temporary at December 31, 2019, there would have been no impact on total shareholders' equity or book value since the decline in value of these securities was previously recognized as a reduction to shareholders' equity.

#### Reinsurance Recoverable

Reinsurance ceded transactions were as follows for the years ended December 31 (dollars in thousands):

|   | <u>2019</u>       | <u>2018</u> | <u>2017</u> |
|---|-------------------|-------------|-------------|
| Reinsurance recoverable                                     | \$ <b>432,067</b> | \$ 392,436  | \$ 318,331  |
| Premium ceded (reduction to premium earned)                 | <b>124,446</b>    | 131,080     | 145,201     |
| Losses ceded (reduction to losses incurred)                 | <b>121,963</b>    | 148,285     | 128,086     |
| Reinsurance ceded credits (reduction to operating expenses) | <b>25,932</b>     | 23,124      | 23,187      |

A discussion of the Company's reinsurance strategies is presented in Part I, Item 1, "Business", of this Annual Report on Form 10-K.

Amounts recoverable under the terms of reinsurance contracts comprised approximately 26% of total Company assets as of December 31, 2019. In order to be able to provide the high limits required by the Company's insureds, the Company shares a significant amount of the insurance risk of the underlying contracts with various insurance entities through the use of reinsurance contracts. Some reinsurance contracts provide that a loss will be shared among the Company and its reinsurers on a predetermined pro-rata basis ("quota share"), while other contracts provide that the Company will keep a fixed amount of the loss, similar to a deductible, with reinsurers taking all losses above this fixed amount ("excess of loss"). Some risks are covered by a combination of quota share and excess of loss contracts. The computation of amounts due from reinsurers is based upon the terms of the various contracts and follows the underlying estimation process for loss and loss expense reserves, as described below. Accordingly, the uncertainties inherent in the loss and loss expense reserving process also affect the amounts recorded as recoverable from reinsurers. Estimation uncertainties are greatest for claims which have occurred but which have not yet been reported to the Company. Further, the high limits provided by certain of the Company's insurance policies for commercial automobile liability, workers' compensation and professional liability risks provide more variability in the estimation process than lines of business with lower coverage limits.

It should be noted, however, that a change in the estimate of amounts due from reinsurers on unpaid claims will not, in itself, result in charges or credits to losses incurred. This is because any change in estimated recovery follows the estimate of the underlying loss. Thus, it is the computation of the gross underlying loss that is critical.

As with any receivable, credit risk exists in the recoverability of reinsurance. This may be even more pronounced than in normal receivable situations since recoverable amounts are not generally due until the loss is settled which, in some cases, may be many years after the contract was written. If a reinsurer is unable, in the future, to meet its financial commitments under the terms of the contracts, the Company would be responsible to satisfy the reinsurer's portion of the loss. The financial condition of each of the Company's reinsurers is vetted upon the execution of a given treaty, and only reinsurers with superior credit ratings are utilized. However, as noted above, reinsurers are often not called upon to satisfy their obligations for several years and changes in credit worthiness can occur in the interim period. Reviews of the current financial strength of each reinsurer are made frequently and, should impairment in the ability of a reinsurer be determined to exist, current year operations would be charged in amounts sufficient to provide for the Company's additional liability. Such charges are included in other operating expenses, rather than losses and loss expenses incurred, since the inability of the Company to collect from reinsurers is a credit loss rather than a deficiency associated with the loss reserving process.

### Loss and Loss Expense Reserves

The Company's reserves for losses and loss expenses ("reserves") are determined based on complex estimation processes using historical experience, current economic information and available industry statistics. The Company's claims range from routine "fender benders" to the highly complex and costly third-party bodily injury claims involving large tractor-trailer rigs. Reserving for each class of claims requires a set of assumptions based upon historical experience, knowledge of current industry trends and seasoned judgment. The high limits provided in many of the Company's policies provide for greater volatility in the reserving process for more serious claims. Court rulings, legislative actions and trends in jury awards also play a significant role in the estimation process of larger claims. The Company continuously reviews and evaluates loss developments subsequent to each measurement date and adjusts its reserve estimation assumptions, as necessary, in an effort to achieve the best possible estimate of the ultimate remaining loss costs at any point in time. Changes to previously established loss and loss expense reserve amounts are charged or credited to losses and loss expenses incurred in the accounting periods in which they are determined. See Note C, "Loss and Loss Expense Reserves," to the Consolidated Financial Statements in Part II, Item 8 of this Annual Report on Form 10-K for additional information relating to loss and loss expense reserve development.

The Company's methods for determining loss and loss expense reserves are essentially identical for interim and annual reporting periods.

A detailed analysis and discussion for each of the above basic reserve categories follows:

#### Reserves for known losses (Case reserves)

Each known claim, regardless of complexity, is handled by a claims adjuster experienced with claims of a similar nature, and a "case" reserve appropriate for the individual loss occurrence is established. For routine "short-tail" claims, such as physical damage, the Company records an initial reserve that is based upon historical loss settlements adjusted for current trends. As information regarding the loss occurrence is gathered in the claim handling process, the initial reserve is adjusted to reflect the anticipated ultimate cost to settle the claim. For more complex claims, which can tend toward being "long-tail" in nature, an experienced claims adjuster will review the facts and circumstances surrounding the loss occurrence to make a determination of the reserve to be established. Many of the more complex claims involve litigation and necessitate an evaluation of potential jury awards, in addition to the factual information, to determine the value of each claim. Each claim is frequently monitored and the recorded reserve is increased or decreased relative to information gathered during the settlement life cycle.

#### Reserves for incurred but not reported losses

The Company uses both standard actuarial techniques common to most insurance companies as well as proprietary techniques developed by the Company in connection with its specialty business products. For its short-tail lines of business, the Company uses predominantly the incurred or paid loss development factor methods. The Company has found that the use of accident quarter loss development triangles, rather than those based upon accident year, are most responsive to claim settlement trends and fluctuations in premium exposure for its short-tail lines. A minimum of 12 running accident quarters is used to project the reserve necessary for incurred but not reported ("IBNR") losses for its short-tail lines.

The Company also uses the loss development factor approach for its long-tail lines of business. A minimum of 15 accident years is included in the loss development triangles used to calculate link ratios and the selected loss development factors used to determine the reserves for IBNR losses. A minimum of 20 accident years is used for long-tail workers' compensation reserve projections. Significant emphasis is placed on the use of tail factors for the Company's long-tail lines of business.

For the Company's commercial automobile risks, which are covered by regularly changing reinsurance agreements and which contain wide-ranging self-insured retentions ("SIR"), traditional actuarial methods are supplemented by other methods, as described below, in consideration of the Company's exposures to loss. In situations where the Company's reinsurance structure, the insured's SIR selections, policy volume, and other factors are changing, current accident period loss exposures may not be homogenous enough with historical loss data to allow for reliable projection of future developed losses. Therefore, the Company supplements the above-described actuarial methods with loss ratio reserving techniques developed from the Company's proprietary databases to arrive at the reserve for IBNR losses for the calendar/accident period under review. As losses for a given calendar/accident period develop with the passage of time, management evaluates such development on a monthly and quarterly basis and adjusts reserve factors, as necessary, to reflect current judgment with regard to the anticipated ultimate incurred losses. This process continues until all losses are settled for each period subject to this method.

#### Reserves for loss adjustment expenses

While certain of the Company's products involve case basis reserving for allocated loss adjustment expenses, the majority of such reserves are determined on a bulk basis. The Company uses historical analysis of the ratios of allocated loss adjustment expenses paid to losses paid on closed claims to arrive at the expected ultimate incurred loss adjustment expense factors applicable to each affected product. Once developed, the factors are applied to the expected ultimate incurred losses, including IBNR, on all open claims. The resulting ultimate incurred allocated loss adjustment expense is then reduced by amounts paid to date on all open claims to arrive at the reserve for allocated loss adjustment expenses to be incurred in the future for the handling of specific claims.



For those loss adjustment expenses not specific to individual claims (general claims handling expenses referred to as unallocated loss adjustment expenses), the Company uses a variation of the standard industry loss adjustment expenses paid to losses paid (net of reinsurance) ratio analysis that equally weighs paid and incurred losses to establish the necessary reserves. The selected factors are applied to 100% of IBNR reserves and to case reserves, with consideration given for that portion of loss adjustment expense already paid at the reserve measurement date. Such factors are monitored and revised, as necessary, on a quarterly basis.

Sensitivity Analysis - Potential impact on reserve volatility from changes in key assumptions

Management is aware of the potential for variation from the reserves established at any particular point in time. Savings or deficiencies could develop in future valuations of the currently established loss and loss expense reserve estimates under a variety of reasonably possible scenarios. The Company's reserve selections are developed to be a "best estimate" of unpaid losses at a point in time and, due to the unique nature of its exposures, particularly in the large commercial automobile excess product, ranges of reserve estimates are not established during the reserving process. However, basic assumptions that could potentially impact future volatility of the Company's valuations of current loss and loss expense reserve estimates include, but are not limited to, the following:

- Consistency in the individual case reserving processes;
- The selection of loss development factors in the establishment of bulk reserves for incurred but not reported losses and loss expenses;
- Projected future loss trend; and
- Expected loss ratios for the current book of business, particularly the Company's commercial automobile products, where the number of accounts insured, selected SIRs, policy limits and reinsurance structures may vary widely from period to period.

Under reasonably possible scenarios, it is conceivable that the Company's selected loss estimates could be 10% or more redundant or deficient. The majority of the Company's reserves for losses and loss expenses, on a net of reinsurance basis, relate to its commercial automobile products. Perhaps the most significant example of sensitivity to variation in the key assumptions is the loss ratio selection for the Company's commercial automobile products for policies subject to certain major reinsurance treaties. The following table presents the approximate impacts on gross and net loss reserves of both a hypothetical 10 percentage point and a hypothetical 20 percentage point increase or decrease in the loss factors actually utilized in the Company's reserve determination at December 31, 2019 for the prior seven treaty periods, which covers exposures earned on policies written between July 3, 2013 and December 31, 2019. The Company's selection of the range of values presented should not be construed as the Company's prediction of future events, but rather simply an illustration of the impact of such events, should they occur.

The variation in impact from loss ratio increases and decreases is attributable to minimum and maximum premium rate factors included in the various reinsurance contracts. In between the minimum and maximum ceded premium provisions within the treaty terms, net premiums earned can be increased or decreased based on a change in loss expectation. The total impact to profitability in the same scenarios is shown below (\$ in millions):

|   | <u>10% Loss<br/>Ratio Increase</u> | <u>10% Loss<br/>Ratio Decrease</u> | <u>20% Loss<br/>Ratio Increase</u> | <u>20% Loss<br/>Ratio Decrease</u> |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Gross Reserves                            | \$ 98.0                            | \$ (98.0)                          | \$ 196.0                           | \$ (196.0)                         |
| Net Reserves                              | \$ 25.9                            | \$ (32.1)                          | \$ 51.8                            | \$ (81.3)                          |
| Net premiums earned                       | \$ —                               | \$ 11.1                            | \$ —                               | \$ 29.9                            |
| Cumulative Net Underwriting Income (Loss) | \$ (25.9)                          | \$ 43.2                            | \$ (51.8)                          | \$ 111.2                           |

**Federal Income Tax Considerations**

The liability method is used in accounting for federal income taxes. Using this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The provision for deferred federal income tax is based on items of income and expense that are reported in different years in the consolidated financial statements and tax returns and are measured at the tax rate in effect in the year the difference originated.

On December 22, 2017, the U.S. Tax Act was signed into law. The U.S. Tax Act lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. GAAP requires the impact of tax legislation to be recognized in the period in which the law was enacted. As a result of the U.S. Tax Act, the Company recorded a tax benefit of \$9.6 million related to the remeasurement of its deferred tax assets and liabilities during the fourth quarter of 2017. As of December 31, 2017, the IRS had not yet published all of the detailed regulations resulting from the enactment of the U.S. Tax Act; therefore, while the Company had not completed its accounting for the tax effects, it made a reasonable estimate of the tax effects on its existing deferred tax balances at December 31, 2017. The Company finalized its accounting for the tax effects of the U.S. Tax Act during 2018. No material adjustments to income tax expense (benefit) were recorded in 2018.

Net deferred tax liabilities reported at December 31 are as follows (dollars in thousands):

|                                       | 2019        | 2018        |
|---------------------------------------|-------------|-------------|
| Total deferred tax liabilities        | \$ (15,484) | \$ (12,906) |
| Total deferred tax assets             | 17,519      | 19,168      |
| Net deferred tax assets (liabilities) | \$ 2,035    | \$ 6,262    |

Deferred tax assets at December 31, 2019 included approximately \$11.5 million related to the timing of deductibility of loss and loss expense reserves, the majority of which relate to policy liability discounts required by the Internal Revenue Code of 1986, as amended, which are perpetual in nature and, in the absence of the termination of the Company's business, will not, in the aggregate, reverse to a material degree in the foreseeable future. Unearned premiums discount and deferred ceding commissions represent \$2.5 million and \$1.0 million of deferred tax assets, respectively. An additional \$1.2 million relates to timing differences in the expensing of our stock compensation plans. The unrealized gains in the Company's investment portfolios would allow for the recovery of this deferred tax at any time. The balance of deferred tax assets consists of various normal operating expense accruals and is not considered to be material. As a result of its analysis, management has determined that no valuation allowance is necessary at December 31, 2019.

FASB provides guidance for recognizing and measuring uncertain tax positions and prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the consolidated financial statements. Based on this guidance, management regularly analyzes tax positions taken or expected to be taken in a tax return based on the threshold condition prescribed. Tax positions that do not meet or exceed this threshold condition are considered uncertain tax positions. Interest related to uncertain tax positions, if any, would be recognized in income tax expense. Penalties, if any, related to uncertain tax positions would be recorded in income tax expense (benefit).

### Impact of Inflation

To the extent possible, the Company attempts to recover the impact of inflation on loss costs and operating expenses by increasing the premiums it charges. Within the commercial automobile business, a majority of the Company's accounts are charged as a percentage of an insured's gross revenue, mileage or payroll. As these charging bases increase with inflation, premium revenues are immediately increased. The remaining premium rates charged are adjustable only at periodic intervals and often require state regulatory approval. Such periodic increases in premium rates may lag far behind cost increases.

To the extent inflation influences yields on investments, the Company is also affected. The Company's short-term and fixed investment portfolios are structured in direct response to available interest rates over the yield curve. As available market interest rates fluctuate in response to the presence or absence of inflation, the yields on the Company's investments are impacted. Further, as inflation affects current market rates of return, previously committed investments might increase or decline in value depending on the type and maturity of investment. For additional information, see Part II, Item 7A, "*Quantitative and Qualitative Disclosures about Market Risk*", in this Annual Report on Form 10-K.

Inflation must also be considered by the Company in the creation and review of loss and loss adjustment expense reserves, as portions of these reserves are expected to be paid over extended periods of time. The anticipated effect of inflation is implicitly considered when estimating liabilities for losses and loss adjustment expenses.

### Contractual Obligations

The table below sets forth the amounts of the Company's contractual obligations at December 31, 2019.

|                                | Payments Due by Period       |                     |                 |                 |                      |
|--------------------------------|------------------------------|---------------------|-----------------|-----------------|----------------------|
|                                | Total                        | Less than 1<br>year | 1 - 3 Years     | 3 - 5 Years     | More Than 5<br>Years |
|                                | <i>(dollars in millions)</i> |                     |                 |                 |                      |
| Loss and loss expense reserves | \$ 988.3                     | \$ 345.9            | \$ 326.1        | \$ 118.6        | \$ 197.7             |
| Investment commitment          | 0.4                          | 0.4                 | -               | -               | -                    |
| Operating leases               | 0.1                          | 0.1                 | -               | -               | -                    |
| Borrowings                     | 20.0                         | 20.0                | -               | -               | -                    |
| Total                          | <u>\$ 1,008.8</u>            | <u>\$ 366.4</u>     | <u>\$ 326.1</u> | <u>\$ 118.6</u> | <u>\$ 197.7</u>      |

The Company's loss and loss expense reserves do not have contractual maturity dates, and the exact timing of the payment of claims cannot be predicted with certainty. However, based upon historical payment patterns, the above table presents an estimate of when the Company might expect its direct loss and loss expense reserves (without the benefit of reinsurance recoveries) to be paid. Timing of the collection of the related reinsurance recoverable, estimated to be \$432.1 million at December 31, 2019, or 44% of the loss and loss expense reserves presented in the above table, would approximate that of the above projected direct reserve payout but could lag behind such payments by several months in some instances.

The investment commitment in the above table relates to a maximum unfunded capital obligation for a limited partnership investment at December 31, 2019. The actual call dates for such funding could vary from that presented.

Borrowings made under the Company's line of credit can be called by the lender, under certain circumstances, with short notice. The Company entered into a new line of credit on August 9, 2018 with an expiration date of August 9, 2022.

#### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company operates within the property and casualty insurance industry and, accordingly, has significant invested assets that are exposed to various market risks. These market risks relate to interest rate fluctuations, credit risks, equity security market prices and, to a lesser extent, foreign currency rate fluctuations. All of the Company's invested assets, with the exception of investments in limited partnerships and equity securities, are classified as available-for-sale.

Based on the structure of the Company's investment portfolio, one of the most significant of the four identified market risks relates to prices in the equity securities markets. Although not the largest category of the Company's invested assets, equity securities and limited partnerships, which are predominately invested in equities, have a high potential for short-term price fluctuation. The market value of the Company's equity and limited partnerships positions at December 31, 2019 was \$100.1 million, or approximately:

- 10% of the Company's consolidated investment portfolio of \$968.2 million; and
- 27% of the Company's shareholders' equity of \$364.3 million.

Funds invested in the equities markets are not considered to be assets necessary for the Company to conduct its daily operations and, therefore, can be committed for extended periods of time. The long-term nature of the Company's equity investments allows it to invest in positions where ultimate value, and not short-term market fluctuations, is the primary focus.

Reference is made to the discussion of limited partnership investments in "Critical Accounting Policies" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K. All of the market risks attendant to equity securities also apply to the underlying assets in these limited partnerships, and to a greater degree because of the generally more aggressive investment philosophies utilized by the limited partnerships. In addition, these investments are illiquid. There is no primary or secondary market on which these limited partnerships trade and, in most cases, the Company is prohibited from disposing of its limited partnership interests for some period of time and must seek approval from the general partner for any such disposal. Distributions of earnings from these limited partnerships are largely at the sole discretion of the general partners, and distributions are generally not received by the Company for many years after the earnings have been reported. Finally, through the application of the equity method of accounting, the Company's share of net income reported by the limited partnerships often includes significant amounts of unrealized appreciation on the underlying investments.

The Company's fixed income portfolio totaled \$795.5 million at December 31, 2019. Approximately 31% of this portfolio is made up of U.S. Government and municipal debt securities, and the average contractual maturity of the Company's fixed income investments is approximately 6.9 years with an average modified duration of approximately 2.6 years. Although the Company is exposed to interest rate risk on its fixed income investments, given the anticipated duration of the Company's liabilities (principally insurance loss and loss expense reserves) relative to investment maturities, even a 100 to 200 basis point increase in interest rates would not have a material impact on the Company's ability to conduct daily operations or to meet its obligations and would, in fact, result in higher investment income in a relatively short period of time, as short-term investments and maturing bonds could be reinvested in the higher yielding securities.

There is an inverse relationship between interest rate fluctuations and the fair value of the Company's fixed income investments. Additionally, the fair value of interest rate sensitive instruments may be affected by the financial strength of the issuer, prepayment options, relative values of alternative investments, liquidity of the investment, currency fluctuations for non-U.S. debt holdings and other general market conditions. The Company monitors its sensitivity to interest rate risk by measuring the change in fair value of its fixed income investments relative to hypothetical changes in interest rates.

The following tables present the estimated effects on the fair value of financial instruments at December 31, 2019 and 2018 that would result from an instantaneous change in yield rates of varying magnitudes on a static balance sheet to determine the effect such a change in rates would have on current fair value. The analysis presents the sensitivity of the fair value of the Company's financial instruments to selected changes in market rates and prices. The range of rates chosen reflects the Company's view of changes that the Company believes are reasonably possible over a one-year period. The Company's selection of the range of values chosen to represent changes in interest rates should not be construed as the Company's prediction of future market events, but rather, as an illustration of the impact of such events, should they occur. The equity portfolio was compared to the S&P 500 Index due to its correlation with the vast majority of the Company's current equity portfolio. The limited partnership portfolio was compared to the S&P 500 Index and the S&P BSE 500 Index due to their significant correlation with the vast majority of the Company's limited partnership portfolio. As previously indicated, several other factors can impact the fair values of fixed income investments and, therefore, significant variations in market interest rates could produce quite different results from the hypothetical estimates presented below.

The following tables present the estimated effects on the fair value of financial instruments at December 31, 2019 and 2018 due to an instantaneous increase in yield rates of 100 basis points and a 10% decline in the S&P 500 Index and the S&P BSE 500 Index (dollars in thousands).

|  | Fair Value | Increase (Decrease) |             |
|--|------------|---------------------|-------------|
|  |            | Interest Rate Risk  | Equity Risk |
| <b>2019</b>  |            |                     |             |
| Fixed income securities                            |            |                     |             |
| Agency collateralized mortgage obligations         | \$ 12,093  | \$ (414)            | \$ -        |
| Agency mortgage-backed securities                  | 56,280     | (607)               | -           |
| Asset-backed securities                            | 106,397    | (691)               | -           |
| Bank loans   | 14,568     | (73)                | -           |
| Certificates of deposit                            | 2,835      | (18)                | -           |
| Collateralized mortgage obligations                | 5,616      | (166)               | -           |
| Corporate securities                               | 281,381    | (8,735)             | -           |
| Mortgage-backed securities                         | 47,463     | (1,682)             | -           |
| Municipal obligations                              | 36,286     | (1,618)             | -           |
| Non-U.S. government obligations                    | 24,179     | (480)               | -           |
| U.S. government obligations                        | 208,440    | (7,082)             | -           |
| Total fixed income securities                      | 795,538    | (21,566)            | -           |
| Equity securities:                                 |            |                     |             |
| Consumer   | 16,707     | -                   | (1,671)     |
| Energy   | 3,074      | -                   | (307)       |
| Financial  | 31,577     | -                   | (3,158)     |
| Industrial   | 4,927      | -                   | (493)       |
| Technology   | 2,817      | -                   | (282)       |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 9,460      | -                   | (946)       |
| Other  | 8,250      | -                   | (825)       |
| Total equity securities                            | 76,812     | -                   | (7,682)     |
| Limited partnerships                               | 23,292     | -                   | (1,670)     |
| Short-term   | 1,000      | -                   | -           |
| Total  | \$ 896,642 | \$ (21,566)         | \$ (9,352)  |
| <b>2018</b>  |            |                     |             |
| Fixed income securities                            |            |                     |             |
| Agency collateralized mortgage obligations         | \$ 10,687  | \$ (404)            | \$ -        |
| Agency mortgage-backed securities                  | 37,385     | (2,012)             | -           |
| Asset-backed securities                            | 64,422     | (2,612)             | -           |
| Bank loans   | 9,750      | (49)                | -           |
| Certificates of deposit                            | 2,835      | (48)                | -           |
| Collateralized mortgage obligations                | 5,423      | (176)               | -           |
| Corporate securities                               | 190,450    | (5,417)             | -           |
| Mortgage-backed securities                         | 38,540     | (1,270)             | -           |
| Municipal obligations                              | 29,155     | (769)               | -           |
| Non-U.S. government obligations                    | 25,180     | (549)               | -           |
| U.S. government obligations                        | 178,818    | (5,864)             | -           |
| Total fixed income securities                      | 592,645    | (19,170)            | -           |
| Equity securities:                                 |            |                     |             |
| Consumer   | 17,945     | -                   | (1,795)     |
| Energy   | 3,179      | -                   | (318)       |
| Financial  | 25,253     | -                   | (2,525)     |
| Industrial   | 6,920      | -                   | (692)       |
| Technology   | 2,303      | -                   | (230)       |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 5,489      | -                   | (549)       |
| Other  | 5,333      | -                   | (533)       |
| Total equity securities                            | 66,422     | -                   | (6,642)     |
| Limited partnerships                               | 55,044     | -                   | (4,022)     |
| Short-term   | 1,000      | -                   | -           |
| Total  | \$ 715,111 | \$ (19,170)         | \$ (10,664) |

The following tables present the estimated effects on the fair value of financial instruments at December 31, 2019 and 2018 due to an instantaneous increase in yield rates of 150 basis points and a 15% decline in the S&P 500 Index and the S&P BSE 500 Index (dollars in thousands).

|  | Fair Value | Increase (Decrease) |             |
|--|------------|---------------------|-------------|
|  |            | Interest Rate Risk  | Equity Risk |
| <b>2019</b>  |            |                     |             |
| Fixed income securities                            |            |                     |             |
| Agency collateralized mortgage obligations         | \$ 12,093  | \$ (622)            | \$ -        |
| Agency mortgage-backed securities                  | 56,280     | (911)               | -           |
| Asset-backed securities                            | 106,397    | (1,037)             | -           |
| Bank loans   | 14,568     | (109)               | -           |
| Certificates of deposit                            | 2,835      | (27)                | -           |
| Collateralized mortgage obligations                | 5,616      | (248)               | -           |
| Corporate securities                               | 281,381    | (13,103)            | -           |
| Mortgage-backed securities                         | 47,463     | (2,523)             | -           |
| Municipal obligations                              | 36,286     | (2,426)             | -           |
| Non-U.S. government obligations                    | 24,179     | (720)               | -           |
| U.S. government obligations                        | 208,440    | (10,623)            | -           |
| Total fixed income securities                      | 795,538    | (32,349)            | -           |
| Equity securities:                                 |            |                     |             |
| Consumer   | 16,707     | -                   | (2,506)     |
| Energy   | 3,074      | -                   | (461)       |
| Financial  | 31,577     | -                   | (4,737)     |
| Industrial   | 4,927      | -                   | (739)       |
| Technology   | 2,817      | -                   | (423)       |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 9,460      | -                   | (1,419)     |
| Other  | 8,250      | -                   | (1,238)     |
| Total equity securities                            | 76,812     | -                   | (11,523)    |
| Limited partnerships                               | 23,292     | -                   | (2,506)     |
| Short-term   | 1,000      | -                   | -           |
| Total  | \$ 896,642 | \$ (32,349)         | \$ (14,029) |
| <b>2018</b>  |            |                     |             |
| Fixed income securities                            |            |                     |             |
| Agency collateralized mortgage obligations         | \$ 10,687  | \$ (607)            | \$ -        |
| Agency mortgage-backed securities                  | 37,385     | (3,021)             | -           |
| Asset-backed securities                            | 64,422     | (3,917)             | -           |
| Bank loans   | 9,750      | (73)                | -           |
| Certificates of deposit                            | 2,835      | (71)                | -           |
| Collateralized mortgage obligations                | 5,423      | (263)               | -           |
| Corporate securities                               | 190,450    | (8,125)             | -           |
| Mortgage-backed securities                         | 38,540     | (1,904)             | -           |
| Municipal obligations                              | 29,155     | (1,154)             | -           |
| Non-U.S. government obligations                    | 25,180     | (824)               | -           |
| U.S. government obligations                        | 178,818    | (8,794)             | -           |
| Total fixed income securities                      | 592,645    | (28,753)            | -           |
| Equity securities:                                 |            |                     |             |
| Consumer   | 17,945     | -                   | (2,692)     |
| Energy   | 3,179      | -                   | (477)       |
| Financial  | 25,253     | -                   | (3,788)     |
| Industrial   | 6,920      | -                   | (1,038)     |
| Technology   | 2,303      | -                   | (345)       |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 5,489      | -                   | (823)       |
| Other  | 5,333      | -                   | (800)       |
| Total equity securities                            | 66,422     | -                   | (9,963)     |
| Limited partnerships                               | 55,044     | -                   | (6,034)     |
| Short-term   | 1,000      | -                   | -           |
| Total  | \$ 715,111 | \$ (28,753)         | \$ (15,997) |

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

YEAR ENDED DECEMBER 31, 2019

PROTECTIVE INSURANCE CORPORATION

CARMEL, INDIANA

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Protective Insurance Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Protective Insurance Corporation and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 5, 2020 expressed an unqualified opinion thereon.

**Adoption of ASU No. 2016-01**

As discussed in Note A to the consolidated financial statements, the Company changed its method of accounting for the recognition and measurement of certain financial instruments in 2018 due to the adoption of ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP

We have served as the Company’s auditor since 1970.

Indianapolis, Indiana  
March 5, 2020



**Consolidated Balance Sheets**

Protective Insurance Corporation and Subsidiaries

*(in thousands, except share data)*

|  | December 31         |                     |
|--|---------------------|---------------------|
|  | <u>2019</u>         | <u>2018</u>         |
| <b>Assets</b>  |                     |                     |
| Investments:   |                     |                     |
| Fixed income securities (Amortized cost: 2019, \$783,047; 2018, \$600,504)                                     | \$ 795,538          | \$ 592,645          |
| Equity securities  | 76,812              | 66,422              |
| Limited partnerships   | 23,292              | 55,044              |
| Commercial mortgage loans  | 11,782              | 6,672               |
| Short-term and other   | <u>1,000</u>        | <u>1,000</u>        |
|  | 908,424             | 721,783             |
| Cash and cash equivalents  | 67,851              | 163,996             |
| Restricted cash and cash equivalents   | 21,037              | 6,815               |
| Accounts receivable--less allowance (2019, \$2,233; 2018, \$403)   | 111,762             | 102,972             |
| Accrued investment income  | 4,882               | 4,358               |
| Reinsurance recoverable  | 432,067             | 392,436             |
| Prepaid reinsurance premiums   | 5,820               | 6,095               |
| Deferred policy acquisition costs  | 8,496               | 6,568               |
| Property and equipment--less accumulated depreciation (2019, \$20,091; 2018, \$19,531)                         | 42,542              | 46,645              |
| Other assets   | 24,566              | 24,760              |
| Current federal income taxes   | 4,878               | 7,441               |
| Deferred federal income taxes  | <u>2,035</u>        | <u>6,262</u>        |
|  | <u>\$ 1,634,360</u> | <u>\$ 1,490,131</u> |
| <b>Liabilities and Shareholders' Equity</b>  |                     |                     |
| Reserves:  |                     |                     |
| Losses and loss expenses   | \$ 988,305          | \$ 865,339          |
| Unearned premiums  | <u>74,810</u>       | <u>71,625</u>       |
|  | 1,063,115           | 936,964             |
| Reinsurance payable  | 65,835              | 66,632              |
| Short-term borrowings  | 20,000              | 20,000              |
| Depository liabilities   | 18                  | 173                 |
| Accounts payable and other liabilities   | <u>121,076</u>      | <u>110,280</u>      |
|  | 1,270,044           | 1,134,049           |
| Shareholders' equity:  |                     |                     |
| Common stock:  |                     |                     |
| Class A voting -- authorized 3,000,000 shares; outstanding -- 2019 - 2,603,350; 2018 - 2,615,339 shares        | 111                 | 112                 |
| Class B non-voting -- authorized 20,000,000 shares; outstanding -- 2019 - 11,675,956; 2018 - 12,253,922 shares | 499                 | 522                 |
| Additional paid-in capital   | 53,349              | 54,720              |
| Accumulated other comprehensive income (loss)  | 9,369               | (7,347)             |
| Retained earnings  | <u>300,988</u>      | <u>308,075</u>      |
|  | 364,316             | 356,082             |
|  | <u>\$ 1,634,360</u> | <u>\$ 1,490,131</u> |

See notes to consolidated financial statements.

**Consolidated Statements of Operations**

Protective Insurance Corporation and Subsidiaries

*(in thousands, except per share data)*

|  | Year Ended December 31 |                    |                  |
|--|------------------------|--------------------|------------------|
|  | 2019                   | 2018               | 2017             |
| <b>Revenue:</b>  |                        |                    |                  |
| Net premiums earned  | \$ 447,288             | \$ 432,880         | \$ 328,145       |
| Net investment income  | 26,249                 | 22,048             | 18,095           |
| Commissions and other income   | 9,171                  | 9,932              | 5,308            |
| Net realized gains (losses) on investments, excluding impairment losses                | 2,455                  | (6,632)            | 7,366            |
| Other-than-temporary impairment losses on investments                                  | (497)                  | (19)               | (149)            |
| Net unrealized gains (losses) on equity securities and limited partnership investments | 10,931                 | (19,040)           | 12,469           |
| Net realized and unrealized gains (losses) on investments                              | 12,889                 | (25,691)           | 19,686           |
|  | 495,597                | 439,169            | 371,234          |
| <b>Expenses:</b>   |                        |                    |                  |
| Losses and loss expenses incurred  | 348,468                | 345,864            | 247,518          |
| Other operating expenses   | 138,456                | 137,177            | 113,594          |
|  | 486,924                | 483,041            | 361,112          |
| <b>Income (loss) before federal income tax expense (benefit)</b>                       | <b>8,673</b>           | <b>(43,872)</b>    | <b>10,122</b>    |
| Federal income tax expense (benefit)   | 1,326                  | (9,797)            | (8,201)          |
| <b>Net income (loss)</b>   | <b>\$ 7,347</b>        | <b>\$ (34,075)</b> | <b>\$ 18,323</b> |
| <b>Per share data:</b>   |                        |                    |                  |
| <b>Basic and diluted earnings (loss)</b>   | <b>\$ 0.50</b>         | <b>\$ (2.28)</b>   | <b>\$ 1.21</b>   |

See notes to consolidated financial statements.

**Consolidated Statements of Comprehensive Income (Loss)**

Protective Insurance Corporation and Subsidiaries

*(in thousands)*

|  | Year Ended December 31 |                    |                  |
|--|------------------------|--------------------|------------------|
|  | 2019                   | 2018               | 2017             |
| <b>Net income (loss)</b>                                 | <b>\$ 7,347</b>        | <b>\$ (34,075)</b> | <b>\$ 18,323</b> |
| Other comprehensive income (loss), net of tax:           |                        |                    |                  |
| Unrealized net gains (losses) on fixed income securities | 16,071                 | (6,868)            | 12,649           |
| Foreign currency translation adjustments                 | 645                    | (830)              | 522              |
| Other comprehensive income (loss)                        | 16,716                 | (7,698)            | 13,171           |
| <b>Comprehensive income (loss)</b>                       | <b>\$ 24,063</b>       | <b>\$ (41,773)</b> | <b>\$ 31,494</b> |

See notes to consolidated financial statements.

**Consolidated Statements of Shareholders' Equity**

Protective Insurance Corporation and Subsidiaries

(in thousands)

|   | Common Stock |        |         |        | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Total<br>Equity |
|---|--------------|--------|---------|--------|----------------------------------|--|----------------------|-----------------|
|   | Class A      |        | Class B |        |                                  |  |                      |                 |
|   | Shares       | Amount | Shares  | Amount |                                  |  |                      |                 |
| Balance at January 1, 2017  | 2,623        | \$ 112 | 12,461  | \$ 532 | \$ 54,286                        | \$ 33,220  | \$ 316,195           | \$ 404,345      |
| Net income  | -            | -      | -       | -      | -                                | -  | 18,323               | 18,323          |
| Foreign currency translation<br>adjustment, net of tax            | -            | -      | -       | -      | -                                | 522  | -                    | 522             |
| Change in unrealized gain<br>(loss) on investments, net of<br>tax | -            | -      | -       | -      | -                                | 12,649   | -                    | 12,649          |
| Common stock dividends  | -            | -      | -       | -      | -                                | -  | (16,302)             | (16,302)        |
| Repurchase of common stock  | -            | -      | (85)    | (4)    | (360)                            | -  | (1,516)              | (1,880)         |
| Restricted stock grants   | -            | -      | 48      | 2      | 1,152                            | -  | -                    | 1,154           |
| Balance at December 31, 2017                                      | 2,623        | 112    | 12,424  | 530    | 55,078                           | 46,391   | 316,700              | 418,811         |
| Cumulative effect of adoption<br>of ASU 2016-01, net of tax       | -            | -      | -       | -      | -                                | (46,157)   | 46,157               | -               |
| Cumulative effect of adoption<br>of ASU 2018-02                   | -            | -      | -       | -      | -                                | 117  | (117)                | -               |
| Net loss  | -            | -      | -       | -      | -                                | -  | (34,075)             | (34,075)        |
| Foreign currency translation<br>adjustment, net of tax            | -            | -      | -       | -      | -                                | (830)  | -                    | (830)           |
| Change in unrealized gain<br>(loss) on investments, net of<br>tax | -            | -      | -       | -      | -                                | (6,868)  | -                    | (6,868)         |
| Common stock dividends  | -            | -      | -       | -      | -                                | -  | (16,835)             | (16,835)        |
| Repurchase of common stock  | (8)          | -      | (192)   | (9)    | (832)                            | -  | (3,755)              | (4,596)         |
| Restricted stock grants   | -            | -      | 22      | 1      | 474                              | -  | -                    | 475             |
| Balance at December 31, 2018                                      | 2,615        | \$ 112 | 12,254  | \$ 522 | \$ 54,720                        | \$ (7,347)   | \$ 308,075           | \$ 356,082      |
| Net income  | -            | -      | -       | -      | -                                | -  | 7,347                | 7,347           |
| Foreign currency translation<br>adjustment, net of tax            | -            | -      | -       | -      | -                                | 645  | -                    | 645             |
| Change in unrealized gain<br>(loss) on investments, net of<br>tax | -            | -      | -       | -      | -                                | 16,071   | -                    | 16,071          |
| Common stock dividends  | -            | -      | -       | -      | -                                | -  | (5,857)              | (5,857)         |
| Repurchase of common stock  | (12)         | (1)    | (665)   | (27)   | (2,896)                          | -  | (8,577)              | (11,501)        |
| Restricted stock grants   | -            | -      | 87      | 4      | 1,525                            | -  | -                    | 1,529           |
| Balance at December 31, 2019                                      | 2,603        | \$ 111 | 11,676  | \$ 499 | \$ 53,349                        | \$ 9,369   | \$ 300,988           | \$ 364,316      |

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Protective Insurance Corporation and Subsidiaries

(in thousands)

|   | Year Ended December 31 |                   |                  |
|---|------------------------|-------------------|------------------|
|   | 2019                   | 2018              | 2017             |
| <b>Operating activities</b>   |                        |                   |                  |
| Net income (loss)   | \$ 7,347               | \$ (34,075)       | \$ 18,323        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities:      |                        |                   |                  |
| Change in accounts receivable and unearned premium  | (3,835)                | (3,904)           | 2,678            |
| Change in accrued investment income   | (524)                  | (199)             | (278)            |
| Change in reinsurance recoverable on paid losses  | (19,083)               | 956               | (446)            |
| Change in losses and loss expenses reserves, net of reinsurance                               | 100,648                | 117,027           | 47,229           |
| Change in other assets, other liabilities and current income taxes                            | 10,140                 | 8,204             | 49,221           |
| Amortization of net policy acquisition costs  | 55,802                 | 54,981            | 47,387           |
| Net policy acquisition costs deferred   | (57,731)               | (55,940)          | (51,824)         |
| Provision for deferred income tax expense (benefit)   | (51)                   | (18,794)          | (3,866)          |
| Bond amortization   | (725)                  | 184               | 1,865            |
| Loss on sale of property and equipment  | –                      | –                 | 235              |
| Depreciation  | 6,052                  | 6,102             | 5,752            |
| Net realized (gains) losses on investments  | (12,889)               | 25,691            | (19,686)         |
| Compensation expense related to restricted stock  | 1,529                  | 475               | 1,154            |
| <b>Net cash provided by operating activities</b>  | <b>86,680</b>          | <b>100,708</b>    | <b>97,744</b>    |
| <b>Investing activities</b>   |                        |                   |                  |
| Purchases of fixed income securities and equity securities                                    | (423,544)              | (415,326)         | (436,932)        |
| Purchases of limited partnership interests  | –                      | (450)             | (1,097)          |
| Distributions from limited partnerships   | 33,396                 | 6,869             | 19,230           |
| Proceeds from maturities  | 84,387                 | 64,035            | 131,623          |
| Proceeds from sales of fixed income securities  | 139,310                | 241,429           | 148,652          |
| Proceeds from sales of equity securities  | 21,621                 | 149,195           | 69,756           |
| Net sales of short-term investments   | –                      | –                 | 500              |
| Purchase of insurance company-owned life insurance  | –                      | (10,000)          | –                |
| Purchase of commercial mortgage loans   | (7,082)                | (6,672)           | –                |
| Proceeds from commercial mortgage loans   | 1,972                  | –                 | –                |
| Purchases of property and equipment   | (1,953)                | (5,439)           | (6,661)          |
| Proceeds from disposals of property and equipment   | 3                      | 10                | 582              |
| <b>Net cash provided by (used in) investing activities</b>                                    | <b>(151,890)</b>       | <b>23,651</b>     | <b>(74,347)</b>  |
| <b>Financing activities</b>   |                        |                   |                  |
| Dividends paid to shareholders  | (5,857)                | (16,835)          | (16,302)         |
| Repurchase of common shares   | (11,501)               | (4,596)           | (1,880)          |
| <b>Net cash used in financing activities</b>  | <b>(17,358)</b>        | <b>(21,431)</b>   | <b>(18,182)</b>  |
| Effect of foreign exchange rates on cash and cash equivalents                                 | 645                    | (830)             | 522              |
| <b>Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents</b> | <b>(81,923)</b>        | <b>102,098</b>    | <b>5,737</b>     |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of year          | 170,811                | 68,713            | 62,976           |
| <b>Cash, cash equivalents and restricted cash and cash equivalents at end of year</b>         | <b>\$ 88,888</b>       | <b>\$ 170,811</b> | <b>\$ 68,713</b> |
| <b>Supplemental Disclosures of Cash Flow Information</b>                                      |                        |                   |                  |
| Cash paid (refunds received) for income taxes   | \$ (1,186)             | \$ 9,500          | \$ –             |
| Cash paid for interest  | \$ 723                 | \$ 504            | \$ 456           |

See notes to consolidated financial statements.

## **Notes to Consolidated Financial Statements**

Protective Insurance Corporation and Subsidiaries

(All dollars amounts presented in these notes are in thousands, except share and per share data)

### **Note A - Summary of Significant Accounting Policies**

**Description of Business:** Protective Insurance Corporation (the "Company"), based in Carmel, Indiana, is a property-casualty insurer specializing in marketing and underwriting property, liability and workers' compensation coverage for trucking and public transportation fleets, as well as coverage for trucking industry independent contractors. The Company offers a range of products and services, the most significant being commercial automobile and workers' compensation insurance products. The Company operates as one reportable property and casualty insurance segment based on how its operating results are regularly reviewed by its chief operating decision maker when making decisions about how resources are allocated and assessing performance.

The term "Insurance Subsidiaries," as used throughout this Annual Report on Form 10-K, refers to Protective Insurance Company, Protective Specialty Insurance Company, Sagamore Insurance Company and B&L Insurance, Ltd.

Effective August 1, 2018, the Company changed its name to Protective Insurance Corporation to better align its holding company's and Insurance Subsidiaries' identities and to reflect its position within the insurance industry.

**Basis of Presentation:** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Inter-company transactions and accounts have been eliminated in consolidation.

**Use of Estimates:** Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results will differ from those estimates.

**Cash and Cash Equivalents:** The Company considers investments in money market funds to be cash equivalents. Carrying amounts for these instruments approximate their fair values.

**Investments:** Carrying amounts for fixed income securities represent fair value and are based on quoted market prices, where available, or broker/dealer quotes for specific securities where quoted market prices are not available. Equity securities are carried at quoted market prices (fair value). Commercial mortgage loans are carried primarily at amortized cost along with a valuation allowance for losses when necessary. These investments represent interests in commercial mortgage loans originated and serviced by a third party of which the Company shares, on a pro-rata basis, in all related cash flows of the underlying mortgage loans. There was no valuation allowance on the Company's commercial mortgage loans as of December 31, 2019.

The Company accounts for investments in limited partnerships using the equity method of accounting, which requires an investor in a limited partnership to record its proportionate share of the limited partnership's net income. To the extent the limited partnerships include both realized and unrealized investment gains or losses in the determination of net income or loss, then the Company would also recognize, through its consolidated statements of operations, its proportionate share of the investee's unrealized, as well as realized, investment gains or losses within net unrealized gains (losses) on equity securities and limited partnership investments.

Short-term and other investments are carried at cost, which approximates their fair values.

Fixed income securities are considered to be available-for-sale. The related unrealized net gains or losses (net of applicable tax effects) on fixed income securities are reflected directly in shareholders' equity. Included within available-for-sale fixed income securities are convertible debt securities. A portion of the changes in the fair values of convertible debt securities is reflected as a component of net realized gains (losses) on investments, excluding impairment losses within the consolidated statements of operations. Realized gains and losses on disposals of fixed income securities are recorded on the trade date. Realized gains and losses on fixed income securities are determined by the specific identification of the cost of investments sold and are included in net realized gains (losses) on investments, excluding impairment losses.

Effective January 1, 2018, the Company adopted new accounting guidance that requires equity securities to be recorded at fair value, with unrealized net gains or losses reflected as a component of net unrealized gains (losses) on equity securities and limited partnership investments within the consolidated statements of operations. Realized gains and losses on disposals of equity securities are recorded on the trade date and included in net realized gains (losses) on investments, excluding impairment losses. Prior to adoption of the new accounting guidance, unrealized gains and losses related to equity securities were reflected directly in shareholders' equity unless a decline in value was determined to be other-than-temporary, in which case the loss was charged to income.

In accordance with the Financial Accounting Standards Board's ("FASB") other-than-temporary impairment guidance, if a fixed income security is in an unrealized loss position and the Company has the intent to sell the fixed income security, or it is more likely than not that the Company will have to sell the fixed income security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses on investments in the consolidated statements of operations. For impaired fixed income securities that the Company does not intend to sell or in cases where it is more likely than not that the Company will not have to sell such securities, but the Company expects that it will not fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses on investments in the consolidated statements of operations and the non-credit component of the other-than-temporary impairment is recognized directly in shareholders' equity.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed income security. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the appropriate effective interest rate.

**Property and Equipment:** Property and equipment are carried at cost, less accumulated depreciation. Depreciation is computed principally by the straight-line method.

**Goodwill and Other Intangible Assets:** In the fourth quarter of 2018, the Company concluded the entire goodwill balance was impaired, resulting in an impairment loss of \$3,152. See Note M for further discussion. This impairment charge is included within other operating expenses in the consolidated statements of operations. Intangible assets determined to have finite lives, such as customer relationships and employment agreements, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset. In addition, impairment testing is performed on these amortizing intangible assets if impairment indicators are noted.

**Reserves for Losses and Loss Expenses:** The reserves for losses and loss expenses are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate cost of all reported and unreported losses which are unpaid at year-end. These reserves include estimates of future trends in claim severity and frequency and other factors which could vary as the losses are ultimately settled. While actual results will differ from such estimates, management believes that the reserves for losses and loss expenses are adequate. The estimates are continually reviewed, and as adjustments to these reserves become necessary, such adjustments are reflected in current operations.

**Recognition of Revenue and Costs:** Premiums are earned over the period for which insurance protection is provided. A reserve for unearned premiums is established to reflect amounts applicable to subsequent accounting periods. Commissions to unaffiliated companies and premium taxes applicable to unearned premiums are deferred and expensed as the related premiums are earned. The Company does not defer acquisition costs that are not directly variable with the production of premiums. If it is determined that expected losses and deferred expenses will likely exceed the related unearned premiums, the asset representing deferred policy acquisition costs is reduced and an expense is charged against current operations to reflect any such premium deficiency. In the event that the expected premium deficiency exceeds deferred policy acquisition costs, an additional liability would be recorded with a corresponding expense to current operations for the amount of the excess premium deficiency. Anticipated investment income is considered in determining recoverability of deferred acquisition costs. The Company had no material contract assets, contract liabilities, or deferred contract costs recorded on its consolidated balance sheet at December 31, 2019.

**Reinsurance:** Reinsurance premiums, commissions, expense reimbursements and reserves related to the Company's reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other insurers have been reported as a reduction of premium earned. Amounts applicable to reinsurance ceded for unearned premium and claim loss reserves have been reported as reinsurance recoverable assets. Certain reinsurance contracts provide for additional or return premiums and commissions based upon profits or losses to the reinsurer over prescribed periods. Estimates of additional or return premiums and commissions are adjusted quarterly to recognize actual loss experience to date, as well as projected loss experience applicable to the various contract periods. Estimates of reinstatement premiums on reinsurance contracts covering catastrophic events are, to the extent reasonably determinable, recorded concurrently with the related loss.

Should impairment in the ability of a reinsurer to satisfy its obligations to the Company be determined to exist, current year operations would be charged in amounts sufficient to provide for the Company's additional liability. Such charges, when incurred, are included in other operating expenses, rather than losses and loss expenses incurred, because the inability of the Company to collect from reinsurers is a credit risk rather than a deficiency associated with the loss reserving process.

**Deferred Taxes:** Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement and tax return bases of assets and liabilities based on enacted tax rates and laws. The deferred tax benefits of the deferred tax assets are recognized to the extent realization of such benefits is more likely than not. Deferred income tax expense or benefit generally represents the net change in deferred income tax assets and liabilities during the year. Current income tax expense represents the tax liability associated with revenues and expenses currently taxable or deductible on various income tax returns for the year reported.

**Restricted Stock:** Shares of restricted stock vest over the vesting period from the date of grant and certain shares of restricted stock are accelerated for retirement-eligible recipients in accordance with the non-substantive, post-grant date vesting clause of Accounting Standards Codification ("ASC") Topic 715, Compensation—Retirement Benefits. Restricted stock is valued based on the closing price of the Company's Class B Common Stock on the day the award is granted. Non-vested shares of restricted stock will be forfeited should an executive's employment terminate for any reason other than death, disability, or retirement as defined by the Compensation Committee (the "Compensation Committee") of the Board of Directors (the "Board") of the Company.

**Earnings (Loss) Per Share:** Diluted earnings (loss) per share of common stock are based on the average number of shares of Class A and Class B Common Stock outstanding during the year, adjusted for the dilutive effect, if any, of restricted stock awards outstanding. Basic earnings (loss) per share are presented exclusive of the effect of share-based awards outstanding.

**Comprehensive Income (Loss):** The Company records accumulated other comprehensive income (loss) from unrealized gains and losses on available-for-sale securities and from foreign exchange adjustments as a separate component of shareholders' equity. A reclassification adjustment to other comprehensive income (loss) is made for gains or losses during the period included in net income (loss).

**Fair Value Measurements:** The Company provides disclosures related to recurring and non-recurring fair value measurements with separate disclosures for the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements, along with an explanation for the transfers. Additionally, separate disclosures are provided for purchases, sales, issuances and settlements on a gross basis for Level 3 fair value measurements as well as additional clarification for both the level of disaggregation reported for each class of assets or liabilities and disclosures of inputs and valuation techniques used to measure fair value for both recurring and non-recurring fair value measurements for assets and liabilities categorized as Level 2 or Level 3.

**Insurance Company-Owned Life Insurance:** Included within other assets on the consolidated balance sheet at December 31, 2019 is \$11,049 of company-owned life insurance. The carrying value of the company-owned life insurance policies represents the cash surrender value as reported by the respective insurer, which approximates fair value.

**Recently Adopted Accounting Pronouncements:** In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01. The amendments in ASU 2016-01 changed the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Previously, the Company's equity securities were classified as available-for-sale and changes in fair value were recognized in accumulated other comprehensive income (loss) as a component of shareholders' equity. The Company adopted ASU 2016-01 as of January 1, 2018 using the modified retrospective approach and recorded a cumulative-effect adjustment to reclassify unrealized gains on equity securities of \$71,012 (\$46,157, net of tax) from other comprehensive income (loss) to retained earnings within the consolidated balance sheet as of December 31, 2018. Going forward, unrealized gains or losses on equity securities will be recognized in the consolidated statements of operations within net unrealized gains (losses) on equity securities and limited partnership investments.

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), or ASU 2016-02. ASU 2016-02 superseded the prior lease guidance in Accounting Standards Codification ("ASC") Topic 840, Leases. Under the new guidance, lessees are required to recognize for all leases, with the exception of short-term leases, a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. Concurrently, lessees are required to recognize a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The guidance provided for a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative periods presented in the financial statements. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, or ASU 2018-11, which provided adopters an additional transition method by allowing entities to initially apply ASU 2016-02, and subsequent related standards, at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted the new guidance on January 1, 2019 utilizing the transition method allowed per ASU 2018-11, and accordingly, comparative period financial information was not adjusted for the effects of the new guidance. No cumulative-effect adjustment was required to the opening balance of retained earnings on the adoption date. The Company's adoption of the new standard did not have any impact on the Company's consolidated statements of operations or cash flows; however, the impact of adopting the new guidance resulted in a right-of-use asset and a lease liability being recorded on the consolidated balance sheet as of December 31, 2019, each of approximately \$127, which are included within other assets and accounts payable and other liabilities.

In July 2018, the FASB issued ASU No. 2018-09, Codification Improvements. This update provided clarification, corrected errors in and made minor improvements to various ASC topics. Many of the amendments in this update had transition guidance with effective dates for annual periods beginning after December 15, 2018, and some amendments in this update did not require transition guidance and were effective upon issuance of this update. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

**Recently Issued Accounting Pronouncements:** In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, or ASU 2016-13. ASU 2016-13 introduced a current expected credit loss (CECL) model for measuring expected credit losses for certain types of financial instruments held at the reporting date requiring significant judgment in application based on historical experience, current conditions and reasonable supportable forecasts, but is not prescriptive about certain aspects of estimating expected losses. The guidance replaced the current incurred loss model for measuring expected credit losses and provided for additional disclosure requirements. Subsequently, the FASB issued additional ASUs on Topic 326 that did not change the core principle of the guidance in ASU 2016-13, but provided clarification and implementation guidance on certain aspects of ASU 2016-13, and have the same effective date and transition requirements as ASU 2016-13. The Company adopted the guidance using a modified retrospective approach as of January 1, 2020 and recognized a pre-tax cumulative effect adjustment between approximately \$13.0 million and \$18.0 million to the opening balance of retained earnings. The adjustment was primarily related to estimating credit losses on the Company's accounts receivable balances, reinsurance recoverable balances and commercial mortgage loans at the date of adoption.

The updated guidance in ASU 2016-13 also amended the current other-than-temporary impairment ("OTTI") model for available-for-sale fixed income securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. In addition, the length of time a security has been in an unrealized loss position will no longer impact the determination of whether a credit loss exists. The Company adopted the guidance related to available-for-sale fixed income securities on January 1, 2020 using a prospective transition approach for available-for-sale fixed income securities that were purchased with credit deterioration or had recognized an OTTI write-down prior to the effective date. The effect of the prospective transition approach was to maintain the same amortized cost basis before and after the effective date.



In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, or ASU 2018-13. This update removed the disclosure requirements for the amounts of and the reasons for transfers between Level 1 and Level 2 and disclosure of the policy for timing of transfers between levels. This update also removed disclosure requirements for the valuation processes for Level 3 fair value measurements. Additionally, this update added disclosure requirements for the changes in unrealized gains and losses for recurring Level 3 fair value measurements and quantitative information for certain unobservable inputs in Level 3 fair value measurements. The Company adopted ASU 2018-13 as of January 1, 2020. As the requirements of this guidance are applicable to disclosure only, the adoption of ASU 2018-13 had no material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, or ASU 2019-12. Among other items, the amendments in ASU 2019-12 simplify the accounting treatment of tax law changes and year-to-date losses in interim periods. An entity generally recognizes the effects of a change in tax law in the period of enactment; however, there is an exception for tax laws with delayed effective dates. Under current guidance, an entity may not adjust its annual effective tax rate for a tax law change until the period in which the law is effective. This exception was removed under ASU 2019-12, thereby providing that all effects of a tax law change are recognized in the period of enactment, including adjustment of the estimated annual effective tax rate. Regarding year-to-date losses in interim periods, an entity is required to estimate its annual effective tax rate for the full fiscal year at the end of each interim period and use that rate to calculate its income taxes on a year-to-date basis. However, current guidance provides an exception that when a loss in an interim period exceeds the anticipated loss for the year, the income tax benefit is limited to the amount that would be recognized if the year-to-date loss were the anticipated loss for the full year. ASU 2019-12 removes this exception and provides that in this situation, an entity would compute its income tax benefit at each interim period based on its estimated annual effective tax rate. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the effects the adoption of ASU 2019-12 will have on its consolidated financial statements.

**Note B - Investments**

The following is a summary of available-for-sale securities at December 31:

|  | <u>Fair<br/>Value</u> | <u>Cost or<br/>Amortized Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Net Unrealized<br/>Gains (Losses)</u> |
|--|-----------------------|-----------------------------------|---------------------------------------|--|--|
| <b>December 31, 2019</b>                   |                       |                                   |                                       |  |  |
| Fixed income securities                    |                       |                                   |                                       |  |  |
| Agency collateralized mortgage obligations | \$ 12,093             | \$ 11,557                         | \$ 536                                | \$ —                                   | \$ 536                                   |
| Agency mortgage-backed securities          | 56,280                | 54,286                            | 2,005                                 | (11)                                   | 1,994                                    |
| Asset-backed securities                    | 106,397               | 107,028                           | 499                                   | (1,130)                                | (631)                                    |
| Bank loans                                 | 14,568                | 14,932                            | 106                                   | (470)                                  | (364)                                    |
| Certificates of deposit                    | 2,835                 | 2,835                             | —                                     | —                                      | —  |
| Collateralized mortgage obligations        | 5,616                 | 5,123                             | 493                                   | —                                      | 493                                      |
| Corporate securities                       | 281,381               | 274,340                           | 7,492                                 | (451)                                  | 7,041                                    |
| Mortgage-backed securities                 | 47,463                | 46,685                            | 1,047                                 | (269)                                  | 778                                      |
| Municipal obligations                      | 36,286                | 35,749                            | 684                                   | (147)                                  | 537                                      |
| Non-U.S. government obligations            | 24,179                | 23,889                            | 290                                   | —                                      | 290                                      |
| U.S. government obligations                | 208,440               | 206,623                           | 2,891                                 | (1,074)                                | 1,817                                    |
| Total fixed income securities              | <u>\$ 795,538</u>     | <u>\$ 783,047</u>                 | <u>\$ 16,043</u>                      | <u>\$ (3,552)</u>                      | <u>\$ 12,491</u>                         |
|  | <u>Fair<br/>Value</u> | <u>Cost or<br/>Amortized Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Net Unrealized<br/>Gains (Losses)</u> |
| <b>December 31, 2018</b>                   |                       |                                   |                                       |  |  |
| Fixed income securities                    |                       |                                   |                                       |  |  |
| Agency collateralized mortgage obligations | \$ 10,687             | \$ 10,636                         | \$ 145                                | \$ (94)                                | \$ 51                                    |
| Agency mortgage-backed securities          | 37,385                | 37,168                            | 371                                   | (154)                                  | 217                                      |
| Asset-backed securities                    | 64,422                | 66,241                            | 14                                    | (1,833)                                | (1,819)                                  |
| Bank loans                                 | 9,750                 | 10,208                            | 27                                    | (485)                                  | (458)                                    |
| Certificates of deposit                    | 2,835                 | 2,835                             | —                                     | —                                      | —  |
| Collateralized mortgage obligations        | 5,423                 | 5,095                             | 376                                   | (48)                                   | 328                                      |
| Corporate securities                       | 190,450               | 196,925                           | 127                                   | (6,602)                                | (6,475)                                  |
| Mortgage-backed securities                 | 38,540                | 38,586                            | 377                                   | (423)                                  | (46)                                     |
| Municipal obligations                      | 29,155                | 29,102                            | 239                                   | (186)                                  | 53                                       |
| Non-U.S. government obligations            | 25,180                | 25,339                            | 6                                     | (165)                                  | (159)                                    |
| U.S. government obligations                | 178,818               | 178,369                           | 1,252                                 | (803)                                  | 449                                      |
| Total fixed income securities              | <u>\$ 592,645</u>     | <u>\$ 600,504</u>                 | <u>\$ 2,934</u>                       | <u>\$ (10,793)</u>                     | <u>\$ (7,859)</u>                        |

The following table summarizes, for available-for-sale fixed income securities in an unrealized loss position at December 31, 2019 and December 31, 2018, the aggregate fair value and gross unrealized loss categorized by the duration individual securities have been continuously in an unrealized loss position.

|                               | 2019                 |            |                       | 2018                 |            |                       |
|-------------------------------|----------------------|------------|-----------------------|----------------------|------------|-----------------------|
|                               | Number of Securities | Fair Value | Gross Unrealized Loss | Number of Securities | Fair Value | Gross Unrealized Loss |
| Fixed income securities:      |                      |            |                       |                      |            |                       |
| 12 months or less             | 88                   | \$ 108,387 | \$ (2,452)            | 275                  | \$ 282,646 | \$ (7,296)            |
| Greater than 12 months        | 69                   | 66,860     | (1,100)               | 217                  | 131,001    | (3,497)               |
| Total fixed income securities | 157                  | 175,247    | (3,552)               | 492                  | 413,647    | (10,793)              |

Unrealized losses in the Company's fixed income portfolio are generally the result of interest rate or foreign currency fluctuations. The Company does not intend to sell any fixed income securities in an unrealized loss position at December 31, 2019, and it is not more likely than not that the Company will have to sell any such fixed income security before recovery of its amortized cost basis. Accordingly, the Company does not believe any unrealized losses represent OTTIs as of December 31, 2019.

The fair value and the cost or amortized costs of fixed income investments at December 31, 2019, organized by contractual maturity, are shown below. Actual maturities may ultimately differ from contractual maturities because borrowers have, in some cases, the right to call or prepay obligations with or without call or prepayment penalties. Pre-refunded municipal bonds are classified based on their pre-refunded call dates.

|                                   | Fair Value |        | Cost or Amortized Cost |       |
|-----------------------------------|------------|--------|------------------------|-------|
| One year or less                  | \$ 86,368  | 10.9%  | \$ 86,144              | 11.0% |
| Excess of one year to five years  | 336,689    | 42.3   | 330,026                | 42.1  |
| Excess of five years to ten years | 135,169    | 17.0   | 132,985                | 17.0  |
| Excess of ten years               | 15,079     | 1.9    | 14,337                 | 1.9   |
| Total contractual maturities      | 573,305    | 72.1   | 563,492                | 72.0  |
| Asset-backed securities           | 222,233    | 27.9   | 219,555                | 28.0  |
| Total                             | \$ 795,538 | 100.0% | \$ 783,047             | 100.0 |

Major categories of investment income for the years ended December 31, 2019, 2018 and 2017 are summarized as follows:

|  | 2019      | 2018      | 2017      |
|--|-----------|-----------|-----------|
| Interest on fixed income securities      | \$ 24,620 | \$ 19,092 | \$ 15,340 |
| Dividends on equity securities           | 2,320     | 4,380     | 4,611     |
| Money market funds, Short-term and other | 1,976     | 1,529     | 471       |
|  | 28,916    | 25,001    | 20,422    |
| Investment expenses                      | (2,667)   | (2,953)   | (2,327)   |
| Net investment income                    | \$ 26,249 | \$ 22,048 | \$ 18,095 |

Gains and losses on investments, including equity method earnings from limited partnerships, for the years ended December 31 are summarized below:

|  | <u>2019</u>      | <u>2018</u>        | <u>2017</u>      |
|--|------------------|--------------------|------------------|
| Gross gains on available-for-sale investments sold during the period:        |                  |                    |                  |
| Fixed income securities  | \$ 11,009        | \$ 10,807          | \$ 9,135         |
| Equity securities (1)  | -                | -                  | 10,481           |
| Total gains  | <u>11,009</u>    | <u>10,807</u>      | <u>19,616</u>    |
| Gross losses on available-for-sale investments sold during the period:       |                  |                    |                  |
| Fixed income securities  | (10,492)         | (14,367)           | (9,882)          |
| Equity securities (1)  | -                | -                  | (2,368)          |
| Total losses   | <u>(10,492)</u>  | <u>(14,367)</u>    | <u>(12,250)</u>  |
| Other-than-temporary impairments   | (497)            | (19)               | (149)            |
| Change in value of limited partnership investments                           | 1,644            | (9,343)            | 12,469           |
| Gains (losses) on equity securities:   |                  |                    |                  |
| Realized gains (losses) on equity securities sold during the period (2)      | 1,938            | (3,072)            | -                |
| Unrealized gains (losses) on equity securities held at the end of the period | 9,287            | (9,697)            | -                |
| Total realized and unrealized gains (losses) on equity securities            | <u>11,225</u>    | <u>(12,769)</u>    | <u>-</u>         |
| Net realized and unrealized gains (losses) on investments                    | <u>\$ 12,889</u> | <u>\$ (25,691)</u> | <u>\$ 19,686</u> |

(1) Effective January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, or ASU 2016-01, and equity securities are no longer classified as available-for-sale. The amendments in ASU 2016-01 changed the accounting for equity securities by requiring changes in fair value to be recognized in income. Previously, the Company's equity securities were classified as available-for-sale and changes in fair value were recognized in accumulated other comprehensive income (loss) as a component of shareholders' equity. Prior periods have not been restated to conform to the current presentation.

(2) During 2018, the Company sold \$149,195 in equity securities, resulting in a gain on sale of \$51,900. The majority of these gains were included in unrealized gains within other comprehensive income (loss) at December 31, 2017 and, as a result of the adoption of ASU 2016-01, were reclassified to retained earnings as of January 1, 2018 and were therefore not recognized in the consolidated statements of operations for the year ended December 31, 2018.

Gain and loss activity for fixed income and equity security investments, as shown in the previous table, includes adjustments for other-than-temporary impairment for the years ended December 31, 2019, 2018 and 2017 summarized as follows:

|   | <u>2019</u>   | <u>2018</u>   | <u>2017</u>     |
|---|---------------|---------------|-----------------|
| Cumulative charges to income at beginning of year     | \$ 930        | \$ 4,209      | \$ 5,650        |
| Writedowns based on objective and subjective criteria | 497           | 19            | 149             |
| Recovery of prior writedowns upon sale or disposal    | (538)         | (3,298)       | (1,590)         |
| Net pre-tax realized gain                             | <u>41</u>     | <u>3,279</u>  | <u>1,441</u>    |
| Cumulative charges to income at end of year           | <u>\$ 889</u> | <u>\$ 930</u> | <u>\$ 4,209</u> |

There is no primary market and only a limited secondary market for the Company's investments in limited partnerships and, in most cases, the Company is prohibited from disposing of its limited partnership interests for some period of time and generally must seek approval from the applicable general partner for any such disposal. Distributions of earnings from these partnerships are largely at the sole discretion of the general partners, and distributions are generally not received by the Company for many years after the earnings have been reported. The Company has a commitment to contribute up to an additional \$350 to a limited partnership as of December 31, 2019.

The fair value of regulatory deposits with various insurance departments in the United States and Canada totaled \$99,763 and \$87,981 at December 31, 2019 and 2018, respectively.

Short-term investments at December 31, 2019 included \$1,000 in certificates of deposit issued by a Bermuda bank.

The Company's fixed income securities are over 92% invested in investment grade fixed income investments. The Company has no fixed income investments that were originally issued with guarantees by a third-party insurance company nor does the Company have any direct exposure to any guarantor at December 31, 2019.

Approximately \$61,181 of fixed income investments (6.3% of the Company's consolidated investment portfolio, which includes money market instruments classified as cash equivalents) consists of non-rated bonds and bonds rated as less than investment grade at year-end. These investments have a \$684 aggregate net unrealized gain position at December 31, 2019.

### Note C - Loss and Loss Expense Reserves

Activity in the reserves for losses and loss expenses for the years ended December 31, 2019, 2018 and 2017 is summarized as follows. All amounts are shown net of reinsurance, unless otherwise indicated.

|  | <u>2019</u>       | <u>2018</u>       | <u>2017</u>       |
|--|-------------------|-------------------|-------------------|
| Reserves, gross of reinsurance recoverable, at the beginning of the year | \$ 865,339        | \$ 680,274        | \$ 576,330        |
| Reinsurance recoverable on unpaid losses at the beginning of the year    | 375,935           | 308,143           | 251,563           |
| Reserves at the beginning of the year                                    | <u>489,404</u>    | <u>372,131</u>    | <u>324,767</u>    |
| Provision for losses and loss expenses:                                  |                   |                   |                   |
| Claims occurring during the current year                                 | 349,018           | 329,078           | 228,303           |
| Claims occurring during prior years                                      | (550)             | 16,786            | 19,215            |
| Total incurred losses and loss expenses                                  | <u>348,468</u>    | <u>345,864</u>    | <u>247,518</u>    |
| Loss and loss expense payments:  |                   |                   |                   |
| Claims occurring during the current year                                 | 90,364            | 84,738            | 67,234            |
| Claims occurring during prior years                                      | 157,508           | 143,853           | 132,920           |
| Total paid   | <u>247,872</u>    | <u>228,591</u>    | <u>200,154</u>    |
| Reserves at the end of the year  | <u>590,000</u>    | <u>489,404</u>    | <u>372,131</u>    |
| Reinsurance recoverable on unpaid losses at the end of the year          | <u>398,305</u>    | <u>375,935</u>    | <u>308,143</u>    |
| Reserves, gross of reinsurance recoverable, at the end of the year       | <u>\$ 988,305</u> | <u>\$ 865,339</u> | <u>\$ 680,274</u> |

The table above shows that a reserve savings of \$550 developed during 2019 in the settlement of claims occurring on or before December 31, 2018, compared to reserve deficiencies of \$16,786 in 2018 and \$19,215 in 2017. The developments for each year are composed of individual claim savings and deficiencies which, in the aggregate, have resulted from the settlement of claims at amounts higher or lower than previously reserved and from changes in estimates of losses incurred but not reported as part of the normal reserving process.

The \$550 prior accident year savings that developed during 2019 related to favorable loss development in the Company's workers' compensation business, partially offset by unfavorable loss development in commercial automobile coverages. This 2019 savings compares to a deficiency of \$16,786 for 2018 related to unfavorable loss development from commercial automobile coverages. This unfavorable loss development was the result of increased claim severity due to a more challenging litigation environment, as well as an unexpected increase in the time to settle claims leading to an unfavorable change in claim settlement patterns. The deficiency of \$19,215 for 2017, also related to unfavorable loss development from commercial automobile coverages, particularly from severe transportation loss events that occurred primarily during the first six months of 2017 and higher than expected loss development for discontinued lines of business.

Loss reserves have been reduced by estimated salvage and subrogation recoverable of approximately \$4,000 and \$7,545 at December 31, 2019 and 2018, respectively.

The following is information about incurred and paid claims development as of December 31, 2019, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

Workers' Compensation

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance |          |          |          |          |          |          |          |          |          | As of December 31, 2019   |                                    |
|---------------|---|----------|----------|----------|----------|----------|----------|----------|----------|----------|---|------------------------------------|
|               | 2010  | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     | 2019     | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Number of Reported Claims Per Year |
| 2010          | \$20,644  | \$20,111 | \$19,400 | \$19,300 | \$18,849 | \$18,344 | \$19,195 | \$19,541 | \$19,819 | \$19,781 | \$1,294   | 4,226                              |
| 2011          |   | 26,057   | 26,628   | 26,958   | 26,767   | 25,515   | 27,293   | 26,617   | 26,631   | 26,452   | 2,085   | 4,547                              |
| 2012          |   |          | 23,965   | 25,544   | 24,887   | 24,485   | 25,616   | 27,020   | 26,775   | 25,508   | 2,528   | 4,484                              |
| 2013          |   |          |          | 27,619   | 30,638   | 29,913   | 32,121   | 32,553   | 31,131   | 31,066   | 3,596   | 5,281                              |
| 2014          |   |          |          |          | 36,768   | 36,968   | 34,009   | 33,427   | 31,031   | 31,579   | 4,217   | 5,410                              |
| 2015          |   |          |          |          |          | 26,277   | 23,115   | 25,889   | 24,948   | 25,436   | 3,916   | 6,328                              |
| 2016          |   |          |          |          |          |          | 35,240   | 29,757   | 29,317   | 30,060   | 4,745   | 6,078                              |
| 2017          |   |          |          |          |          |          |          | 42,387   | 37,731   | 36,211   | 7,936   | 16,349                             |
| 2018          |   |          |          |          |          |          |          |          | 62,973   | 61,530   | 19,836  | 14,060                             |
| 2019          |   |          |          |          |          |          |          |          |          | 65,837   | 34,680  | 8,515                              |
|               |   |          |          |          |          |          |          |          |          | Total    | \$353,460   | \$84,833                           |

| Accident Year | Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance |         |          |          |          |          |          |          |          |   |           |
|---------------|--|---------|----------|----------|----------|----------|----------|----------|----------|---|-----------|
|               | 2010   | 2011    | 2012     | 2013     | 2014     | 2015     | 2016     | 2017     | 2018     | 2019  | Total     |
| 2010          | \$3,974  | \$9,134 | \$11,963 | \$13,845 | \$14,966 | \$15,835 | \$16,590 | \$16,789 | \$17,062 | \$17,340  | \$17,340  |
| 2011          |  | 4,916   | 11,912   | 15,973   | 18,884   | 20,617   | 21,622   | 22,569   | 22,991   | 23,366  | 23,366    |
| 2012          |  |         | 4,597    | 11,004   | 14,834   | 17,415   | 18,946   | 20,276   | 21,157   | 21,636  | 21,636    |
| 2013          |  |         |          | 4,880    | 12,792   | 18,065   | 21,655   | 23,643   | 24,968   | 25,847  | 25,847    |
| 2014          |  |         |          |          | 5,328    | 13,665   | 19,075   | 22,387   | 23,968   | 24,714  | 24,714    |
| 2015          |  |         |          |          |          | 2,918    | 10,128   | 15,020   | 17,487   | 19,385  | 19,385    |
| 2016          |  |         |          |          |          |          | 5,784    | 13,377   | 18,461   | 21,304  | 21,304    |
| 2017          |  |         |          |          |          |          |          | 6,150    | 15,811   | 20,863  | 20,863    |
| 2018          |  |         |          |          |          |          |          |          | 10,987   | 27,862  | 27,862    |
| 2019          |  |         |          |          |          |          |          |          |          | 13,171  | 13,171    |
|               |  |         |          |          |          |          |          |          |          | Total   | \$215,488 |
|               |  |         |          |          |          |          |          |          |          | Outstanding liabilities prior to 2010, net of reinsurance                 | 16,437    |
|               |  |         |          |          |          |          |          |          |          | Liabilities for claims and claims adjustment expenses, net of reinsurance | \$154,409 |

Commercial Liability

| <b>Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance</b>            |             |             |             |             |             |             |             |             |              |                   | <b>As of December 31, 2019</b> |                 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------------|--------------------------------|-----------------|
| <b>For the Years Ended December 31 (2010-2018 is Supplementary Information and Unaudited)</b> |             |             |             |             |             |             |             |             |              |                   | <b>Total of</b>                |                 |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Incurred-</b>               |                 |
|   |             |             |             |             |             |             |             |             |              |                   | <b>but-Not-</b>                |                 |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Reported</b>                |                 |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Liabilities</b>             |                 |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Plus</b>                    | <b>Number</b>   |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Expected</b>                | <b>of</b>       |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Development</b>             | <b>Reported</b> |
|   |             |             |             |             |             |             |             |             |              |                   | <b>on Reported</b>             | <b>Claims</b>   |
|   |             |             |             |             |             |             |             |             |              |                   | <b>Claims</b>                  | <b>Per Year</b> |
| <b>Accident Year</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b>  | <b>2019</b>       |                                |                 |
| 2010  | \$ 31,124   | \$ 22,161   | \$ 21,899   | \$ 19,139   | \$ 20,300   | \$ 19,764   | \$ 19,377   | \$ 19,081   | \$ 19,985    | \$ 19,994         | \$ 113                         | 2,403           |
| 2011  |             | 46,829      | 43,832      | 31,633      | 36,894      | 35,805      | 37,122      | 36,076      | 37,852       | 37,795            | 32                             | 2,902           |
| 2012  |             |             | 49,743      | 54,269      | 49,743      | 51,367      | 48,708      | 51,475      | 51,648       | 51,962            | 266                            | 3,131           |
| 2013  |             |             |             | 53,817      | 39,143      | 37,701      | 36,371      | 46,690      | 48,857       | 51,598            | 546                            | 3,751           |
| 2014  |             |             |             |             | 49,971      | 52,254      | 52,483      | 52,964      | 64,372       | 70,841            | 1,268                          | 3,323           |
| 2015  |             |             |             |             |             | 61,420      | 70,174      | 64,323      | 71,088       | 75,503            | 2,211                          | 3,197           |
| 2016  |             |             |             |             |             |             | 61,638      | 68,974      | 77,362       | 79,015            | 4,913                          | 3,737           |
| 2017  |             |             |             |             |             |             |             | 103,126     | 103,611      | 99,287            | 19,772                         | 5,364           |
| 2018  |             |             |             |             |             |             |             |             | 179,589      | 177,262           | 28,324                         | 8,003           |
| 2019  |             |             |             |             |             |             |             |             |              | 198,022           | 98,371                         | 7,286           |
|   |             |             |             |             |             |             |             |             | <b>Total</b> | <b>\$ 861,279</b> | <b>\$ 155,816</b>              |                 |

| <b>Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance</b>     |             |             |             |             |             |             |             |             |              |                   |   |                   |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------------|---|-------------------|
| <b>For the Years Ended December 31 (2010-2018 is Supplementary Information and Unaudited)</b> |             |             |             |             |             |             |             |             |              |                   |   |                   |
| <b>Accident Year</b>  | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b>  | <b>2019</b>       |   |                   |
| 2010  | \$ 1,649    | \$ 7,166    | \$ 11,635   | \$ 16,052   | \$ 18,627   | \$ 18,517   | \$ 18,866   | \$ 18,662   | \$ 18,791    | \$ 18,791         |   |                   |
| 2011  |             | 1,809       | 11,350      | 23,615      | 30,795      | 33,255      | 34,009      | 35,561      | 36,400       | 37,263            |   |                   |
| 2012  |             |             | 3,086       | 23,252      | 32,942      | 45,303      | 47,601      | 50,036      | 50,750       | 50,882            |   |                   |
| 2013  |             |             |             | 5,167       | 15,772      | 25,270      | 34,481      | 44,865      | 46,084       | 49,522            |   |                   |
| 2014  |             |             |             |             | 4,023       | 9,046       | 28,393      | 45,075      | 57,692       | 68,392            |   |                   |
| 2015  |             |             |             |             |             | 10,923      | 27,582      | 49,267      | 63,133       | 71,697            |   |                   |
| 2016  |             |             |             |             |             |             | 6,843       | 30,377      | 52,764       | 70,324            |   |                   |
| 2017  |             |             |             |             |             |             |             | 11,415      | 46,529       | 58,173            |   |                   |
| 2018  |             |             |             |             |             |             |             |             | 18,689       | 66,575            |   |                   |
| 2019  |             |             |             |             |             |             |             |             |              | 19,311            |   |                   |
|   |             |             |             |             |             |             |             |             | <b>Total</b> | <b>\$ 510,930</b> |   |                   |
|   |             |             |             |             |             |             |             |             |              |                   | Outstanding liabilities prior to 2010, net of reinsurance                 | 4,799             |
|   |             |             |             |             |             |             |             |             |              |                   | Liabilities for claims and claims adjustment expenses, net of reinsurance | <b>\$ 355,148</b> |

Professional Liability Reinsurance Assumed (in runoff)

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance |          |          |          |          |           |           |           |           |           | As of December 31, 2019   |                                    |
|---------------|---|----------|----------|----------|----------|-----------|-----------|-----------|-----------|-----------|---|------------------------------------|
|               | 2010  | 2011     | 2012     | 2013     | 2014     | 2015      | 2016      | 2017      | 2018      | 2019      | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Number of Reported Claims Per Year |
| 2010          | \$ 2,196  | \$ 4,277 | \$ 7,827 | \$ 7,946 | \$ 9,733 | \$ 10,740 | \$ 11,689 | \$ 11,893 | \$ 11,677 | \$ 11,544 | \$ 35   | N/A                                |
| 2011          |   | 10,492   | 8,314    | 9,017    | 9,859    | 10,779    | 12,735    | 12,744    | 12,725    | 13,018    | 15  | N/A                                |
| 2012          |   |          | 10,041   | 9,276    | 5,569    | 10,157    | 14,605    | 16,555    | 14,949    | 16,013    | 335   | N/A                                |
| 2013          |   |          |          | 14,370   | 13,034   | 11,618    | 17,694    | 23,256    | 22,213    | 23,474    | 1,362   | N/A                                |
| 2014          |   |          |          |          | 12,675   | 8,825     | 7,259     | 9,837     | 12,749    | 10,721    | 1,251   | N/A                                |
| 2015          |   |          |          |          |          | 11,638    | 7,859     | 7,147     | 10,422    | 8,753     | 2,741   | N/A                                |
| 2016          |   |          |          |          |          |           | 6,368     | 2,482     | 1,522     | 2,993     | 471   | N/A                                |
| 2017          |   |          |          |          |          |           |           | -         | -         | -         | -   | N/A                                |
| 2018          |   |          |          |          |          |           |           |           | -         | -         | -   | N/A                                |
| 2019          |   |          |          |          |          |           |           |           |           | -         | -   | N/A                                |
|               |   |          |          |          |          |           |           |           |           | Total     | \$ 86,516   | \$ 6,210                           |

| Accident Year | Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance |        |          |          |          |          |           |           |           |   |           |
|---------------|--|--------|----------|----------|----------|----------|-----------|-----------|-----------|---|-----------|
|               | 2010   | 2011   | 2012     | 2013     | 2014     | 2015     | 2016      | 2017      | 2018      | 2019  |           |
| 2010          | \$ 41  | \$ 729 | \$ 3,505 | \$ 5,844 | \$ 7,758 | \$ 9,904 | \$ 11,132 | \$ 11,334 | \$ 11,334 | \$ 11,410   |           |
| 2011          |  | 50     | 637      | 2,061    | 4,983    | 8,104    | 10,404    | 11,679    | 12,280    | 12,404  |           |
| 2012          |  |        | 103      | 992      | 2,388    | 5,077    | 8,355     | 11,239    | 13,091    | 13,706  |           |
| 2013          |  |        |          | 123      | 1,135    | 5,088    | 10,988    | 14,779    | 18,229    | 19,201  |           |
| 2014          |  |        |          |          | 723      | 761      | 2,241     | 3,999     | 6,627     | 7,732   |           |
| 2015          |  |        |          |          |          | 10       | 390       | 1,899     | 3,207     | 3,964   |           |
| 2016          |  |        |          |          |          |          | -         | 5         | 99        | 2,254   |           |
| 2017          |  |        |          |          |          |          |           | -         | -         | -   |           |
| 2018          |  |        |          |          |          |          |           |           | -         | -   |           |
| 2019          |  |        |          |          |          |          |           |           |           | -   |           |
|               |  |        |          |          |          |          |           |           |           | Total   | \$ 70,671 |
|               |  |        |          |          |          |          |           |           |           | Outstanding liabilities prior to 2010, net of reinsurance                 | 234       |
|               |  |        |          |          |          |          |           |           |           | Liabilities for claims and claims adjustment expenses, net of reinsurance | \$ 16,079 |



Physical Damage (1)

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance<br>For the Years Ended December 31 (2017-2018 is Supplementary Information and Unaudited) |           |            | As of December 31, 2019   |                                    |
|---------------|---|-----------|------------|---|------------------------------------|
|               | 2017  | 2018      | 2019       | Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims | Number of Reported Claims Per Year |
| 2017          | \$ 48,440   | \$ 47,193 | \$ 46,236  | \$ 30   | 10,517                             |
| 2018          | –   | 53,726    | 50,122     | 234   | 11,108                             |
| 2019          |   | –         | 55,354     | 2,403   | 9,406                              |
|               |   | Total     | \$ 151,712 | \$ 2,667  |                                    |

| Accident Year | Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance<br>For the Years Ended December 31 (2017-2018 is Supplementary Information and Unaudited) |   |            |
|---------------|---|---|------------|
|               | 2017  | 2018  | 2019       |
| 2017          | \$ 39,517   | \$ 46,554   | \$ 46,184  |
| 2018          | –   | 41,631  | 49,685     |
| 2019          |   | –   | 44,197     |
|               |   | Total   | \$ 140,066 |
|               |   | Outstanding liabilities prior to 2017, net of reinsurance                 | 30         |
|               |   | Liabilities for claims and claims adjustment expenses, net of reinsurance | \$ 11,676  |

(1) The majority of physical damage claims settle within a two-year period. The triangles above have been abbreviated to reflect the short-tail nature of this business.

The reconciliation of the net incurred and paid claims development tables to the liability for claims and claim adjustment expenses in the consolidated balance sheet at December 31, 2019, 2018 and 2017 is as follows.

|   | 2019              | 2018              |
|---|-------------------|-------------------|
| <b>Net outstanding liabilities</b>  |                   |                   |
| Commercial Liability  | \$ 355,148        | \$ 268,523        |
| Workers' Compensation   | 154,409           | 131,996           |
| Physical Damage   | 11,676            | 13,329            |
| Professional Liability Assumed  | 16,079            | 21,390            |
| Other short-duration insurance lines  | 30,318            | 33,716            |
| Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance | <u>567,630</u>    | <u>468,954</u>    |
| <b>Reinsurance recoverable on unpaid claims</b>                                 |                   |                   |
| Commercial Liability  | 209,152           | 194,483           |
| Workers' Compensation   | 182,908           | 172,869           |
| Physical Damage   | 655               | 1,851             |
| Other short-duration insurance lines  | 5,590             | 6,732             |
| Reinsurance recoverable on unpaid losses at the end of the year                 | <u>398,305</u>    | <u>375,935</u>    |
| Unallocated claims adjustment expenses  | <u>22,370</u>     | <u>20,450</u>     |
| <b>Total gross liability for unpaid claims and claims adjustment expense</b>    | <u>\$ 988,305</u> | <u>\$ 865,339</u> |

The following is supplementary information about average historical claims duration as of December 31, 2019:

| Years                          | Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance<br>(Supplementary Information and Unaudited) |       |       |       |       |       |      |      |      |      |
|--------------------------------|---|-------|-------|-------|-------|-------|------|------|------|------|
|                                | 1   | 2     | 3     | 4     | 5     | 6     | 7    | 8    | 9    | 10   |
| Commercial Liability           | 9.0%  | 25.8% | 23.5% | 21.0% | 10.4% | 4.7%  | 3.5% | 0.4% | 1.5% | —    |
| Workers' Compensation          | 17.5%   | 26.4% | 16.1% | 10.3% | 6.2%  | 4.0%  | 3.4% | 1.5% | 1.4% | 1.4% |
| Physical Damage                | 81.5%   | 15.6% | 2.0%  | N/A   | N/A   | N/A   | N/A  | N/A  | N/A  | N/A  |
| Professional Liability Assumed | 1.5%  | 4.1%  | 13.4% | 26.6% | 18.1% | 15.6% | 8.8% | 3.3% | 4.4% | 0.7% |

Reserve methodologies for incurred but not reported losses

The Company uses both standard actuarial techniques common to most insurance companies as well as proprietary techniques developed by the Company in connection with its specialty business products. For its short-tail lines of business, the Company uses predominantly the incurred or paid loss development factor methods. The Company has found that the use of accident quarter loss development triangles, rather than those based upon accident year, are most responsive to claim settlement trends and fluctuations in premium exposure for its short-tail lines. A minimum of 12 running accident quarters is used to project the reserve necessary for incurred but not reported losses for its short-tail lines.

The Company also uses the loss development factor approach for its long-tail lines of business, including workers' compensation. A minimum of 15 accident years is included in the loss development triangles used to calculate link ratios and the selected loss development factors used to determine the reserves for incurred but not reported losses. Significant emphasis is placed on the use of tail factors for the Company's long-tail lines of business.

For the Company's commercial automobile risks, which are covered by regularly updated reinsurance agreements and which contain wide-ranging self-insured retentions ("SIR"), traditional actuarial methods are supplemented by other methods, as described below, in consideration of the Company's exposures to loss. In situations where the Company's reinsurance structure, the insured's SIR selections, policy volume, and other factors are changing, current accident period loss exposures may not be homogenous enough with historical loss data to allow for reliable projection of future developed losses. Therefore, the Company supplements the above-described actuarial methods with loss ratio reserving techniques developed from the Company's proprietary databases to arrive at the reserve for incurred but not reported losses for the calendar/accident period under review. As losses for a given calendar/accident period develop with the passage of time, management evaluates such development on a monthly and quarterly basis and adjusts reserve factors, as necessary, to reflect current judgment with regard to the anticipated ultimate incurred losses. This process continues until all losses are settled for each period subject to this method.

Claim count methodology

The Company uses a claim event and coverage combination to estimate frequency. For example, a single claim event involving loss for physical damage of a vehicle and personal injury to a claimant would be considered two claims for purposes of the calculation of frequency. A single claim event causing personal injury to two claimants would be considered a single claim under the methodology. Due to the number of reinsurance assumed treaties entered into (and the varying structures: both quota share and excess of loss) the Company deems it impractical to collect claim frequency information related to this business and this information has not been made available to the Company.

## Note D – Reinsurance

The Insurance Subsidiaries cede portions of their gross premiums written to certain other insurers under excess of loss and quota share treaties and by facultative placements. Some reinsurance contracts provide that a loss be shared among the Company and its reinsurers on a predetermined pro-rata basis ("quota share"), while other contracts provide that the Company keep a fixed amount of the loss, similar to a deductible, with reinsurers taking all losses above this fixed amount ("excess of loss"). Reinsurance treaties with other companies permit the recovery of a portion of related direct losses. Management determines the amount of net exposure it is willing to accept generally on a product-line basis. Certain treaties covering commercial automobile risks include annual deductibles which must be exceeded before the Company can recover under the terms of the treaty. The Company retains a higher percentage of the direct premium in consideration of these deductible provisions. The Company remains liable to the extent the reinsuring companies are unable to meet their obligations under reinsurance contracts.

The Company also serves as an assuming reinsurer on treaties with direct writing insurance companies and, prior to June 30, 2015, under retrocessions from other reinsurers for catastrophic property coverages. Accordingly, for periods prior to that date, the occurrence of catastrophic events could have had a significant impact on the Company's operations. In addition, the Insurance Subsidiaries participate in certain mandatory residual market pools, which require insurance companies to provide coverages on assigned risks. The assigned risk pools allocate participation to all insurers based upon each insurer's portion of premium writings on a state or national level. Historically, the operation of these assigned risk pools has resulted in net losses being allocated to the Company, although such losses have not been material in relation to the Company's operations.

The following table summarizes the impact of reinsurance ceded and assumed on the Company's net premiums written and earned for the most recent three years:

|                  | Premiums Written |            |            | Premiums Earned |            |            |
|------------------|------------------|------------|------------|-----------------|------------|------------|
|                  | 2019             | 2018       | 2017       | 2019            | 2018       | 2017       |
| Direct           | \$ 574,181       | \$ 581,070 | \$ 504,033 | \$ 570,959      | \$ 562,364 | \$ 470,158 |
| Ceded on direct  | (122,676)        | (138,102)  | (151,348)  | (124,446)       | (131,080)  | (145,201)  |
| Net direct       | 451,505          | 442,968    | 352,685    | 446,513         | 431,284    | 324,957    |
| Assumed          | 737              | 1,430      | 704        | 775             | 1,596      | 3,188      |
| Ceded on assumed | –                | –          | –          | –               | –          | –          |
| Net assumed      | 737              | 1,430      | 704        | 775             | 1,596      | 3,188      |
| Net              | \$ 452,242       | \$ 444,398 | \$ 353,389 | \$ 447,288      | \$ 432,880 | \$ 328,145 |

Net losses and loss expenses incurred for 2019, 2018 and 2017 have been reduced by ceded reinsurance recoveries of approximately \$121,927, \$148,173 and \$128,086, respectively. Ceded reinsurance premiums and loss recoveries for the purchase of catastrophe reinsurance coverage on the Company's net direct business were not material.

Net losses and loss expenses incurred include expenses of \$193 for 2019, a savings of \$1,300 for 2018 and expenses of \$5,223 for 2017, relating to reinsurance assumed from non-affiliated insurance or reinsurance companies.

Components of reinsurance recoverable at December 31, 2019, 2018 and 2017 are as follows:

|   | 2019       | 2018       |
|---|------------|------------|
| Case unpaid losses, net of valuation allowance            | \$ 166,675 | \$ 163,011 |
| Incurred but not reported unpaid losses and loss expenses | 230,459    | 211,805    |
| Paid losses and loss expenses                             | 20,334     | 1,250      |
| Unearned premiums   | 14,599     | 16,370     |
|   | \$ 432,067 | \$ 392,436 |

## Note E - Income Taxes

On December 22, 2017, the U.S. Tax Cuts and Jobs Act (the "U.S. Tax Act") was signed into law, which lowered the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018. As a result, the Company recorded a tax benefit of \$9,572 related to the remeasurement of its deferred tax assets and liabilities at December 31, 2017. As of December 31, 2017, the Internal Revenue Service ("IRS") had not yet published all of the detailed regulations resulting from the enactment of the U.S. Tax Act; therefore, while the Company had not completed its accounting for the tax effects, it made a reasonable estimate of the tax effects on its existing deferred tax balances at December 31, 2017. The Company finalized its accounting for the tax effects of the U.S. Tax Act during 2018. No material adjustments to income tax expense (benefit) were recorded during 2018.

The U.S. Tax Act provides for a change in the methodology employed to calculate reserves for tax purposes. Beginning January 1, 2018, a higher interest rate assumption and longer payout patterns are used to discount these reserves. In addition, companies are no longer able to elect to use their own experience to discount reserves, but instead are required to use the industry-based tables published by the IRS annually. During 2017, the Company estimated the provisional tax impacts related to the change in methodology as \$1,696. During 2018, the IRS published the discount factor tables and the Company calculated the tax impact of the methodology change and recorded an updated amount for deferred tax assets and an offsetting deferred tax liability of \$2,262 at December 31, 2018. During 2019, the IRS published updated discount factor tables and the Company updated the tax impact. The deferred tax liability was amortized into income in the amount of \$281 in 2019 in accordance with the 8-year inclusion described in the U.S. Tax Act. The deferred tax liability amortized into income in 2018 was revised to \$228 compared to \$323 as originally calculated in 2018 under the discount factor tables.

Deferred income taxes are calculated to account for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2019 and 2018 are as follows:

|   | <u>2019</u>       | <u>2018</u>       |
|---|-------------------|-------------------|
| <b>Deferred tax liabilities:</b>                                |                   |                   |
| Unrealized gain on fixed income and equity security investments | \$ 5,327          | \$ 4,572          |
| Deferred acquisition costs                                      | 2,821             | 2,552             |
| Loss and loss expense reserves                                  | 2,701             | 3,583             |
| Limited partnership investments                                 | 2,587             | -                 |
| Accelerated depreciation  | 687               | 690               |
| Other   | 1,361             | 1,509             |
| Total deferred tax liabilities                                  | <u>15,484</u>     | <u>12,906</u>     |
| <b>Deferred tax assets:</b>                                     |                   |                   |
| Loss and loss expense reserves                                  | 11,460            | 9,999             |
| Limited partnership investments                                 | -                 | 3,498             |
| Unearned premiums discount                                      | 2,529             | 2,321             |
| Other-than-temporary investment declines                        | 39                | 625               |
| Deferred compensation   | 1,181             | 580               |
| Deferred ceding commission                                      | 1,037             | 1,173             |
| Other   | 1,273             | 972               |
| Total deferred tax assets                                       | <u>17,519</u>     | <u>19,168</u>     |
| <b>Net deferred tax assets</b>                                  | <u>\$ (2,035)</u> | <u>\$ (6,262)</u> |

A summary of the difference between federal income tax expense (benefit) computed at the statutory rate and that reported in the consolidated financial statements as of December 31, 2019, 2018 and 2017 is as follows:

|  | <u>2019</u>     | <u>2018</u>       | <u>2017</u>       |
|--|-----------------|-------------------|-------------------|
| Statutory federal income rate applied to pre-tax income (loss) | \$ 1,821        | \$ (9,213)        | \$ 3,543          |
| Tax effect of (deduction):                                     |                 |                   |                   |
| Tax-exempt investment income                                   | (402)           | (253)             | (968)             |
| Change in enacted tax rates                                    | -               | -                 | (9,572)           |
| Other  | (93)            | (331)             | (1,204)           |
| Federal income tax expense (benefit)                           | <u>\$ 1,326</u> | <u>\$ (9,797)</u> | <u>\$ (8,201)</u> |

Federal income tax expense (benefit) as of December 31, 2019, 2018 and 2017 consists of the following:

|   | <u>2019</u>     | <u>2018</u>       | <u>2017</u>       |
|---|-----------------|-------------------|-------------------|
| Tax expense (benefit) on pre-tax income (loss): |                 |                   |                   |
| Current   | \$ 1,377        | \$ 8,997          | \$ (4,335)        |
| Deferred  | (51)            | (18,794)          | (3,866)           |
|   | <u>\$ 1,326</u> | <u>\$ (9,797)</u> | <u>\$ (8,201)</u> |

The provision for deferred federal income taxes as of December 31, 2019, 2018 and 2017 consists of the following:

|   | 2019           | 2018               | 2017              |
|---|----------------|--------------------|-------------------|
| Limited partnerships                              | \$ 1,143       | \$ (2,383)         | \$ 4,099          |
| Discounts of loss and loss expense reserves       | (2,269)        | (2,704)            | 1,315             |
| Reserves - salvage and subrogation and other      | (74)           | 427                | 56                |
| Unearned premium discount                         | (208)          | (484)              | (1,767)           |
| Deferred compensation                             | (600)          | 305                | (168)             |
| Other-than-temporary investment declines          | (411)          | 695                | (127)             |
| Deferred acquisitions costs and ceding commission | 405            | 201                | 1,553             |
| Change in enacted tax rates                       | -              | -                  | (9,572)           |
| Unrealized gains / losses                         | 1,837          | (13,876)           | -                 |
| Other   | 126            | (975)              | 745               |
| Provision for deferred federal income taxes       | <u>\$ (51)</u> | <u>\$ (18,794)</u> | <u>\$ (3,866)</u> |

The Company is required to establish a valuation allowance for any portion of the gross deferred tax asset that management believes will not be realized. Management has determined that no such valuation allowance was necessary at December 31, 2019 or 2018. As of December 31, 2019, calendar years 2018, 2017 and 2016 remain subject to examination by the IRS.

The Company has no uncertain tax positions as of December 31, 2019 or 2018. The Company recognizes accrued interest and penalties, if any, related to unrecognized tax benefits in income tax expense (benefit) and changes in such accruals would impact the Company's effective tax rate. There were no amounts accrued for the payment of interest at December 31, 2019, 2018 and 2017.

#### Note F - Shareholders' Equity

The Company's Class A and Class B Common Stock has a stated value of approximately \$.04 per share. The Company paid a total of \$5,857, or \$0.40 per share, in dividends during 2019, \$16,835, or \$1.12 per share, during 2018 and \$16,302, or \$1.08 per share, during 2017.

On August 31, 2017, the Company's Board of Directors authorized the reinstatement of its share repurchase program for up to 2,464,209 shares of the Company's Class A or Class B Common Stock. On August 6, 2019, the Company's Board of Directors reaffirmed its share repurchase program, but also provided that the aggregate dollar amount of shares of the Company's Common Stock that may be repurchased under the share repurchase program between August 6, 2019 and August 6, 2020 may not exceed \$25,000 and added a limit of no more than \$6,250 in repurchases per quarter. Pursuant to this share repurchase program, the Company entered into a Rule 10b5-1 plan on December 30, 2019 (the "Rule 10b5-1 Plan"), which authorized the repurchase of up to \$625 of the Company's outstanding common shares at various pricing thresholds, in accordance with guidelines specified under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The Rule 10b5-1 Plan expired on February 26, 2020. No duration has been placed on the Company's share repurchase program, and the Company reserves the right to amend, suspend or discontinue it at any time. The share repurchase program does not commit the Company to repurchase any shares of its Common Stock.

During the year ended December 31, 2019, the Company paid \$11,501 to repurchase 11,989 shares of Class A Common Stock at an average share price of \$15.70 and 665,099 shares of Class B Common Stock at an average share price of \$17.01 under the share repurchase program.

#### *Accumulated Other Comprehensive Income (Loss)*

A reconciliation of the components of accumulated other comprehensive income (loss) at December 31, 2019, 2018 and 2017 is as follows:

|  | 2019            | 2018              |
|--|-----------------|-------------------|
| Investments:   |                 |                   |
| Total unrealized gain (loss) before federal income tax expense (benefit) | \$ 12,491       | \$ (7,859)        |
| Deferred tax benefit (liability)   | (2,628)         | 1,651             |
| Net unrealized gains (losses) on investments                             | <u>9,863</u>    | <u>(6,208)</u>    |
| Foreign exchange adjustment:   |                 |                   |
| Total unrealized losses  | (625)           | (1,442)           |
| Deferred tax benefit   | 131             | 303               |
| Net unrealized losses on foreign exchange adjustment                     | <u>(494)</u>    | <u>(1,139)</u>    |
| Accumulated other comprehensive income (loss)                            | <u>\$ 9,369</u> | <u>\$ (7,347)</u> |

Details of changes in net unrealized gains (losses) on investments for the years ended December 31, 2019, 2018 and 2017 are as follows:

|   | <u>2019</u>      | <u>2018</u>       | <u>2017</u>      |
|---|------------------|-------------------|------------------|
| Investments:  |                  |                   |                  |
| Pre-tax holding gains (losses) on fixed income securities arising during period (1)               | \$ 19,182        | \$ (12,253)       | \$ 26,677        |
| Less: applicable federal income tax expense (benefit)   | 4,028            | (2,573)           | 9,337            |
|   | <u>15,154</u>    | <u>(9,680)</u>    | <u>17,340</u>    |
| Pre-tax gains (losses) on fixed income securities included in net income (loss) during period (1) | (1,161)          | (3,560)           | 7,217            |
| Less: applicable federal income tax expense (benefit)   | (244)            | (748)             | 2,526            |
|   | <u>(917)</u>     | <u>(2,812)</u>    | <u>4,691</u>     |
| Change in unrealized gains (losses) on investments  | <u>\$ 16,071</u> | <u>\$ (6,868)</u> | <u>\$ 12,649</u> |

(1) Effective January 1, 2018, the Company adopted ASU 2016-01 and unrealized gains (losses) related to equity securities are no longer reflected in accumulated other comprehensive income (loss). Prior periods have not been restated to conform to the current presentation.

#### Note G - Other Operating Expenses

Details of other operating expenses for the years ended December 31:

|   | <u>2019</u>       | <u>2018</u>       | <u>2017</u>       |
|---|-------------------|-------------------|-------------------|
| Amortization of gross deferred policy acquisition costs | \$ 81,734         | \$ 78,105         | \$ 70,574         |
| Other underwriting expenses                             | 59,975            | 46,638            | 37,230            |
| Reinsurance ceded credits                               | (25,932)          | (23,124)          | (23,187)          |
| <b>Total underwriting expenses</b>                      | <b>115,777</b>    | <b>101,619</b>    | <b>84,617</b>     |
| Operating expenses of non-insurance companies           | 22,679            | 32,406            | 28,977            |
| Goodwill impairment charge                              | -                 | 3,152             | -                 |
| <b>Total other operating expenses</b>                   | <b>\$ 138,456</b> | <b>\$ 137,177</b> | <b>\$ 113,594</b> |

#### Note H - Employee Benefit Plans

The Company maintains a defined contribution 401(k) Employee Savings and Profit Sharing Plan (the "Plan") which covers nearly all employees. The Company's contributions are based on a set percentage and the contributions to the Plan for 2019, 2018 and 2017 were \$3,213, \$3,486 and \$2,797, respectively.

#### Note I - Stock Based Compensation

The Company issues shares of restricted Class B Common Stock to the Company's outside directors as part of their annual retainer compensation. The shares are distributed to the outside directors on the vesting date, which, with the exception of pro-rated annual retainers granted to outside directors, is one year following the date of grant. On May 17, 2019, the Company granted shares of restricted Class B Common Stock in connection with the election of a new outside director, reflecting such director's pro-rated annual retainer compensation, which shares will vest and be distributed on May 7, 2020. Additionally, effective May 22, 2019, John D. Nichols, Jr. ceased serving as the Company's Interim Chief Executive Officer and principal executive officer, but continued to serve as Chairman of the Company's Board of Directors. On May 22, 2019, the Company granted shares of restricted Class B Common Stock to Mr. Nichols in connection with this transition, reflecting his pro-rated annual retainer compensation, which shares will also vest and be distributed on May 7, 2020. The table below provides details of the restricted stock issuances to directors for 2019, 2018 and 2017:

| Grant Date | Number of Shares Issued | Vesting Date | Service Period        | Grant Date Fair Value Per Share |
|------------|-------------------------|--------------|-----------------------|---------------------------------|
| 5/9/2017   | 18,183                  | 5/9/2018     | 7/1/2017 - 6/30/2018  | \$ 24.20                        |
| 8/31/2017  | 1,257                   | 5/9/2018     | 8/31/2017 - 6/30/2018 | \$ 21.90                        |
| 2/9/2018   | 408                     | 5/9/2018     | 2/9/2018 - 6/30/2018  | \$ 24.20                        |
| 5/8/2018   | 19,085                  | 5/8/2019     | 7/1/2018 - 6/30/2019  | \$ 23.05                        |
| 5/7/2019   | 29,536                  | 5/7/2020     | 7/1/2019 - 6/30/2020  | \$ 16.25                        |
| 5/17/2019  | 3,591                   | 5/7/2020     | 7/1/2019 - 6/30/2020  | \$ 16.25                        |
| 5/22/2019  | 3,541                   | 5/7/2020     | 7/1/2019 - 6/30/2020  | \$ 16.25                        |

Compensation expense related to the above stock grants is recognized over the period in which the directors render the services.

Director compensation expense associated with these restricted stock grants of \$518, \$464 and \$454 was charged against income for the restricted stock awards granted in 2019, 2018 and 2017, respectively.

On February 8, 2017, the Company issued 20,181 shares of restricted Class B Common Stock to certain of the Company's executives under the Company's Restricted Stock Compensation Plan. The shares of restricted stock represent a portion of the calendar year 2017 compensation earned by certain executives under the terms of the Company's Executive Incentive Bonus Plan. The shares of restricted stock vested over a three-year period from the date of grant. The shares of restricted stock were valued based on the closing price of the Company's Class B Common Stock on February 8, 2017, the day the shares of restricted stock were granted. Each share of restricted stock was valued at \$23.80 per share, representing a total value of \$480. Non-vested shares of restricted stock were forfeited if an executive's employment terminated for any reason other than death, disability or retirement, as defined by the Compensation Committee, prior to the vesting date.

In May 2017, the Company's Compensation Committee granted equity-based awards pursuant to the Company's Long-Term Incentive Plan (the "Long-Term Incentive Plan"), which was approved by the Company's shareholders at the 2017 Annual Meeting of Shareholders. Certain participants under the Long-Term Incentive Plan were granted Value Creation Incentive Plan awards (the "2017 VCIP Awards"). The 2017 VCIP Awards are performance-based equity awards that will be earned based on the Company's cumulative operating income over a three-year performance period from January 1, 2017 through December 31, 2019 relative to a cumulative operating income goal for the period set by the Compensation Committee in March 2017. For the purpose of the 2017 VCIP Awards, cumulative operating income is equal to income before taxes excluding net realized gains (losses) on investments. Any 2017 VCIP Awards that are earned will be paid in unrestricted shares of the Company's Class B Common Stock at the end of the three-year performance period, but no later than March 15, 2020. No shares were earned under the 2017 VCIP Awards for the three-year performance period ended December 31, 2019.

In March 2018, the Company's Compensation Committee granted equity-based awards pursuant to the Long-Term Incentive Plan. Certain participants under the Long-Term Incentive Plan were granted equity awards (the "2018 LTIP Awards"), with the number of shares of Class B Common Stock earned pursuant to such awards determined by applying a performance matrix consisting of a measurement of the combined results of the Company's 2018 growth in gross premiums earned and the Company's 2018 combined ratio. The combined ratio is calculated as a ratio of (A) losses and loss expenses incurred, plus other operating expenses, less commission and other income to (B) net premiums earned. No 2018 LTIP Awards were earned based on the Company's performance in 2018, and therefore no shares were issued pursuant to the 2018 LTIP Awards. In addition to the 2018 LTIP Awards, in March 2018 the Company's Compensation Committee also granted Value Creation Incentive Plan awards (the "2018 VCIP Awards") to certain participants under the Long-Term Incentive Plan. The 2018 VCIP Awards are performance-based equity awards that will be earned based on the Company's cumulative operating income, as defined above, over a three-year performance period from January 1, 2018 through December 31, 2020 relative to a cumulative operating income goal for the period set by the Compensation Committee in March 2018. Any 2018 VCIP Awards that are earned will be paid in unrestricted shares of the Company's Class B Common Stock at the end of the three-year performance period, but no later than March 15, 2021. No shares are eligible to be issued under the 2018 VCIP Awards as of December 31, 2019.

On November 13, 2018, the Company entered into an employment agreement with its Interim Chief Executive Officer, John D. Nichols, Jr. Pursuant to the terms of this employment agreement, on November 13, 2018, Mr. Nichols was granted 85,000 restricted shares of the Company's Class B Common Stock (the "Nichols Stock Grant"), of which 42,500 shares vested as of October 17, 2019; 21,250 shares will vest as of October 17, 2020, and 21,250 shares will vest as of October 17, 2021. The Company recorded \$876 of expense during the year ended December 31, 2019 related to the Nichols Stock Grant.

In March 2019, the Company's Compensation Committee granted equity-based awards pursuant to the Long-Term Incentive Plan. Certain participants under the Long-Term Incentive Plan were granted equity awards (the "2019 LTIP Awards"), with the number of shares of Class B Common Stock earned pursuant to such awards determined by applying a performance matrix consisting of a corporate performance component as well as a personal performance component. The corporate performance component of the 2019 LTIP Awards will be determined based on the Company's achievement of 2019 underwriting income compared to the plan target. The Company's underwriting income will be calculated as income (loss) before federal income tax expense (benefit), less net realized gains (losses) on investments, less net unrealized gains (losses) on equity securities and limited partnerships, less net investment income. The personal performance component of the 2019 LTIP Awards will be determined based on the achievement of personal goals that align with departmental and corporate objectives for 2019. Any 2019 LTIP Awards earned will be paid in shares of restricted Class B Common Stock in early 2020. One-third of such shares will vest annually over the three-year period beginning one year from the date of issue. The Company recorded \$71 of expense during the year ended December 31, 2019 related to the 2019 LTIP Awards.

On May 22, 2019, the Company entered into an employment agreement with its new Chief Executive Officer, Jeremy D. Edgecliffe-Johnson. Pursuant to the terms of this employment agreement, on May 22, 2019, Mr. Edgecliffe-Johnson was granted 70,000 restricted shares of the Company's Class B Common Stock (the "Edgecliffe-Johnson Stock Grant"), of which 35,000 shares will vest as of June 1, 2022, 21,000 shares will vest as of June 1, 2023, and 14,000 shares will vest as of June 1, 2024. The Company recorded \$192 of expense during the year ended December 31, 2019 related to the Edgecliffe-Johnson Stock Grant.

On November 5, 2019, the Board of the Company, upon the recommendation of the Compensation Committee, approved equity compensation awards to be granted to seven members of senior management as of November 12, 2019 under the Company's Long-Term Incentive Plan. The Board approved a total of \$1,100 in grants of restricted shares of the Company's Class B Common Stock, which will vest on January 1, 2023, subject to the recipient's continued employment with the Company through the vesting date. The Company recorded \$44 of expense during the year ended December 31, 2019 related to this grant.

## Note J – Segment Information

Effective January 1, 2017, the Company determined that its business constituted one reportable property and casualty insurance segment based on how its operating results are regularly reviewed by the Company's chief operating decision maker when making decisions about how resources are allocated and assessing performance. The property and casualty insurance segment provides multiple lines of insurance coverage primarily to commercial automobile companies, as well as to independent contractors who contract with commercial automobile companies.

The following table summarizes segment revenues for the years ended December 31:

|   | <u>2019</u>       | <u>2018</u>       | <u>2017</u>       |
|---|-------------------|-------------------|-------------------|
| <b>Revenues:</b>  |                   |                   |                   |
| Net premiums earned                                       | \$ 447,288        | \$ 432,880        | \$ 328,145        |
| Net investment income                                     | 26,249            | 22,048            | 18,095            |
| Net realized and unrealized gains (losses) on investments | 12,889            | (25,691)          | 19,686            |
| Commissions and other income                              | 9,171             | 9,932             | 5,308             |
| Total revenues  | <u>\$ 495,597</u> | <u>\$ 439,169</u> | <u>\$ 371,234</u> |

## Note K - Earnings (Loss) Per Share

The following is a reconciliation of the denominators used in the calculation of basic and diluted earnings (loss) per share for the years ended December 31:

|  | <u>2019</u>       | <u>2018</u>       | <u>2017</u>       |
|--|-------------------|-------------------|-------------------|
| Average shares outstanding for basic earnings (loss) per share   | 14,520,815        | 14,964,812        | 15,065,216        |
| Dilutive effect of share equivalents                             | 99,118            | –                 | 42,220            |
| Average shares outstanding for diluted earnings (loss) per share | <u>14,619,933</u> | <u>14,964,812</u> | <u>15,107,436</u> |

## Note L - Concentrations of Credit Risk

The Company writes policies of excess insurance attaching above SIRs and also writes policies that contain per-claim deductibles. Those losses and claims that fall within the SIR limits are obligations of the insured; however, the Company writes surety bonds in favor of various regulatory agencies guaranteeing the insureds' payment of claims within the SIR. Further, specified portions of losses and claims incurred under large deductible policies, while obligations of the Company, are contractually reimbursable to the Company from the insureds. The Company requires collateral from its insureds to serve as a source of reimbursement if the Company is obligated to pay claims within the SIR by reason of an insured's default or if the insured fails to reimburse the Company for deductible amounts paid by the Company.

Acceptable collateral may be provided in the form of letters of credit on Company-approved banks, Company-approved marketable securities or cash. At December 31, 2019, the Company held collateral in the aggregate amount of \$328,559.

The amount of collateral required of an insured is determined by the financial condition of the insured, the type of obligations guaranteed by the Company, estimated reserves for incurred losses within the SIR or deductible that have been reported to the insured or the Company, estimated incurred but not reported losses, and estimated losses that are expected to occur within the SIR or be deductible prior to the next collateral adjustment date. In general, the Company attempts to hold collateral equal to 100% of the ultimate losses that would be paid by or due the Company in the event of an insured's default. Periodic audits are conducted by the Company to evaluate its exposure and the collateral required. If a deficiency in collateral is noted as the result of an audit, additional collateral is requested immediately. Because collateral amounts contain numerous estimates of the Company's exposure, are adjusted only periodically and are sometimes reduced based on the superior financial condition of the insured, the amount of collateral held by the Company at a given point in time may not be sufficient to fully reimburse the Company for all of its guarantees or amounts due in the event of an insured's default. In that regard, the Company is not fully collateralized for the guarantees made for, or the deductible amounts that may be due from, FedEx Corporation and certain of its subsidiaries and related entities ("FedEx"), and in the event of their default, such default may have a material adverse impact on the Company. The Company estimates its uncollateralized exposure related to FedEx to be as much as 79% (after-tax) of shareholders' equity at December 31, 2019.

The Company's balance sheet includes paid and estimated unpaid amounts recoverable from reinsurers under various agreements. These recoverables are only partially collateralized. The two largest amounts due from individual reinsurers, net of collateral and offsets, were \$53,915 and \$44,462 at December 31, 2019.



## Note M – Acquisition and Related Goodwill and Intangibles

On October 31, 2008, the Company purchased a commercial lines specialty insurance agency for a cash purchase price of \$3,500. As part of the purchase, the Company recorded goodwill of \$3,152 and intangible assets of \$179. Accumulated amortization of intangible assets was \$179 as of both December 31, 2019 and 2018.

During the fourth quarter of 2018, the Company conducted its annual impairment review. Based on the results of that review, the Company concluded that its entire goodwill balance was impaired, resulting in an impairment loss of \$3,152. The Company utilized a market approach, which considered revenue and earnings multiples of its own and comparable company information. In the analysis, the Company considered the significant decline in its stock price and the decline in overall financial performance during 2018, particularly in more recent periods, as well as the downgrade to its A.M. Best Company, Inc. rating in late 2018.

## Note N – Fair Value

Assets and liabilities recorded at fair value in the consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The following tables summarize fair value measurements by level for assets measured at fair value on a recurring basis:

As of December 31, 2019:

| Description  | Total      | Level 1   | Level 2    | Level 3 |
|--|------------|-----------|------------|---------|
| Fixed income securities:                           |            |           |            |         |
| Agency collateralized mortgage obligations         | \$ 12,093  | \$ –      | \$ 12,093  | \$ –    |
| Agency mortgage-backed securities                  | 56,280     | –         | 56,280     | –       |
| Asset-backed securities                            | 106,397    | –         | 106,397    | –       |
| Bank loans   | 14,568     | –         | 14,568     | –       |
| Certificates of deposit                            | 2,835      | 2,835     | –          | –       |
| Collateralized mortgage obligations                | 5,616      | –         | 5,616      | –       |
| Corporate securities                               | 276,087    | –         | 276,087    | –       |
| Options embedded in convertible securities         | 5,294      | –         | 5,294      | –       |
| Mortgage-backed securities                         | 47,463     | –         | 47,463     | –       |
| Municipal obligations                              | 36,286     | –         | 36,286     | –       |
| Non-U.S. government obligations                    | 24,179     | –         | 24,179     | –       |
| U.S. government obligations                        | 208,440    | –         | 208,440    | –       |
| Total fixed income securities                      | 795,538    | 2,835     | 792,703    | –       |
| Equity securities:                                 |            |           |            |         |
| Consumer   | 16,707     | 16,707    | –          | –       |
| Energy   | 3,074      | 3,074     | –          | –       |
| Financial  | 31,577     | 31,577    | –          | –       |
| Industrial   | 4,927      | 4,927     | –          | –       |
| Technology   | 2,817      | 2,817     | –          | –       |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 9,460      | 9,460     | –          | –       |
| Other  | 8,250      | 8,250     | –          | –       |
| Total equity securities                            | 76,812     | 76,812    | –          | –       |
| Short-term   | 1,000      | 1,000     | –          | –       |
| Cash equivalents                                   | 59,780     | –         | 59,780     | –       |
| Total  | \$ 933,130 | \$ 80,647 | \$ 852,483 | \$ –    |

As of December 31, 2018:

| Description  | Total             | Level 1          | Level 2           | Level 3     |
|--|-------------------|------------------|-------------------|-------------|
| <b>Fixed income securities:</b>                    |                   |                  |                   |             |
| Agency collateralized mortgage obligations         | \$ 10,687         | \$ –             | \$ 10,687         | \$ –        |
| Agency mortgage-backed securities                  | 37,385            | –                | 37,385            | –           |
| Asset-backed securities                            | 64,422            | –                | 64,422            | –           |
| Bank loans   | 9,750             | –                | 9,750             | –           |
| Certificates of deposit                            | 2,835             | 2,835            | –                 | –           |
| Collateralized mortgage obligations                | 5,423             | –                | 5,423             | –           |
| Corporate securities                               | 186,651           | –                | 186,651           | –           |
| Options embedded in convertible securities         | 3,799             | –                | 3,799             | –           |
| Mortgage-backed securities                         | 38,540            | –                | 38,540            | –           |
| Municipal obligations                              | 29,155            | –                | 29,155            | –           |
| Non-U.S. government obligations                    | 25,180            | –                | 25,180            | –           |
| U.S. government obligations                        | 178,818           | –                | 178,818           | –           |
| <b>Total fixed income securities</b>               | <b>592,645</b>    | <b>2,835</b>     | <b>589,810</b>    | <b>–</b>    |
| <b>Equity securities:</b>                          |                   |                  |                   |             |
| Consumer   | 17,945            | 17,945           | –                 | –           |
| Energy   | 3,179             | 3,179            | –                 | –           |
| Financial  | 25,253            | 25,253           | –                 | –           |
| Industrial   | 6,920             | 6,920            | –                 | –           |
| Technology   | 2,303             | 2,303            | –                 | –           |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 5,489             | 5,489            | –                 | –           |
| Other  | 5,333             | 5,333            | –                 | –           |
| <b>Total equity securities</b>                     | <b>66,422</b>     | <b>66,422</b>    | <b>–</b>          | <b>–</b>    |
| Short-term   | 1,000             | 1,000            | –                 | –           |
| Cash equivalents                                   | 156,855           | –                | 156,855           | –           |
| <b>Total</b>                                       | <b>\$ 816,922</b> | <b>\$ 70,257</b> | <b>\$ 746,665</b> | <b>\$ –</b> |

Level inputs, as defined by the FASB guidance, are as follows:

| Level Input: | Input Definition:  |
|--------------|--|
| Level 1      | Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.  |
| Level 2      | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. |
| Level 3      | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.       |

The Company did not have any Level 3 assets at December 31, 2019 or 2018. Level 3 assets, when present, are valued using various unobservable inputs including extrapolated data, proprietary models and indicative quotes.

Quoted market prices are obtained whenever possible. Where quoted market prices are not available, fair values are estimated using broker/dealer quotes for specific securities. These techniques are significantly affected by the Company's assumptions, including discount rates and estimates of future cash flows. Potential taxes and other transaction costs have not been considered in estimating fair values.

Transfers between levels, if any, are recorded as of the beginning of the reporting period. There were no significant transfers of assets between Level 1 and Level 2 during 2019 or 2018.

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB guidance also requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in the consolidated balance sheets.

Non-financial instruments such as real estate, property and equipment, other assets, deferred income taxes and intangible assets, and certain financial instruments such as policy reserve liabilities are excluded from the fair value disclosures. Therefore, the fair value amounts cannot be aggregated to determine the underlying economic value of the Company. The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument:

Limited partnerships: The Company accounts for investments in limited partnerships using the equity method of accounting, which requires an investor in a limited partnership to carry the investment at its proportionate share of the limited partnership's equity. The underlying assets of the Company's investments in limited partnerships are carried primarily at fair value; therefore, the Company's carrying value of limited partnerships approximates fair value. As these investments are not actively traded and the corresponding inputs are based on data provided by the investees, they are classified as Level 3.

Commercial mortgage loans: Commercial mortgage loans are carried primarily at amortized cost along with a valuation allowance for losses when necessary. These investments represent interests in commercial mortgage loans originated and serviced by a third party of which the Company shares, on a pro-rata basis, in all related cash flows of the underlying mortgage loans. The fair value of the Company's investment in these commercial mortgage loans is based on expected future cash flows discounted at the current interest rate for origination of similar quality loans, adjusted for specific loan risk. These investments are classified as Level 3.

Short-term borrowings: The fair value of the Company's short-term borrowings is based on quoted market prices for the same or similar debt, or, if no quoted market prices are available, on the current market interest rates available to the Company for debt of similar terms and remaining maturities.

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on the Company's consolidated balance sheets at December 31, 2019 and 2018 is as follows:

|                           | Carrying Value | Fair Value |         |           |           |
|---------------------------|----------------|------------|---------|-----------|-----------|
|                           |                | Level 1    | Level 2 | Level 3   | Total     |
| <b>2019:</b>              |                |            |         |           |           |
| Assets:                   |                |            |         |           |           |
| Limited partnerships      | \$ 23,292      | \$ –       | \$ –    | \$ 23,292 | \$ 23,292 |
| Commercial mortgage loans | 11,782         | –          | –       | 12,068    | 12,068    |
| Liabilities:              |                |            |         |           |           |
| Short-term borrowings     | 20,000         | –          | 20,000  | –         | 20,000    |
| <b>2018:</b>              |                |            |         |           |           |
| Assets:                   |                |            |         |           |           |
| Limited partnerships      | \$ 55,044      | \$ –       | \$ –    | \$ 55,044 | \$ 55,044 |
| Commercial mortgage loans | 6,672          | –          | –       | 6,672     | 6,672     |
| Liabilities:              |                |            |         |           |           |
| Short-term borrowings     | 20,000         | –          | 20,000  | –         | 20,000    |

#### Note O - Quarterly Results of Operations (Unaudited)

Quarterly results of operations are as follows:

|   | 2019       |            |            |            | 2018       |            |           |            |
|---|------------|------------|------------|------------|------------|------------|-----------|------------|
|   | 1st        | 2nd        | 3rd        | 4th        | 1st        | 2nd        | 3rd       | 4th        |
| Net premiums earned                                       | \$ 110,012 | \$ 115,631 | \$ 110,288 | \$ 111,357 | \$ 105,462 | \$ 111,940 | \$ 96,807 | \$ 118,671 |
| Net investment income                                     | 6,231      | 6,500      | 6,703      | 6,815      | 4,636      | 5,796      | 5,578     | 6,038      |
| Net realized and unrealized gains (losses) on investments | 6,027      | 2,889      | 125        | 3,848      | (4,533)    | (3,435)    | 2,373     | (20,096)   |
| Losses and loss expenses incurred                         | 87,122     | 90,433     | 84,781     | 86,132     | 72,298     | 77,488     | 94,540    | 101,537    |
| Net income (loss)   | 2,748      | 1,535      | (707)      | 3,771      | 330        | 2,487      | (12,325)  | (24,567)   |
| Net income (loss) per share                               | \$ 0.18    | \$ 0.11    | \$ (0.05)  | \$ 0.26    | \$ 0.02    | \$ 0.17    | \$ (0.82) | \$ (1.65)  |

#### Note P - Statutory

Net income of the Insurance Subsidiaries, all of which are wholly-owned, as determined in accordance with statutory accounting practices, was \$25,302, \$36,236 and \$22,000 for 2019, 2018 and 2017, respectively. Consolidated statutory capital and surplus for these Insurance Subsidiaries was \$371,793 and \$395,891 at December 31, 2019 and 2018, respectively, of which \$37,937 may be transferred by dividend or loan to Protective during calendar year 2020 with proper notification to, but without approval from, regulatory authorities.

State regulatory authorities prescribe calculations of the minimum amount of statutory capital and surplus necessary for each insurance company to remain authorized. These computations are referred to as risk-based capital requirements and are based on a number of complex factors taking into consideration the quality and nature of assets, the historical adequacy of recorded liabilities and the specific nature of business conducted. At December 31, 2019, the minimum statutory capital and surplus requirements of the Insurance Subsidiaries was \$131,608. Actual consolidated statutory capital and surplus at December 31, 2019 exceeded this requirement by \$240,185.

## Note Q - Leases

The Company leases certain computer and related equipment using noncancelable operating leases. Lease expense for 2019, 2018 and 2017 was \$302, \$204 and \$417, respectively. At December 31, 2019, future lease payments for operating leases with initial or remaining noncancelable terms of one year or more consisted of the following:

|                                 |    |            |
|---------------------------------|----|------------|
| 2020                            | \$ | 114        |
| 2021                            |    | 15         |
| 2022                            |    | 1          |
| 2023 and thereafter             |    | —          |
| Total minimum payments required | \$ | <u>130</u> |

The Company recorded a right-of-use asset and lease liability on the consolidated balance sheet at December 31, 2019 of \$127, which are included within other assets and accounts payable and other liabilities.

## Note R – Debt

On August 9, 2018, the Company entered into a credit agreement providing a revolving credit facility with a \$40,000 limit, with the option for up to an additional \$35,000 in incremental loans at the discretion of the lenders. This credit agreement has an expiration date of August 9, 2022. Interest on this revolving credit facility is referenced to the London Interbank Offered Rate and can be fixed for periods of up to one year at the Company's option. Outstanding drawings on this revolving credit facility were \$20,000 as of December 31, 2019. At December 31, 2019, the effective interest rate was 2.88%, and the Company had \$20,000 remaining under the revolving credit facility. The current outstanding borrowings were used to repay the Company's previous line of credit. The Company's revolving credit facility has two financial covenants, each of which were met as of December 31, 2019. These covenants require the Company to have a minimum U.S. generally accepted accounting principles net worth and a maximum consolidated debt to equity ratio of 0.35.

## Note S - Related Parties

The Company utilizes the services of an investment firm of which one director of the Company is a partial owner. This investment firm manages equity securities and fixed income portfolios held by the Company with an aggregate market value of approximately \$8,883 at December 31, 2019. Total commissions and net fees earned by this investment firm and its affiliates on these portfolios were \$145, \$103 and \$97 for the years ended December 31, 2019, 2018 and 2017.

## Note T - Litigation, Commitments and Contingencies

In the ordinary, regular and routine course of their business, the Company and its Insurance Subsidiaries are frequently involved in various matters of litigation relating principally to claims for insurance coverage provided. No currently pending matter is deemed by management to be material to the Company, other than as noted below.

### Personnel Staffing Group Litigation

In July 2019, Protective Insurance Company (“Protective”) was named as a defendant in an action brought by a former insured, Personnel Staffing Group d/b/a MVP Staffing (“PSG”), in the U.S. District Court for the Central District of California (the “California Action”) alleging that Protective had breached its workers’ compensation insurance policy and had breached the duties of good faith and fair dealing. Protective provided workers’ compensation insurance to PSG from January 1, 2017 through June 30, 2018, which was subject to a \$500 per claim deductible to be paid by PSG. No specific damages were included in the complaint. In August 2019, Protective filed a motion to dismiss or stay the action, which remains pending. The Company intends to vigorously defend these claims; however, the ultimate outcome cannot be presently determined.

In August 2019, Protective filed a lawsuit against PSG in Marion County Superior Court, in Indianapolis, Indiana (the “Court”) alleging breach of contract, breach of the parties' collateral agreement, breach of the parties' indemnity agreement, and seeking a declaratory judgment regarding PSG’s obligation to fund its ongoing claim deductible obligations and adequately collateralize Protective’s current and ongoing claims exposure pursuant to terms of the parties' agreements. In October 2019, Protective amended the complaint to include allegations of misrepresentation as to source of coverage, negligent misrepresentation, fraud and racketeering and seeking injunctive relief. In November 2019, PSG filed a motion to dismiss on the basis of comity with the California Action, claiming that California was the proper forum for Protective’s claims. In February 2020, the Court issued an order dismissing the Protective lawsuit without prejudice; the Court declined to rule on the legal effect of the forum selection clause in the parties’ agreements, finding that any interpretation should be addressed by the court in the California Action. As the determination of jurisdiction and proper forum remains pending in the California Action, we intend to vigorously pursue our claims against PSG.

Pursuant to the terms of the workers' compensation policies, Protective has a duty to adjust and pay claims arising under the policies regardless of whether PSG makes payments to Protective for deductible obligations under the policies. Under its contractual obligations to Protective, PSG is required to maintain a "loss fund" for the payment of claims, the balance of which is to remain at or above \$4,000; in addition, PSG is required to provide collateral in an amount equal to 110% of Protective's current open case reserves on workers' compensation claims arising under the policies.

As of December 31, 2019, Protective had approximately \$10,800 in deductible receivables on claims arising under PSG's workers' compensation policies and had exhausted all collateral provided by PSG. Protective continues to pay claims settlements under the policies without reimbursement from PSG. For the past six months, the average monthly deductible invoices have been approximately \$1,500. PSG's estimated ultimate obligation under the agreements is approximately \$44,600 as of December 31, 2019 (inclusive of the \$10,800 in deductible receivables noted above). At December 31, 2019, based on the Company's assessment that PSG will continue to operate as a business and that the terms of the agreement with PSG will be legally enforceable, the Company believes that it will fully collect all current and future amounts due from PSG relating to this matter and, therefore, has not recorded a provision for any potential loss. In the event that PSG files bankruptcy or that the agreements are found to be unenforceable, Protective will likely incur a charge up to the then-estimated amount of PSG's ultimate obligation.

The Company included this matter in its assessment of the impact of adopting the accounting guidance amending ASC Topic 326, the credit losses standard, which is discussed in Note A, and has included an expected credit loss in the range of impacts related to the adoption of this guidance.

#### **Note U – Subsequent Events**

In January 2020, the Company withdrew \$13,167 from the New Vernon India Fund limited partnership, which reduced the Company's investment in this limited partnership.

On February 12, 2020, the Board of Directors of Protective Insurance Corporation declared a quarterly dividend of \$0.10 per share on the Company's Class A and Class B Common Stock. The dividend per share will be payable March 11, 2020 to shareholders of record on February 26, 2020.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

The Company carried out an evaluation as of December 31, 2019, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, or the "Exchange Act". Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective in ensuring that information required to be disclosed in reports that the Company files or submits under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms; and (b) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. The Company noted no change in its internal control over financial reporting that occurred during the three months ended December 31, 2019 that materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

***Management's Responsibility for Financial Statements***

Management is responsible for the preparation of the Company's consolidated financial statements and related information appearing in this Annual Report on Form 10-K. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements reasonably present the Company's financial position and results of operations in conformity with U.S. generally accepted accounting principles. Management has included in the Company's financial statements amounts that are based upon estimates and judgments which it believes are reasonable under the circumstances.

The Audit Committee meets periodically with financial management, the internal auditors and the independent registered public accounting firm to review accounting, control, auditing and financial reporting matters.

***Management's Report on Internal Control Over Financial Reporting***

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on the Company's evaluation under this framework, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019. The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Protective Insurance Corporation

**Opinion on Internal Control over Financial Reporting**

We have audited Protective Insurance Corporation and subsidiaries' internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Protective Insurance Corporation and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Protective Insurance Corporation and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income (loss), shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements") and our report dated March 5, 2020 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP  
Indianapolis, Indiana  
March 5, 2020

**Item 9B. OTHER INFORMATION**

None.

**PART III**

**Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item concerning the Company's directors and nominees for director, Audit Committee members and financial expert(s) and concerning disclosure of delinquent filers under Section 16(a) of the Exchange Act is incorporated herein by reference from the Company's definitive Proxy Statement for its 2020 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the Company's fiscal year.

The executive officers of the Company are expected to serve until the next annual meeting of the Board of Directors or until their respective successors are elected and qualified. The information required by this Item concerning the Company's executive officers is included in Part I, under "Information about our Executive Officers" in this Annual Report on Form 10-K, and is incorporated herein by reference.

**Code of Conduct**

The Board of Directors has adopted a Code of Business Conduct (the "Code") as our code of ethics document, which is applicable to all directors, officers at the vice president level and above, as well as certain other employees with control over accounting data. The Code incorporates our guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. The Code also incorporates our expectations of our employees that enable us to comply with applicable laws, rules and regulations and to provide accurate and timely disclosure in our filings with the SEC and other public communications.

The Code is available on our website at [ir.protectiveinsurance.com/govdocs](http://ir.protectiveinsurance.com/govdocs). The Board of Directors reviews the Code annually and approves any amendments necessary to update the Code. We intend to disclose on our website any amendments to, or waivers from, the Code that are required to be publicly disclosed pursuant to the rules of the SEC and Nasdaq. Copies can also be obtained free of charge by contacting our Investor Relations department at [investors@protectiveinsurance.com](mailto:investors@protectiveinsurance.com) or by written request to Protective Insurance Corporation, Attention: Investor Relations, 111 Congressional Blvd., Suite 500, Carmel, Indiana 46032.



**Item 11. EXECUTIVE COMPENSATION \***

**Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS \***

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE \***

**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES \***

\* The information required by Items 11, 12, 13 and 14 is incorporated herein by reference from the Company's definitive Proxy Statement for its 2020 Annual Meeting of Shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the Company's fiscal year.

**PART IV**

**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

- (a) 1. List of Financial Statements--The following consolidated financial statements of the registrant and its subsidiaries (including the Report of Independent Registered Public Accounting Firm) are submitted in Item 8 of this Annual Report on Form 10-K.

Consolidated Balance Sheets - December 31, 2019 and 2018

Consolidated Statements of Operations - Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Comprehensive Income (Loss) – Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Shareholders' Equity - Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows - Years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

2. List of Financial Statement Schedules--The following consolidated financial statement schedules of Protective Insurance Corporation and subsidiaries are included in this Annual Report on Form 10-K:

Pursuant to Article 7:

Schedule I Summary of Investments--Other than Investments in Related Parties

Schedule II Condensed Financial Information of Registrant

Schedule III Supplementary Insurance Information

Schedule IV Reinsurance

Schedule VI Supplemental Information Concerning Property/Casualty Insurance Operations

All other schedules to the consolidated financial statements required by Article 7 and Article 5 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

3. Index to Exhibits:

**INDEX TO EXHIBITS**

| Exhibit No.           | Description  |
|-----------------------|--|
| <a href="#">3.1</a>   | <a href="#">Amended and Restated Articles of Incorporation of Protective Insurance Corporation</a> (Incorporated as an exhibit by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2018)   |
| <a href="#">3.2</a>   | <a href="#">Code of By-Laws of Protective Insurance Corporation</a> , as amended May 17, 2019 (Incorporated as an exhibit by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on August 7, 2019)  |
| <a href="#">4.1</a>   | <a href="#">Description of the Company's Securities Registered Under Section 12 of the Exchange Act</a>  |
| <a href="#">10.1</a>  | <a href="#">Protective Insurance Corporation Restricted Stock Compensation Plan</a> (Incorporated as an exhibit by reference to Exhibit A to the Company's definitive Proxy Statement filed on April 1, 2010 for its Annual Meeting held May 4, 2010)*   |
| <a href="#">10.2</a>  | <a href="#">Protective Insurance Corporation Annual Incentive Plan</a> (Incorporated as an exhibit by reference to Appendix A to the Company's definitive Proxy Statement filed on April 7, 2017 for its Annual Meeting held May 9, 2017)*   |
| <a href="#">10.3</a>  | <a href="#">Protective Insurance Corporation Long-Term Incentive Plan</a> (Incorporated as an exhibit by reference to Appendix B to the Company's definitive Proxy Statement filed on April 7, 2017 for its Annual Meeting held May 9, 2017)*  |
| <a href="#">10.4</a>  | <a href="#">Employment Agreement</a> , effective as of May 22, 2019, by and between the Company and Jeremy D. Edgecliffe-Johnson (Incorporated as an exhibit by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 22, 2019)*  |
| <a href="#">10.5</a>  | <a href="#">Offer Letter</a> , dated September 6, 2019, between the Company and John R. Barnett (Incorporated as an exhibit by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2019)*  |
| <a href="#">10.6</a>  | <a href="#">Non-Compete, Severance and Confidentiality Agreement</a> , dated effective as of October 1, 2019, between the Company and John R. Barnett (Incorporated as an exhibit by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 6, 2019)*  |
| <a href="#">10.7</a>  | <a href="#">Confidentiality, Non-Competition, and Non-Solicitation Agreement</a> , dated May 25, 2018, by and between the Company and Jeremy F. Goldstein (Incorporated as an exhibit by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018)*   |
| <a href="#">10.8</a>  | <a href="#">Confidentiality, Non-Competition, and Non-Solicitation Agreement</a> , dated July 26, 2018, by and between the Company and Patrick S. Schmiedt (Incorporated as an exhibit by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018)*  |
| <a href="#">10.9</a>  | <a href="#">Offer Letter</a> , dated August 23, 2019, between the Company and Bahr D. Omidfar*   |
| <a href="#">10.10</a> | <a href="#">Non-Compete, Severance and Confidentiality Agreement</a> , dated effective as of September 16, 2019, between the Company and Bahr D. Omidfar*  |
| <a href="#">10.11</a> | <a href="#">Severance, Confidentiality, Non-Competition and Non-Solicitation Agreement</a> , dated June 22, 2018, by and between the Company and Matthew A. Thompson (Incorporated as an exhibit by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 8, 2018)*   |
| <a href="#">10.12</a> | <a href="#">Employment Agreement</a> , dated as of November 13, 2018, by and between the Company and John D. Nichols, Jr. (Incorporated as an exhibit by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on November 16, 2018)*  |
| <a href="#">10.13</a> | <a href="#">November 2019 Protective Insurance Corporation Long-Term Incentive Awards</a>  |
| <a href="#">21</a>    | <a href="#">Subsidiaries of Protective Insurance Corporation</a>   |
| <a href="#">23</a>    | <a href="#">Consent of Ernst &amp; Young LLP</a>   |
| <a href="#">24</a>    | <a href="#">Powers of Attorney for certain Officers and Directors</a>  |
| <a href="#">31.1</a>  | <a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |
| <a href="#">31.2</a>  | <a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>   |
| <a href="#">32</a>    | <a href="#">Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>  |
| 101                   | The following materials from Protective Insurance Corporation's Annual Report on Form 10-K for the year ended December 31, 2019, formatted in XBRL (eXtensible Business Reporting Language): (1) the Consolidated Balance Sheets, (2) the Consolidated Statements of Operations, (3) the Consolidated Statements of Comprehensive Income (Loss), (4) the Consolidated Statements of Shareholders' Equity, (5) the Consolidated Statements of Cash Flows, and (6) the Notes to Consolidated Financial Statements. |

\* Indicates management contracts or compensatory plans or arrangements.

**Item 16. FORM 10-K SUMMARY**

None.

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**SUMMARY OF INVESTMENTS**  
**OTHER THAN INVESTMENTS IN RELATED PARTIES**  
**(in thousands)**  
**As of December 31, 2019**

| Type of Investment                                 | Cost       | Fair Value | Amount at<br>Which Shown<br>in<br>the<br>Consolidated<br>Balance Sheet<br>(1) |
|--|------------|------------|---|
| <b>Fixed Income Securities:</b>                    |            |            |   |
| Bonds:   |            |            |   |
| Agency collateralized mortgage obligations         | \$ 11,557  | \$ 12,093  | \$ 12,093   |
| Agency mortgage-backed securities                  | 54,286     | 56,280     | 56,280  |
| Asset-backed securities                            | 107,028    | 106,397    | 106,397   |
| Bank loans   | 14,932     | 14,568     | 14,568  |
| Certificates of deposit                            | 2,835      | 2,835      | 2,835   |
| Collateralized mortgage obligations                | 5,123      | 5,616      | 5,616   |
| Corporate securities                               | 274,340    | 281,381    | 281,381   |
| Mortgage-backed securities                         | 46,685     | 47,463     | 47,463  |
| Municipal obligations                              | 35,749     | 36,286     | 36,286  |
| Non-U.S. government obligations                    | 23,889     | 24,179     | 24,179  |
| U.S. government obligations                        | 206,623    | 208,440    | 208,440   |
| Total fixed income securities                      | 783,047    | 795,538    | 795,538   |
| <b>Equity Securities:</b>                          |            |            |   |
| Common Stocks:                                     |            |            |   |
| Consumer   | 13,473     | 16,707     | 16,707  |
| Energy   | 3,618      | 3,074      | 3,074   |
| Financial  | 25,523     | 31,577     | 31,577  |
| Industrial   | 3,476      | 4,927      | 4,927   |
| Technology   | 1,056      | 2,817      | 2,817   |
| Funds (e.g., mutual funds, closed end funds, ETFs) | 10,313     | 9,460      | 9,460   |
| Other  | 6,847      | 8,250      | 8,250   |
| Total equity securities                            | 64,306     | 76,812     | 76,812  |
| Commercial mortgage loans                          | 11,782     | 12,068     | 11,782  |
| Short-term:  |            |            |   |
| Certificates of deposit                            | 1,000      | 1,000      | 1,000   |
| Total short-term and other                         | 1,000      | 1,000      | 1,000   |
| Total investments                                  | \$ 860,135 | \$ 885,418 | \$ 885,132  |

(1) Amounts presented above do not include investments of \$59,780 classified as cash and cash equivalents in the consolidated balance sheet.

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**BALANCE SHEETS - PARENT COMPANY ONLY**  
(in thousands)

|   | December 31       |                   |
|---|-------------------|-------------------|
|   | 2019              | 2018              |
| <b>Assets</b>                                     |                   |                   |
| Investment in subsidiaries                        | \$ 398,725        | \$ 401,260        |
| Due from affiliates                               | 1,579             | 1,152             |
| Investments other than subsidiaries:              |                   |                   |
| Fixed income securities                           | 23,979            | 22,302            |
| Limited partnerships                              | 206               | 215               |
|   | <u>24,185</u>     | <u>22,517</u>     |
| Cash and cash equivalents                         | 7,059             | 15,185            |
| Accounts receivable                               | 5,606             | 2,276             |
| Other assets                                      | 22,153            | 28,794            |
| <b>Total assets</b>                               | <u>\$ 459,307</u> | <u>\$ 471,184</u> |
| <b>Liabilities and shareholders' equity</b>       |                   |                   |
| Liabilities:                                      |                   |                   |
| Premiums payable                                  | \$ 20,238         | \$ 22,964         |
| Deposits from insureds                            | 42,067            | 58,748            |
| Short-term borrowings                             | 20,000            | 20,000            |
| Other liabilities                                 | 12,686            | 13,390            |
|   | <u>94,991</u>     | <u>115,102</u>    |
| Shareholders' equity:                             |                   |                   |
| Common stock:                                     |                   |                   |
| Class A   | 111               | 112               |
| Class B   | 499               | 522               |
| Additional paid-in capital                        | 53,349            | 54,720            |
| Accumulated other comprehensive income (loss)     | 9,369             | (7,347)           |
| Retained earnings                                 | 300,988           | 308,075           |
|   | <u>364,316</u>    | <u>356,082</u>    |
| <b>Total liabilities and shareholders' equity</b> | <u>\$ 459,307</u> | <u>\$ 471,184</u> |

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**STATEMENTS OF OPERATIONS - PARENT COMPANY ONLY**  
(in thousands)

|   | Year Ended December 31 |                    |                  |
|---|------------------------|--------------------|------------------|
|   | 2019                   | 2018               | 2017             |
| <b>Revenue:</b>   |                        |                    |                  |
| Commissions and service fees  | \$ 14,149              | \$ 17,456          | \$ 18,863        |
| Cash dividends from subsidiaries  | -                      | 5,000              | 10,000           |
| Net investment income   | 692                    | 569                | 348              |
| Net realized gains (losses) on investments  | (46)                   | (192)              | 308              |
| Other   | 17                     | 51                 | (106)            |
|   | <u>14,812</u>          | <u>22,884</u>      | <u>29,413</u>    |
| <b>Expenses:</b>  |                        |                    |                  |
| Salary and related items  | 11,804                 | 20,158             | 18,140           |
| Other   | 10,386                 | 11,724             | 9,686            |
|   | <u>22,190</u>          | <u>31,882</u>      | <u>27,826</u>    |
| <b>Income (loss) before federal income tax benefit and equity in undistributed income of subsidiaries</b> | <b>(7,378)</b>         | <b>(8,998)</b>     | <b>1,587</b>     |
| Federal income tax benefit  | (1,452)                | (2,862)            | (2,971)          |
|   | <u>(5,926)</u>         | <u>(6,136)</u>     | <u>4,558</u>     |
| Equity in undistributed income of subsidiaries  | 13,273                 | (27,939)           | 13,765           |
|   | <u>13,273</u>          | <u>(27,939)</u>    | <u>13,765</u>    |
| <b>Net income (loss)</b>  | <b>\$ 7,347</b>        | <b>\$ (34,075)</b> | <b>\$ 18,323</b> |

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS) - PARENT COMPANY ONLY**  
**(in thousands)**

|  | Year Ended December 31 |                    |                  |
|--|------------------------|--------------------|------------------|
|  | 2019                   | 2018               | 2017             |
| <b>Net income (loss)</b>                                 | <b>\$ 7,347</b>        | <b>\$ (34,075)</b> | <b>\$ 18,323</b> |
| Other comprehensive income (loss), net of tax:           |                        |                    |                  |
| Unrealized net gains (losses) on fixed income securities | 16,071                 | (6,868)            | 12,649           |
| Foreign currency translation adjustments                 | 645                    | (830)              | 522              |
| Other comprehensive income (loss)                        | 16,716                 | (7,698)            | 13,171           |
| <b>Comprehensive income (loss)</b>                       | <b>\$ 24,063</b>       | <b>\$ (41,773)</b> | <b>\$ 31,494</b> |

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**STATEMENTS OF CASH FLOWS - PARENT COMPANY ONLY**  
(in thousands)

|   | Year Ended December 31 |                  |                  |
|---|------------------------|------------------|------------------|
|   | 2019                   | 2018             | 2017             |
| <b>Net cash provided by operating activities</b>  | <b>\$ 10,643</b>       | <b>\$ 14,019</b> | <b>\$ 44,998</b> |
| <b>Investing activities:</b>  |                        |                  |                  |
| Purchases of investments  | (4,967)                | (11,435)         | (21,365)         |
| Sales or maturities of investments  | 3,935                  | 11,213           | 9,146            |
| Net sales of short-term investments   | -                      | -                | -                |
| Distributions from limited partnerships   | 1                      | -                | 298              |
| Net purchases of property and equipment   | (380)                  | (3,677)          | (3,394)          |
| <b>Net cash used in investing activities</b>  | <b>(1,411)</b>         | <b>(3,899)</b>   | <b>(15,315)</b>  |
| <b>Financing activities:</b>  |                        |                  |                  |
| Dividends paid to shareholders  | (5,857)                | (16,835)         | (16,302)         |
| Repurchase of common shares   | (11,501)               | (4,596)          | (1,880)          |
| <b>Net cash used in financing activities</b>  | <b>(17,358)</b>        | <b>(21,431)</b>  | <b>(18,182)</b>  |
| <b>Increase (decrease) in cash, cash equivalents and restricted cash and cash equivalents</b> | <b>(8,126)</b>         | <b>(11,311)</b>  | <b>11,501</b>    |
| Cash, cash equivalents and restricted cash and cash equivalents at beginning of year          | 15,185                 | 26,496           | 14,995           |
| <b>Cash, cash equivalents and restricted cash and cash equivalents at end of year</b>         | <b>\$ 7,059</b>        | <b>\$ 15,185</b> | <b>\$ 26,496</b> |

**Note to Condensed Financial Statements -- Basis of Presentation**

The Company's investment in subsidiaries is stated at cost plus equity in the undistributed earnings of subsidiaries since the date of acquisition. The Company's share of net income of its subsidiaries is included in income using the equity method. These financial statements should be read in conjunction with the Company's consolidated financial statements.



**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTARY INSURANCE INFORMATION**  
(in thousands)

| Segment                     | As of December 31                 |  |                   |  | Year Ended December 31 |                           |  |   |                                  |                      |
|-----------------------------|-----------------------------------|--|-------------------|--|------------------------|---------------------------|--|---|----------------------------------|----------------------|
|                             | Deferred Policy Acquisition Costs | Reserves for Unpaid Claims and Claim Adjustment Expenses | Unearned Premiums | Other Policy Claims and Benefits Payable | Net Premium Earned     | Net Investment Income (A) | Benefits, Claims, Losses and Settlement Expenses (A) | Amortization of Deferred Policy Acquisition Costs | Other Operating Expenses (A) (B) | Net Premiums Written |
| Property/Casualty Insurance |                                   |  |                   |  |                        |                           |  |   |                                  |                      |
| 2019                        | \$ 8,496                          | \$ 988,305   | \$ 74,810         | –  | \$ 447,288             | \$ 26,249                 | \$ 348,468   | \$ 81,734   | \$ 34,043                        | \$ 452,242           |
| 2018                        | 6,568                             | 865,339  | 71,625            | –  | 432,880                | 22,048                    | 345,864  | 78,105  | 23,514                           | 444,398              |
| 2017                        | 5,608                             | 680,274  | 53,085            | –  | 328,145                | 18,095                    | 247,518  | 70,574  | 14,043                           | 353,389              |

(A) Allocations of certain expenses have been made to investment income, settlement expenses and other operating expenses and are based on a number of assumptions and estimates. Results among these categories would change if different methods were applied.

(B) Commission allowances relating to reinsurance ceded are offset against other operating expenses.

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**REINSURANCE**  
(in thousands)

|                          | <u>Direct<br/>Premiums</u> | <u>Ceded to<br/>Other<br/>Companies</u> | <u>Assumed from<br/>Other<br/>Companies</u> | <u>Net<br/>Amount</u> | <u>% of Amount<br/>Assumed to Net</u> |
|--------------------------|----------------------------|---|---|-----------------------|---------------------------------------|
| Premiums Earned -        |                            |   |   |                       |                                       |
| Years Ended December 31: |                            |   |   |                       |                                       |
| 2019                     | \$ 570,959                 | \$ 124,446                              | \$ 775                                      | \$ 447,288            | 0.2%                                  |
| 2018                     | 562,364                    | 131,080                                 | 1,596                                       | 432,880               | 0.4%                                  |
| 2017                     | 470,158                    | 145,201                                 | 3,188                                       | 328,145               | 1.0%                                  |

Note: Included in Ceded to Other Companies is \$0 for each of 2019, 2018 and 2017 relating to retrocessions associated with premiums assumed from other companies. Percentage of Amount Assumed to Net above considers the impact of this retrocession.

**PROTECTIVE INSURANCE CORPORATION AND SUBSIDIARIES**  
**SUPPLEMENTAL INFORMATION CONCERNING**  
**PROPERTY/CASUALTY INSURANCE OPERATIONS**  
**(in thousands)**

| Affiliation with<br>Registrant                     | As of December 31                          |   |   |                      | Year Ended December 31 |                             |   |          |  |  |                            |  |
|--|--|---|---|----------------------|------------------------|-----------------------------|---|----------|--|--|----------------------------|--|
|  | Deferred<br>Policy<br>Acquisition<br>Costs | Reserves<br>for<br>Unpaid<br>Claims<br>Adjustment<br>Expenses | Discount,<br>if any<br>Deducted<br>from<br>Reserves | Unearned<br>Premiums | Earned<br>Premiums     | Net<br>Investment<br>Income | Claims and Claim<br>Adjustment<br>Expenses Incurred<br>Related to |          | Amortization<br>of<br>Deferred<br>Policy<br>Acquisition<br>Costs | Paid<br>Claims<br>and Claims<br>Adjustment<br>Expenses | Net<br>Premiums<br>Written |  |
|  |  |   |   |                      |                        | Current<br>Year             | Prior<br>Years  |          |  |  |                            |  |
| Consolidated<br>Property/Casualty<br>Subsidiaries: |  |   |   |                      |                        |                             |   |          |  |  |                            |  |
| 2019   | \$ 8,496                                   | \$ 988,305  | \$ -  | \$ 74,810            | \$ 447,288             | \$ 26,249                   | \$ 349,018  | \$ (550) | \$ 81,734  | \$ 247,872   | \$ 452,242                 |  |
| 2018   | 6,568                                      | 865,339   | -   | 71,625               | 432,880                | 22,048                      | 329,078   | 16,786   | 78,105   | 228,591  | 444,398                    |  |
| 2017   | 5,608                                      | 680,274   | -   | 53,085               | 328,145                | 18,095                      | 228,303   | 19,215   | 70,574   | 200,154  | 353,389                    |  |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### PROTECTIVE INSURANCE CORPORATION

March 5, 2020

By: /s/ Jeremy D. Edgecliffe-Johnson

Jeremy D. Edgecliffe-Johnson

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Signatures</u>   | <u>Title</u>  | <u>Date</u>   |
|---|---|---------------|
| <u>/s/ Jeremy D. Edgecliffe-Johnson</u><br>Jeremy D. Edgecliffe-Johnson | Chief Executive Officer and Director<br>(Principal Executive Officer)                     | March 5, 2020 |
| <u>/s/ John R. Barnett</u><br>John R. Barnett                           | Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) | March 5, 2020 |
| <u>/s/ Steven J. Bensinger</u><br>Steven J. Bensinger                   | Director  | March 5, 2020 |
| <u>/s/ Stuart D. Bilton</u><br>Stuart D. Bilton                         | Director  | March 5, 2020 |
| <u>/s/ Otto N. Frenzel IV</u><br>Otto N. Frenzel IV                     | Director  | March 5, 2020 |
| <u>/s/ Stephen J. Gray</u><br>Stephen J. Gray                           | Director  | March 5, 2020 |
| <u>/s/ LoriAnn Lowery-Biggers</u><br>LoriAnn Lowery-Biggers             | Director  | March 5, 2020 |
| <u>/s/ David W. Michelson</u><br>David W. Michelson                     | Director  | March 5, 2020 |
| <u>/s/ John D. Nichols, Jr.</u><br>John D. Nichols, Jr.                 | Director, Chairman of the Board of Directors  | March 5, 2020 |
| <u>/s/ James A. Porcari III</u><br>James A. Porcari III                 | Director  | March 5, 2020 |
| <u>/s/ Nathan Shapiro</u><br>Nathan Shapiro                             | Director  | March 5, 2020 |
| <u>/s/ Robert Shapiro</u><br>Robert Shapiro                             | Director  | March 5, 2020 |

---

---

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED UNDER SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2019, Protective Insurance Corporation (the "Company," "we" and "our") had two classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): its Class A common stock, without par value (the "Class A Common Stock"), and its Class B common stock, without par value (the "Class B Common Stock" and, together with the Class A Common Stock, the "Common Stock").

**Description of Common Stock**

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Amended and Restated Articles of Incorporation (the "Articles of Incorporation"), our Code of Bylaws, as amended (the "Bylaws"), and the applicable provisions of the Indiana Business Corporation Law, as amended (the "IBCL"). Our Articles of Incorporation and Bylaws are incorporated by reference as exhibits to the Annual Report on Form 10-K of which this Exhibit is a part. For additional information, please read our Articles of Incorporation, our Bylaws and the applicable provisions of the IBCL.

Except as described under "Voting Rights" below, the Class A Common Stock and Class B Common Stock have identical rights, preferences and restrictions.

**Authorized Shares**

Under our Articles of Incorporation, we are authorized to issue up to 23,000,000 shares of Common Stock, which is divided into two classes: Class A Common Stock and Class B Common Stock. The authorized Common Stock consists of 3,000,000 shares of Class A Common Stock, without par value, and 20,000,000 shares of Class B Common Stock, without par value. All issued and outstanding shares of our Class A Common Stock and Class B Common Stock are fully paid and nonassessable.

**Voting Rights**

Class A Common Stock has one vote per share on all matters presented to shareholders. Class B Common Stock has no voting rights except on matters as to which class voting is required by the IBCL. Under the IBCL, shareholders may vote as a class on amendments to our Articles of Incorporation if the amendments would create dissenters' rights for such class of shares under the IBCL. Additionally, under the IBCL, any class of shares is entitled to vote as a class on a merger or consolidation if the agreement of merger or consolidation contains any provisions which, if contained in a proposed amendment to our Articles of Incorporation, would entitle such class of shares to vote as a class.

Holders of our Class A Common Stock do not have cumulative voting rights in the election of directors or any other matter. Directors are elected by a plurality of votes cast by shares entitled to vote in the election of directors. On all other matters, unless a greater number of affirmative votes is required by our Articles of Incorporation or the IBCL, an action is approved if the votes properly cast favoring the action exceed the votes properly cast opposing the action.

**Dividend Rights**

*Cash Dividends.* Holders of shares of our Class A Common Stock and Class B Common Stock have the right to receive cash dividends, on an equal per share basis, as may be declared from time to time by our Board of Directors, in its discretion, from any funds legally available for the payment of dividends. When a cash dividend is paid to the holders of one class of our Common Stock, we are required to pay to the holders of the other class of Common Stock a cash dividend per share equal to the cash dividend per share paid to the holders of the class of Common Stock that originally received the cash dividend.

---

*Stock Dividends.* Dividends may be paid in shares of Class A Common Stock or Class B Common Stock subject to the following limitations. A dividend of shares of Class A Common Stock may be paid on the shares of Class A Common Stock provided that a simultaneous dividend in shares of Class B Common Stock is paid on the shares of Class B Common Stock that is equal, on a per share basis, to the dividend paid on the shares of Class A Common Stock. A dividend of shares of Class B Common Stock may be paid on shares of Class B Common Stock provided that a simultaneous dividend in shares of Class A Common Stock is paid on the shares of Class A Common Stock. We are not permitted to subdivide or combine shares of either class of Common Stock without at the same time proportionately subdividing or combining the shares of the other class.

### **Liquidation Rights**

On liquidation, dissolution, or winding up of the Company, the assets legally available for distribution to shareholders are distributable ratably among the holders of shares of Class A Common Stock and Class B Common Stock outstanding at the time.

### **Other Rights and Preferences**

The holders of our Class A Common Stock and our Class B Common Stock have no preemptive, subscription, exchange or conversion rights, and there are no redemption, preference or sinking fund provisions applicable to our Class A Common Stock or Class B Common Stock. Holders of our Class A Common Stock and our Class B Common Stock are not subject to further calls or assessments by us.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our Common Stock is Computershare Trust Company, N.A.

### **Listing**

The Class A Common Stock is traded on The Nasdaq Stock Market LLC under the trading symbol “PTVCA” and the Class B Common Stock is traded on The Nasdaq Stock Market LLC under the trading symbol “PTVCB.”

### **Anti-Takeover Effects of Provisions of our Articles of Incorporation, our Bylaws and the IBCL**

Certain provisions of the IBCL, our Articles of Incorporation and our Bylaws summarized below may be deemed to have an anti-takeover effect and may delay, deter, discourage or prevent a merger, a tender offer, a proxy contest, the assumption of control of the Company by a holder of a large block of the Common Stock or other person, or the removal of incumbent management, even if a shareholder might consider such actions to be in its best interests, including attempts that might result in a premium being paid over the market price for such shares held by shareholders.

*Meetings of Shareholders and Action by Unanimous Written Consent.* Under Chapter 29 of the IBCL, any action required to be taken by our shareholders may be effected only at an annual meeting or special meeting of shareholders, and shareholders may act in lieu of such meetings only by unanimous written consent. Our Bylaws provide that special meetings of shareholders may be called by our Chief Executive Officer, our Chairman of the Board, our Board of Directors or by the holders of at least twenty-five percent of all votes to be cast on any issue proposed to be considered at the proposed special meeting.

---

Our Bylaws also establish an advance notice procedure for the nomination, other than by or at the direction of our Board of Directors, of persons for election as directors as well as for other shareholder proposals to be considered at annual meetings of shareholders. In general, notice of intent to nominate a director or raise business at such meetings must be delivered to the Company by a shareholder not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. Such notice must contain certain specified information concerning the person to be nominated or the business to be brought before the meeting and the shareholder submitting the proposal. Although our Bylaws do not give our Board of Directors any power to approve or disapprove shareholder nominations for the election of directors or proposals for action, they may have the effect of precluding a contest for the election of directors or the consideration of shareholder proposals if the established procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its proposal without regard to whether consideration of those nominees or proposals might be harmful or beneficial to us and our shareholders.

*Board of Directors.* Our Bylaws provide that our directors are elected annually, to serve a term of one year and until their successors are chosen and qualified, or until their earlier removal, resignation or death. Our Articles of Incorporation provide that a director may be removed, either for or without cause, only at a meeting of shareholders called expressly for that purpose by the affirmative vote of the holders of a majority of the outstanding shares of the Company's stock entitled to vote generally in the election of directors. Our Bylaws provide that any vacancy in our Board of Directors may be filled by a majority vote of the remaining members of the Board of Directors, even if less than a quorum.

*Board Authority – Issuance of Shares.* Our Board of Directors has the power to issue any or all of the shares of our capital stock without seeking shareholder approval, which could delay, defer or prevent any attempt to acquire or control us.

*Amendment of Bylaws.* Our Bylaws provide that our Board of Directors has the exclusive authority to make, alter, amend or repeal our Bylaws.

*Control Share Acquisitions.* Under Chapter 42 of the IBCL, an acquiring person or group who makes a "control share acquisition" in an "issuing public corporation" may not exercise voting rights on any "control shares" unless these voting rights are conferred by a majority vote of the disinterested shareholders of the issuing public corporation at a special meeting of those shareholders held upon the request and at the expense of the acquiring person. If control shares acquired in a control share acquisition are accorded full voting rights by the disinterested shareholders and the acquiring person has acquired control shares with a majority or more of all voting power, all shareholders of the issuing public corporation have dissenters' rights to receive the fair value of their shares pursuant to Chapter 44 of the IBCL.

For purposes of Chapter 42 of the IBCL, the below definitions apply:

- (a) "Control share acquisition" means, subject to specified exceptions, the acquisition, directly or indirectly, by any person of ownership of, or the power to direct the exercise of voting power with respect to, issued and outstanding control shares. For the purposes of determining whether an acquisition constitutes a control share acquisition, shares acquired within 90 days or under a plan to make a control share acquisition are considered to have been acquired in the same acquisition.
  - (b) "Control shares" means shares acquired by a person that, when added to all other shares of the issuing public corporation owned by that person or in respect to which that person may exercise or direct the exercise of voting power, would otherwise entitle that person to exercise voting power of the issuing public corporation in the election of directors within any of the following ranges:
    - (i) one-fifth or more but less than one-third;
    - (ii) one-third or more but less than a majority; or
    - (iii) a majority or more.
-

- (c) “Issuing public corporation” means a corporation which has (i) 100 or more shareholders, (ii) its principal place of business or its principal office in Indiana, or that owns or controls assets within Indiana having a fair market value of greater than \$1,000,000, and (iii) (A) more than 10% of its shareholders resident in Indiana, (B) more than 10% of its shares owned of record or owned beneficially by Indiana residents, or (C) 1,000 shareholders resident in Indiana.

The above provisions do not apply if, before a control share acquisition is made, an Indiana corporation’s articles of incorporation or bylaws, including a bylaw adopted by the Indiana corporation’s board of directors, provide that they do not apply. Our Articles of Incorporation and Bylaws do not exclude the Company from these provisions.

*Certain Business Combinations.* Chapter 43 of the IBCL restricts the ability of a “resident domestic corporation” to engage in any business combinations with an “interested shareholder” for five years after the date the interested shareholder became an “interested shareholder” (the “share acquisition date”), unless the business combination or the purchase of shares by the interested shareholder on the interested shareholder’s share acquisition date is approved by the board of directors of the resident domestic corporation before the share acquisition date. If such prior approval is not obtained, the interested shareholder may effect a business combination after the five-year period only if such shareholder receives approval from a majority of the disinterested shareholders or the offer meets specified fair price criteria.

For purposes of Chapter 43 of the IBCL, the below definitions apply:

- (a) “Beneficial owner” means a person who, directly or indirectly, owns the subject shares, has the right to acquire or vote the subject shares (excluding voting rights under revocable proxies made in accordance with federal law), has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of the subject shares, or holds any derivative instrument that includes the opportunity to profit or share in any profit derived from any increase in the value of the subject shares.
- (b) “Interested shareholder” means any person, other than the resident domestic corporation or its subsidiaries, that is (i) the beneficial owner, directly or indirectly, of 10% or more of the voting power of the outstanding voting shares of the resident domestic corporation or (ii) an affiliate or associate of the resident domestic corporation, which at any time within the five-year period immediately before the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding shares of the resident domestic corporation.
- (c) “Resident domestic corporation” means an Indiana corporation that has 100 or more shareholders.

The above provisions do not apply to corporations that elect not to be subject to Chapter 43 of the IBCL in an amendment to their articles of incorporation approved by a majority of the disinterested shareholders. That amendment, however, cannot become effective until 18 months after its passage and would apply only to share acquisitions occurring after its effective date. Our Articles of Incorporation do not exclude the Company from Chapter 43 of the IBCL.

---

---



---

August 23, 2019

Bahr Omidfar  
847 Burr Oak Lane  
Summit, WI 53066

Dear Bahr,

It is my pleasure to extend the following offer of employment to you on behalf of Protective Insurance. We are impressed with your accomplishments and feel your background and experience will be mutually beneficial for our present needs and your professional growth. **We would like for you to start on September 16, 2019.**

**Title:** Chief Information Officer. The position will report to Jeremy Johnson, Chief Executive Officer.

**Base Pay:** \$400,000/year paid in bi-weekly installments. All employees are reviewed annually at the beginning of every year.

**Holiday Pay:** This payment is ½ month's salary plus one day's pay for every full calendar year of service to the Company. The first year payment is pro-rated for the number of full calendar months employed. Based on your annual salary and proposed start date, the holiday pay would be approximately **\$4,932** for **2019**. The holiday pay is guaranteed compensation, and does cap at \$5,000.

**Total Base Pay: \$405,000.00**

**Short Term Incentive Plan Bonus:** The short-term incentive plan target bonus is 27.5% of salary and is based on a combination of company and personal performance. The first year bonus is prorated for the number of full calendar months employed. Based on your annual salary and proposed start date, the incentive bonus for **2019** would be targeted at approximately **\$32,549**, paid in March 2020.

**Long Term Incentive Plan Bonus:** The long-term incentive plan target bonus is 20% of salary and is based on a combination of company and personal performance. The first year bonus is prorated for the number of full calendar months employed. Based on your annual salary and proposed start date, the long-term incentive bonus for **2019** would be targeted at approximately **\$23,672**, paid in March 2020.

**Total Potential 2020 Compensation:**

|              |                       |
|--------------|-----------------------|
| Salary       | \$400,000             |
| Holiday Pay  | \$5,000 (approximate) |
| STIP Bonus   | \$110,000 (target)    |
| LTIP Bonus   | \$80,000 (target)     |
| <b>Total</b> | <b>\$595,000</b>      |

|                    |  |
|--------------------|--|
| Relocation Payment | \$100,000 (one-time)   |
| Restricted Stock   | \$300,000 which vests over three-year period (Please see Employment Agreement for additional detail) |

---

**Benefits:** The standard health, life, disability and dental insurance programs are effective the first of the month following your start date. Employee contribution to payment for benefit plans is determined annually. You are eligible to enroll in benefits as early as October 1, 2019.

You will be eligible to contribute to our 401(k) plan and receive Company matching as early as November 1, 2019. The Company match is 100% of the first 3% and 50% of the next 2%, up to a maximum of 4% of your salary. An additional profit sharing match of 4% of salary is also contributed. The overall maximum Company contribution is 8% of your salary. The 401(k) plan is subject to annual review as determined by the Board of Directors.

Please respond to this offer with your signature. We are looking forward to your acceptance of our offer and request that you respond no later than **August 28, 2019**. Note that this offer is contingent upon the completion of a successful background check. If you have any questions, please contact me at 317-636-9800 X4770 or via email at [tfanning@protectiveinsurane.com](mailto:tfanning@protectiveinsurane.com).

{{CANDIDATE\_SIGNATURE}}

{{CANDIDATE\_SIGNATURE\_DATE}}

---

Name

---

Date

Sincerely,

Taylor Fanning

Human Resources

---

---

---

---

## EMPLOYMENT AGREEMENT

**THIS AGREEMENT**, effective as of \_\_\_\_\_, 2019 (the "Effective Date") by and between Protective Insurance Corporation, an Indiana corporation (together with its successors and assigns, the "Company"), and Bahr Omidfar (the "Executive");

### **WITNESSETH:**

**WHEREAS**, the Company desires to employ the Executive as its Chief Information Officer; and

**WHEREAS**, the Executive desires to accept employment with the Company, subject to the terms and provisions of this Agreement.

**NOW, THEREFORE**, in consideration of the premises and mutual covenants contained herein and for other good and valuable consideration, the receipt of which is mutually acknowledged, the Company and the Executive (collectively, the "Parties") agree as follows:

1. **Definitions.** Capitalized terms not otherwise defined herein shall have the meanings set forth in Exhibit A.

2. **Term.** The "Term" of this Agreement is the period during which the Executive is employed by the Company, beginning on the Effective Date, and the date on which his employment ends is referred to in this Agreement as the "Separation Date." The parties agree that the Executive shall continue to be employed by the Company on an at-will basis during the Term which means that he may terminate his employment at any time for any or no reason, and that the Company may terminate his employment at any time for any or no reason.

3. **Positions, Duties and Location.**

(a) During the Term, the Executive shall serve as the Chief Information Officer of the Company ("CIO"). The Executive shall (i) have all authorities, duties and responsibilities customarily exercised by a chief information officer serving at an entity of the size and nature of the Company and the Company's Subsidiaries (as applicable); and (ii) have such additional duties and responsibilities, consistent with the foregoing, as may from time to time be assigned by the Chief Executive Officer (CEO). In his capacity as CIO, the Executive shall report directly to the CEO or his/her designee. The terms and conditions of this Agreement shall remain in full force and effect regardless of whether additional titles or roles currently held by the Executive (either for the Company or any of its Subsidiaries) change by reason of position elimination, reassignment, removal, or otherwise.

(b) During the Term, the Executive shall devote substantially all of his business time and efforts to the business and affairs of the Company.

(c) During the Term, the Executive's principal office, and principal place of employment, shall be in Carmel, Indiana, or within 40 miles thereof; provided, however, that the Executive understands and agrees that he will be required to travel from time to time for business reasons.

---

4. **Compensation.** Beginning on the Effective Date, the Executive shall receive compensation consistent with the attached Offer Letter. The Executive's compensation shall be reviewed no less frequently than annually by the CEO and may be modified in the sole discretion of the Company.

5. **Other Benefits.**

(a) **Employee Benefits.** During the Term, the Executive shall be eligible to participate in all employee benefit plans, programs and arrangements, and all fringe benefit arrangements, made available generally to other senior executives of the Company, in each case in accordance with their terms; provided, that the Company reserves the right to unilaterally revise, amend, suspend or terminate any employee benefit and fringe plans, programs, and arrangements the Company makes available from time to time to other senior executives generally.

(b) **Paid Time Off.** During the Term, the Executive shall be entitled to paid time off, in accordance with the Company's vacation policies and procedures in effect from time to time, provided that the Executive shall schedule the timing and duration of his time off in a reasonable manner taking into account the needs of the business of the Company.

(c) **Reimbursement of Business and Other Expenses.** During the Term, the Executive shall be promptly reimbursed for all expenses reasonably incurred by him in connection with his service under this Agreement, subject to documentation in accordance with standard policies and procedures adopted by the Company.

(d) **Relocation/Temporary Housing Expenses.** The Company shall pay Executive a cash relocation package equal to \$100,000, subject to applicable withholding and deductions. The cash relocation package will be payable in a lump sum in accordance with the Company's first regular payroll after the Effective Date. If, prior to March 16, 2020, the Executive's employment hereunder is terminated by the Company for Cause or by the Executive without Good Reason, then the Executive shall repay to the Company the full \$100,000 amount of the relocation package.

6. **Stock Grant.** In connection with the execution of this Agreement, the Executive shall receive \$300,000 worth of restricted shares of the Company's Class B Common Stock (the "Stock Grant") under the Company's Long-Term Incentive Plan. The Stock Grant shall vest subject to the Executive's continuing employment according to the following schedule unless otherwise provided within this Agreement or the applicable award agreement: (i) 40% of the shares shall vest as of December 31, 2020; (ii) 30% of the shares shall vest as of December 31, 2021; and (iii) the remaining 30% of the shares will vest as of December 31, 2022. The Executive shall be eligible to receive all dividends earned on the shares during the applicable vesting period. The actual number of shares granted will be determined based on the stock price on the date of the Stock Grant, which shall be within seven (7) days of the execution of this Agreement.

---

7. **Termination of Employment.** The Company may terminate the Executive's employment at any time, and for any reason. The Executive may terminate the Executive's employment hereunder at any time, and for any reason, by delivering written notice to the CEO. During any such notice period, the Company reserves the right to suspend any or all of the Executive's access, duties or responsibilities and limit the Executive's communications with any customers, suppliers, agents, or employee of the Company, as the Company determines in its sole discretion. Upon any termination of employment, the Executive shall be entitled to receive (1) payment of any Base Salary earned but unpaid through the Termination Date, and (2) any vested amounts or benefits required to be paid in accordance with the terms of any applicable plan, program, agreement, corporate governance document or other arrangement of the Company and its Affiliates.

(a) **Termination Without Cause or Resignation for Good Reason.** Subject to the terms and conditions of this Agreement, in the event that the Executive's employment hereunder is terminated due to his resignation for Good Reason or the Executive's employment hereunder is terminated by the Company other than for Cause, the Executive shall receive:

(i) an amount, payable in cash equal to his annualized Base Salary in effect as of the Termination Date, plus his Target STIP plus his Target LTIP bonuses applicable to the year in which the Separation Date occurs;

(ii) full vesting for any unvested restricted stock, restricted stock unit award, or any other award granted under the LTIP (the vesting described in this clause (iii) being the "Award Vesting"); and

(iii) if the Executive timely elects continuation coverage pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), the Company shall provide the Executive with a reimbursement of the premiums associated with the continuation of his medical, dental and vision benefits under COBRA for a period equal to the earliest of (1) twelve (12) months following the Termination Date, (2) the date the Executive first becomes eligible to receive health benefits under another employer-provided plan or (3) the date the Executive is no longer eligible for continuation benefits under COBRA. Notwithstanding the forgoing, if the Company's making payments under this Section 7(a)(v) would violate the nondiscrimination rules applicable to non-grandfathered plans under the Affordable Care Act or any successor law (the "ACA"), or result in the imposition of penalties under the ACA and the related regulations and guidance promulgated thereunder, the Parties agree to reform this Section 8(c)(v) in a manner as is necessary to comply with the ACA.

(b) **Change in Control.** Subject to the terms and conditions of this Agreement, in the event that (i) the Executive's employment hereunder is terminated (x) by the Company without Cause and in anticipation of a Change in Control to be effectuated within one hundred twenty (120) days prior to the Termination Date or (y) by either Party on or before the twenty-four (24) month anniversary of the occurrence of a Change of Control, then Executive shall receive the benefits included under Section 7(a) (relating to terminations without Cause or resignation for Good Reason).

---

(c) **No Mitigation; No Offset.** In the event of any termination of the Executive's employment hereunder, the Executive shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Agreement, and there shall be no offset against amounts or benefits due the Executive under this Agreement or otherwise on account of (x) any Claim that the Company may have against him except for any outstanding loans to the extent then due and payable by him to the Company or (y) any remuneration or other benefit earned or received by the Executive after such termination. There shall also be no reduction of, or offset against, any amount due under any provision of this Agreement by any amount due under any other provision of this Agreement. Any amounts due under this Section 8 are considered to be reasonable by the Company and are not in the nature of a penalty.

(d) **General Waiver and Release.** The Executive shall not be entitled to the payments and benefits described in Section 7 unless (x) he first timely executes and delivers the Company's standard mutual release of claims (the "Release"), within the time period set forth in the Release, containing a general waiver and release of the Company and its employees, officers, directors, owners and members from any and all claims, obligations and liabilities of any kind whatsoever, including those arising from or in connection with the Executive's employment or termination of employment with the Company or this Agreement (including, without limitation, civil rights claims) and (y) such Release has become irrevocable by him in accordance with its terms.

#### 8. **Section 280G Parachute Payment.**

(a) If (i) the aggregate of all amounts and benefits due to the Executive, under this Agreement or under any Company plan, program, agreement or arrangement, would, if received by the Executive in full and valued under Section 280G of the Code, constitute "parachute payments" as such term is defined in and under Section 280G of the Code (collectively, "280G Benefits"), and if (ii) such aggregate would, if reduced by all federal, state and local taxes applicable thereto, including the excise tax imposed pursuant to Section 4999 of the Code, be less than the amount the Executive would receive, after all taxes, if the Executive received aggregate 280G Benefits equal (as valued under Section 280G of the Code) to only three times the Executive's "base amount", as defined in and under Section 280G of the Code, less \$1.00, then (iii) such cash 280G Benefits (in reverse order of maturity, to the extent that the reduction of such cash 280G Benefits can achieve the intended result) shall be reduced or eliminated to the extent necessary so that the 280G Benefits received by the Executive will not constitute parachute payments. The determinations with respect to this Section 9(a) shall be made by an independent auditor (the "Auditor") paid by the Company. The Auditor shall be the Company's regular independent auditor unless the Executive reasonably objects to the use of that firm, in which event the Auditor will be a nationally recognized firm chosen by the Parties.

(b) It is possible that after the determinations and selections made pursuant to Section 9(a) the Executive will receive 280G Benefits that are, in the aggregate, either more or less than the amount provided under Section 9(a) (hereafter referred to as an "Excess Payment" or "Underpayment", respectively). If it is established, pursuant to a final determination of a court or an Internal Revenue Service proceeding that has been finally and conclusively resolved, that an Excess Payment has been made, such Excess Payment shall be deemed for all purposes to be a loan to the Executive made on the date the Executive received the Excess Payment and the Executive shall promptly repay the Excess Payment to the Company, together with interest on the Excess Payment at the applicable federal rate (as defined in and under Section 1274(d) of the Code) from the date of the Executive's receipt of such Excess Payment until the date of such repayment. In the event that it is determined (x) by arbitration pursuant to Section 14, (y) by a court or (z) by the Auditor upon request by any of the Parties, that an Underpayment has occurred, the Company shall promptly pay an amount equal to the Underpayment to the Executive, together with interest on such amount at the applicable federal rate from the date such amount would have been paid to the Executive had the provisions of Section 9(a) not been applied until the date of payment.

---

9. **Indemnification.** If the Executive is made a party, is threatened to be made a party, or reasonably anticipates being made a party, to any Proceeding by reason of the fact that he is or was a director, officer, member, employee, agent, manager, trustee, consultant or representative of the Company or any of its Affiliates or is or was serving at the request of the Company or any of its Affiliates, or in connection with his service hereunder, as a director, officer, member, employee, agent, manager, trustee, consultant or representative of another Person, or if any Claim is made, is threatened to be made, or is reasonably anticipated to be made, that arises out of or relates to the Executive's service in any of the foregoing capacities, then the Executive shall promptly be indemnified and held harmless (and advanced expenses) to the fullest extent permitted or authorized by the Certificate of Incorporation or Bylaws of the Company.

10. **Restrictive Covenants.**

(a) **Confidentiality.** The Executive acknowledges and agrees that he shall maintain the confidentiality of this Agreement and shall not disclose it to any other employee of the Company or other person; provided, however, he may disclose it to his spouse and/or legal counsel or as required by law and he may disclose or discuss any items of this Agreement which the Company has disclosed in its annual proxy statement filed in accordance with applicable law.

The Executive acknowledges and agrees that the Confidential Information, and all physical embodiments thereof, are valuable, special and unique assets of the business of the Company and its Subsidiaries (the "Company Group") and have been developed by the Company Group at considerable time and expense. Such Confidential Information is the sole property of the Company Group and the Executive has no individual right or ownership interest in any of the Confidential Information. The Executive further acknowledges that access to Confidential Information will be needed in connection with the performance of his duties and responsibilities during his employment with the Company. Therefore, the Executive agrees that, except as necessary in regard to his assigned duties and responsibilities with the Company, he shall hold in confidence all Confidential Information and will not reproduce, use, distribute, disclose, publish, or otherwise disseminate any Confidential Information, in whole or in part, and will take no action causing, or fail to take any reasonable action necessary to prevent causing, any Confidential Information to lose its character as Confidential Information, nor willfully make use of such information for his/her own purposes or for the benefit of any person, firm, corporation, association, or other entity (except the Company Group) under any circumstances.

Notwithstanding the above, the Executive may disclose Confidential Information pursuant to a court order, subpoena, or other legal process, provided that, at least ten (10) days (or such lesser period as is practicable given the terms of any order, subpoena or other legal process) in advance of any legal disclosure, he shall furnish the Company with a copy of the judicial or administrative order requiring that such information be disclosed together with a written description of the information to be disclosed (which description shall be in sufficient detail to allow the Company to determine the nature and scope of the information proposed to be disclosed), and the Executive agrees to cooperate with the Company Group to deliver the minimum amount of information necessary to comply with such order.

---

Executive agrees to maintain in trust, as the Company's property, all documents, information and Confidential Information, both in tangible and intangible form, concerning the Company's Business or the Executive's role for the Company. The Executive agrees to return to the Company all documents or other property belonging to the Company, including any and all copies thereof (whether in tangible or intangible form) in the possession or under the control of the Executive upon separation of employment or at any other time upon request of the Company.

The provisions of this Section 10(a) shall apply to Confidential Information during the Term and at all times thereafter, and shall survive the termination of the Executive's employment. This Agreement supplements and does not supersede Executive's obligations under all statute(s) and common law(s) that protect the Company's trade secrets and/or property. However, nothing in this Agreement or elsewhere shall prohibit the Executive from making disclosures of Confidential Information (w) when requested to do so by a governmental or quasi-governmental agency with apparent jurisdiction, or when disclosure is protected by law (e.g., by whistleblower statutes), (x) in the course of any proceeding under Section 10(c) or 13 of this Agreement, (y) in confidence to an attorney for the purpose of securing legal advice, or (z) retaining (for personal use only) copies of documents relating to his personal rights, obligations and tax liabilities.

(b) Unless otherwise determined by the Board in writing, the Executive shall not, for his own benefit or the benefit of any other Person, without the prior written consent of the Company and other than in connection with his services hereunder during the Term:

(i) During the Term and for a period of twelve (12) months thereafter, serve as an executive officer of any Competitor, or in any other position with a Competitor in which the executive would provide services or perform duties in competition with the Company;

(ii) During the Term and for a period of twelve (12) months thereafter, personally solicit, aid in the solicitation of, induce or otherwise encourage (whether directly or indirectly) any individual who is or was, at the time of such encouragement or within the six (6) months prior to such encouragement, employed as an executive, highly-compensated employee, or managerial/supervisory employee of the Company or a Subsidiary, to cease such employment or interfere in any way with the relationship between the Company or a Subsidiary and such employee; or

(iii) During the Term and for a period of twelve (12) months thereafter, directly or indirectly solicit, aid in the solicitation of, induce, or otherwise encourage (whether directly or indirectly) any Customer for the purpose of (a) selling Competitive Services or Products to such Person in competition with the Company or (b) inducing such Person to cancel, transfer or cease doing their business with the Company; provided, that the restrictions set forth in clauses (i), (ii) and (iii) of this Section 11(b) shall immediately expire in the event that the Company, or any of its Affiliates, shall have materially breached, on or after the Termination Date, any of their material obligations to the Executive under this Agreement or otherwise, which breach shall have continued uncured for ten (10) days after the Executive has given written notice requesting cure.

---



(c) The Executive acknowledges and agrees that the business of the Company is highly competitive, and that the restrictions contained in this Section 10 are reasonable and necessary to protect the Company's legitimate business interests. The Executive further acknowledges that any actual or prospective breach may irreparably cause damage to the Company for which money damages may not be adequate. Therefore, in the event of any actual or threatened breach by the Executive of any of the provisions of Section 10(a) or 10(b) above, the Company shall each be entitled to seek, through arbitration in accordance with Section 13 or from any court with jurisdiction over the matter and the Executive, temporary, preliminary and permanent equitable/injunctive relief restraining the Executive from violating such provision and to seek money damages, together with any and all other remedies available under applicable law.

(d) The Executive agrees that he will not make or cause to be made any oral or written statements that defame or disparage the Company, its policies or programs, or its past or present officers, directors, employees, agents, or business associates, including but not limited to its past or present suppliers or vendors, or take any actions that are harmful to the business affairs of the Company or its employees. Similarly, Company, as to its Board of Directors and executive management employees only, will not make or cause to be made any oral or written statements that defame or disparage the Executive or take any actions that are harmful to his business affairs.

(e) The purpose of this Section 10, among other things, is to protect the Company from unfair or inappropriate competition, to protect its confidential information and trade secrets, and to prevent competitors from raiding employees of the Company. If the scope or enforcement of this Section 10 is ever disputed, a court, arbitrator or other trier of fact may modify and enforce its provisions to the extent it believes is lawful and appropriate. If any provision of this Section 10 is construed to be invalid, illegal or unenforceable, then the remaining provisions therein shall not be affected thereby and shall be enforceable without regard thereto.

11. **Assignability; Binding Nature.**

(a) This Agreement shall be binding upon and inure to the benefit of the Parties and their respective successors, heirs (in the case of the Executive) and assigns.

(b) No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights and obligations may be assigned or transferred pursuant to a merger, consolidation or other combination in which the Company is not the continuing entity, or a sale or liquidation of all or substantially all of the business and assets of the Company. In the event of any merger, consolidation, other combination, sale of business and assets, or liquidation as described in the preceding sentence, the Company shall use its best reasonable efforts to cause such assignee or transferee to promptly and expressly assume the liabilities, obligations and duties of the Company hereunder.

(c) No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to compensation and benefits, which may be transferred only by will or by operation of law, or as otherwise provided in Section 18(e).

---

12. **Representations.**

(a) The Company represents and warrants that (i) it is fully authorized by action of its Board (and of any other Person or body whose action is required) to enter into this Agreement and to perform its obligations under this Agreement, (ii) the execution, delivery and performance of this Agreement by it does not violate any applicable law, regulation, order, judgment or decree or any agreement, arrangement, plan or corporate governance document to which it is a party or by which it is bound, and (iii) upon the execution and delivery of this Agreement by the Parties, this Agreement shall be its valid and binding obligation, enforceable against the Company in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

(b) The Executive represents and warrants that (i) the delivery and performance of this Agreement by him does not violate any law or regulation applicable to the Executive, (ii) delivery and performance of this Agreement by him does not violate any applicable order, judgment or decree or any agreement to which the Executive is a party or by which he is bound and (iii) upon the execution and delivery of this Agreement by the Parties, this Agreement shall be a valid and binding obligation of the Executive, enforceable against him in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

13. **Resolution of Disputes.** Any dispute, controversy, or claim arising out of or relating to this Agreement, any other agreement between the Executive and the Company or its Affiliates, the Executive's employment with the Company, or any termination thereof shall (except to the extent otherwise provided in Section 10(c) with respect to certain requests for injunctive relief) be resolved by binding confidential arbitration, to be held in Indianapolis, Indiana, in accordance with the Commercial Arbitration Rules (and not the National Rules for Resolution of Employment Disputes) of the American Arbitration Association and this Section 13b. This Agreement is intended to benefit and bind certain third party non-signatories. The interpretation and enforcement of this provision shall be governed exclusively by the Federal Arbitration Act. Judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

---

14. **Tax Matters.** Notwithstanding anything anywhere to the contrary, this Agreement is intended to be interpreted and applied so that the payment and the benefits set forth herein shall either be exempt from the requirements of Section 409A of the Code or any regulations or guidance thereunder ("Section 409A") or shall comply with the requirements of Section 409A. To the extent that any amounts payable in accordance with this Agreement are subject to Section 409A, this Agreement shall be interpreted and administered in such a way as to comply with Section 409A to the maximum extent possible. Notwithstanding anything anywhere to the contrary, if the Executive is a "specified employee" (within the meaning of Section 409A), any payments or arrangements due upon a termination of the Executive's employment under any arrangement that constitutes a "deferral of compensation" (within the meaning of Section 409A), and which do not otherwise qualify under the exemptions under Treas. Reg. Section 1.409A, shall be delayed and paid or provided on the earlier of (i) the date which is six months after the Executive's "separation from service" (as such term is defined in Section 409A) for any reason other than death, and (ii) the date of the Executive's death. Each series of payments under this Agreement or otherwise shall be treated as separate payments for purposes of Section 409A. "Termination of employment," "resignation" or words of similar import, as used in this Agreement shall mean with respect to any payments subject to Section 409A, the Executive's "separation from service" as defined by Section 409A. If any payment subject to Section 409A is contingent on the delivery of a release by the Executive and could occur in either of two calendar years, the payment will occur in the second calendar year. To the extent that reimbursements or other in-kind benefits under this Agreement constitute "nonqualified deferred compensation" subject to Section 409A, (x) all such expenses or other reimbursements hereunder shall be paid on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by the Executive, (y) no such reimbursement, expenses eligible for reimbursement, or in-kind benefits provided in any taxable year shall in any way affect the expenses eligible for reimbursement, or in-kind benefits to provided, in any other taxable year, and (z) the Executive's right to such reimbursement or in-kind benefits shall not be subject to liquidation or exchange for any other benefit. Nothing in this Agreement shall be construed as a guarantee of any particular tax treatment to the Executive. The Executive shall be solely responsible for the tax consequences with respect to all amounts payable under this Agreement, and in no event shall the Company have any responsibility or liability if this Agreement does not meet any applicable requirements of Section 409A.

15. **Notices.** Any notice, consent, demand, request, or other communication given to a Person in connection with this Agreement shall be in writing and shall be deemed to have been given to such Person (x) when delivered personally to such Person, (y) provided that a written acknowledgment of receipt is obtained, five (5) days after being sent by prepaid certified or registered mail, or two days after being sent by a nationally recognized overnight courier, to the address (if any) specified below for such Person (or to such other address as such Person shall have specified by ten days' advance notice given in accordance with this Section 16), or (z), on the first business day after it is sent by portable document format ("pdf") to the email address set forth below (or to such other email address as shall have specified by ten days' advance notice given in accordance with this Section 16).

If to the Company:

Protective Insurance Corporation  
111 Congressional Blvd., Suite 500  
Carmel, IN 46032  
Attention: General Counsel  
Email: swignall@protectiveinsurance.com

If to the Executive:

The address of the Executive's principal residence (or his personal email address) as it appears in the Company's records, with a copy to him (during the Term) at the Company's office in Carmel, IN.

---

16. **Recoupment/Clawback.** Notwithstanding any other provisions in this Agreement to the contrary, any incentive-based compensation, or any other compensation, paid to the Executive pursuant to this Agreement or any other agreement or arrangement with the Company or any of its affiliates, which may be subject to recovery under any law, government regulation, or stock exchange listing requirement, as may be amended from time to time, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation, or stock exchange listing requirement (either in existence on the Effective Date or adopted thereafter), as may be amended from time to time, to the extent reasonably required by any such law, government regulation, or stock exchange listing requirement, as determined by the Board in its sole and absolute discretion.

17. **Miscellaneous.**

(a) **Entire Agreement.** This Agreement contains the entire understanding and agreement among the Parties concerning the subject matter hereof and supersedes in its entirety, as of the Effective Date, any prior agreement (written or oral) between the Executive and the Company with respect to its subject matter.

(b) **Amendment or Waiver.** No provision in this Agreement may be amended unless such amendment is set forth in a writing that expressly refers to the provision of this Agreement that is being amended and that is signed by the Executive and by an authorized officer of the Company. No waiver by any Party of any breach of any condition or provision contained in this Agreement shall be deemed a waiver of any similar or dissimilar condition or provision at the same or any prior or subsequent time. To be effective, any waiver must be set forth in a writing signed by the waiving Party.

(c) **Inconsistencies.** In the event of any inconsistency between any provision of this Agreement and any provision of any company plan, program, agreement or arrangement, the provisions of this Agreement shall control unless the Executive otherwise agrees in a writing that expressly refers to the provision of this Agreement whose control he is waiving.

(d) **Headings.** The headings of the Sections and sub-sections contained in this Agreement are for convenience only and shall not be deemed to control or affect the meaning or construction of any provision of this Agreement.

(e) **Survivorship.** Except as otherwise set forth in this Agreement, the respective rights and obligations of the Parties hereunder shall survive any termination of the Executive's employment.

(f) **Severability.** To the extent that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, in whole or in part, the remaining provisions of this Agreement shall remain in full force and effect so as to achieve the intentions of the Parties, as set forth in this Agreement, to the maximum extent possible.

---

(g) **Withholding Taxes.** The Company may withhold from any amount or benefit payable under this Agreement taxes that it is required to withhold pursuant to any applicable law or regulation.

(h) **Cooperation.** During the Term and thereafter, the Executive agrees to cooperate with the Company and be available to the Company with respect to continuing and/or future matters related to his employment with the Company (if occurring after termination of employment, to the extent not interfering with the Executive's other business endeavors or personal commitments), whether such matters are business-related, legal, regulatory or otherwise (including, without limitation, the Executive appearing at the Company's request to give testimony without requiring service of a subpoena or other legal process, volunteering to the Company all pertinent information and turning over to the Company all relevant documents which are or may come into the Executive's possession). Following the Term, the Company shall reimburse the Executive for all reasonable out of pocket expenses incurred by the Executive in rendering such services that are approved by the Company.

(i) **Governing Law.** This Agreement shall be governed, construed, performed and enforced in accordance with its express terms, and otherwise in accordance with the laws of the State of Indiana, without reference to principles of conflict of laws.

(j) **Counterparts.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall be deemed to be one and the same instrument. Signatures delivered by facsimile (including, without limitation, by "pdf") shall be effective for all purposes.

*[signature page follows]*

---

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first set forth above.

**Protective Insurance Corporation**

By: \_\_\_\_\_

Name: Jeremy D. Edgecliffe-Johnson

Title: Chief Executive Officer

**The Executive**

\_\_\_\_\_  
Bahr Omidfar

---

## EXHIBIT A

### DEFINITIONS

- (a) "Affiliate" of a Person shall mean any Person that directly or indirectly controls, is controlled by, or is under common control with, such Person.
- (b) "Agreement" shall mean this Employment Agreement, which includes for all purposes its Exhibits.
- (c) "Cause" shall mean, for purposes of this Agreement, the occurrence of any of the following events:
- (i) the Executive commits, is convicted of, or pleads guilty or nolo contendere to, any crime;
  - (ii) the Executive's perpetration of an act of fraud, embezzlement, theft or any other material violation of law that occurs in the course of the Executive's employment with the Company;
  - (iii) the Executive's intentional damage to the assets of the Company or any of its Affiliates;
  - (iv) the Executive's intentional and material disclosure of Confidential Information contrary to this Agreement or any agreements between the Executive and the Company or any of its Affiliates;
  - (v) the Executive's material breach of his obligations under this Agreement or any agreement between the Executive and the Company or any of its Affiliates;
  - (vi) the Executive's engagement in any competitive activity which would constitute a breach of the Executive's duty of loyalty or of his obligations under this Agreement or any agreement between the Executive and the Company or any of its Affiliates;
  - (vii) the Executive's material breach of any of the Company's written policies;
  - (viii) the Executive's willful and continued failure to substantially perform his duties under this Agreement (other than as a result of incapacity due to physical or mental illness);
  - (ix) any regulatory agency recommends or determines that Executive is ineligible, unauthorized, or unfit to hold any director or officer position with the Company or any of its subsidiaries or Affiliates; or
  - (x) any misconduct or omission by the Executive that is materially injurious to the business or financial reputation of the Company or any of its Affiliates.
-

For purposes of determining whether an event of Cause has occurred, an act, or a failure to act, shall not be deemed willful or intentional, as those terms are defined herein, unless it is done, or omitted to be done, by the Executive in bad faith or without a reasonable belief that his action or omission was in the best interest of the Company. "Cause" also includes any of the above grounds for dismissal regardless of whether the Company learns of it before or after terminating the Executive's employment.

(d) "Change in Control" shall mean the occurrence of any of the following events:

(i) Any Person (as defined below) acquires ownership of the Class A Common Stock that, together with Class A Common Stock previously held by the acquirer, constitutes more than fifty percent (50%) of the total market value or Voting Securities of the Company's outstanding stock. If any Person is considered to own more than fifty percent (50%) of the total market value or Voting Securities of the Company's outstanding stock, the acquisition of additional stock by the same Person does not cause such a change in ownership. An increase in the percentage of stock owned by any Person as a result of a transaction in which the Company acquires its stock in exchange for property, is treated as an acquisition of stock;

(ii) Any Person acquires ownership of the Company's stock possessing at least thirty percent (30%) of the Company's Voting Securities;

(iii) The Company combines with another entity and is the surviving entity, or (y) all or substantially all of the assets or business of the Company is disposed of pursuant to a sale, merger, consolidation, liquidation, dissolution or other transaction or series of transactions (each of (x) and (y) being a "Triggering Event") unless the holders of Voting Securities of the Company immediately prior to such Triggering Event own, directly or indirectly, more than two-thirds of the Voting Securities (measured both by number of Voting Securities and by voting power) of (1) in the case of a combination in which the Company is the surviving entity, the surviving entity and (2) in any other case, the entity (if any) that succeeds to all or substantially all of the Company's business and assets; or

(iv) Any Person acquires (assets from a corporation that have a total gross fair market value equal to at least forty percent (40%) of the total gross fair market value of all the Company's assets immediately prior to the acquisition or acquisitions. Gross fair market value means the value of the Company's assets, or the value of the assets being disposed of, without regard to any liabilities associated with these assets.

In determining whether a Change of Control occurs, the attribution rules of Code Section 318 apply to determine stock ownership. For purposes of the definition of Change of Control, a "Person" shall mean any person, entity or "group" within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Securities Exchange Act of 1934, as amended, except that such term shall not include (a) the Company or any of its subsidiaries, (b) a trustee or other fiduciary holding securities under an employee benefit plan of any member of the Company Group, (c) an underwriter temporarily holding securities pursuant to an offering of such securities or (d) an entity owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of the Company.

---



- (e) "Claim" shall include, without limitation, any claim, demand, request, investigation, dispute, controversy, threat, discovery request, or request for testimony or information.
- (f) "Code" shall mean the Internal Revenue Code of 1986, as amended. Any reference to a particular section of the Code shall include any provision that modifies, replaces or supersedes such section.
- (g) "Competitive Services or Products" shall mean those products offered by or in development by the Company, as provided in a list of Competitive Services and Products to be provided to Executive no later than seven (7) days after the Effective Date, which list may be updated during the Term by the Company.
- (h) "Competitor" shall mean any existing or newly-formed Person or entity, including divisions or subsidiaries thereof that offers, markets or administers Competitive Products or Services, in any geographic area in which the Company offers such products or services.
- (i) "Confidential Information" shall mean all confidential or proprietary information developed or used by the Company or its Affiliates relating to their business, operations, employees, customers, suppliers or distributors including, but not limited to: confidential or proprietary customer lists, purchase orders, financial data, pricing information and price lists; confidential or proprietary business plans and market strategies and arrangements; confidential or proprietary books, records, manuals, advertising materials, catalogues, correspondence, mailing lists, production data, sales materials, sales records, purchasing materials, purchasing records, personnel records and quality control records; confidential or proprietary trademarks, copyrights and patents, and applications therefor; trade secrets; confidential or proprietary inventions, processes, procedures, research records, market surveys and marketing know-how; and confidential or proprietary technical papers, software, computer programs, data bases and documentation thereof, including but not limited to source codes, algorithms, processes, formulae and flow charts. The term "Confidential Information" shall not include any document, record, data compilation, or other information that (x) has previously been disclosed to the public, or is in the public domain, other than as a result of the Executive's breach of Section 10(a), or (y) is known or generally available to the public or within any trade or industry of the Company or any of its Affiliates.
- (j) "Customer" shall mean any Person to whom the Company or a Subsidiary sold or distributed products or services during the two years prior to the Termination Date, and any prospective customer who the Company has provided a proposal for products or services at the time of Termination (or within the prior six (6) month period).
- (k) "Good Reason" shall mean, for purposes of this Agreement, the occurrence of any of the following events without the Executive's prior written consent:
- (i) any material diminution in the Executive's responsibilities or authorities; or any material change in the Executive's reporting structure; or
-

(ii) any relocation of the Executive's principal office, or principal place of employment, to a location that is more than 40 miles from its location in Carmel, Indiana; provided, however, that no event or condition described in sub clauses (i) or (ii) above shall constitute Good Reason unless (A) the Executive gives the Company written notice of his objection to such event or condition within 90 days following the occurrence of such event or condition, (B) such event or condition is not corrected, in all material respects, by the Company within 30 days following the Company's receipt of such notice (or if such event or condition is not susceptible to correction within such 30-day period, the Company has taken all reasonable steps within such 30-day period to correct such event or condition) and (C) the Executive resigns from his employment with the Company not more than 30 days following the expiration of the 30-day period described in the foregoing clause (B).

(iii) Individuals who are Continuing Independent Directors cease for any reason to constitute a 1/2 majority of the independent members of the Board;

- a. "Continuing Independent Director" means an individual (i) who is as of the Effective Date, an independent director of the Company, or (ii) who becomes an independent director of the Company after the Effective Date and whose initial election, or nomination for election by the Company's shareholders, was vetted and recommended by the Nominating & Governance Committee and approved by at least a 1/2 majority of the then Continuing Independent Directors, but excluding, for the purposes of this clause (ii), an individual whose initial assumption of office occurs as a result of an actual or threatened proxy contest relating to the election of directors.

(l) "Person" shall mean any individual, corporation, partnership, limited liability company, joint venture, trust, estate, board, committee, agency, body, employee benefit plan, or other person or entity.

(m) "Proceeding" shall include, without limitation, any actual, threatened or reasonably anticipated action, suit or proceeding, whether civil, criminal, administrative, investigative, appellate, formal, informal or other.

(n) "Pro-Rata STIP" shall mean an amount equal to the product obtained by multiplying (x) the aggregate amount of the Target STIP that the Executive would have been eligible to receive for the calendar year in which his employment hereunder terminated, if his employment hereunder had continued times (y) a fraction, the numerator of which is 365 minus the number of days remaining in such year after the Termination Date and the denominator of which is 365. Any Pro-Rata STIP shall be paid in a cash lump sum by the sixty-fifth (65<sup>th</sup>) day following the Termination Date.

(o) "Pro-Rata LTIP" shall mean an amount equal to the product obtained by multiplying (x) the aggregate amount of the Target LTIP that the Executive would have been eligible for the calendar year in which his employment hereunder terminated, if his employment hereunder had continued times (y) a fraction, the numerator of which is 365 minus the number of days remaining in such year after the Termination Date and the denominator of which is 365. Any Pro-Rata LTIP shall be paid in a cash lump sum by the sixty-fifth (65<sup>th</sup>) day following the Termination Date.

---

(p) "Subsidiary" shall mean any entity for which the Company owns a majority of the entity's Voting Securities.

(q) "Voting Securities" shall mean issued and outstanding securities of any class or classes having general voting power, under ordinary circumstances in the absence of contingencies, to elect, the members of the board of directors (or similar governing body) of the issuer.

---

---

---

**PROTECTIVE INSURANCE CORPORATION**  
**LONG-TERM INCENTIVE PLAN AWARD AGREEMENT**

This Award Agreement (this “Award Agreement”), and including any Exhibit attached hereto (the “Exhibit”), is made and entered into as of **[Insert date]**, by and between Protective Insurance Corporation, an Indiana corporation (the “Company”), and **[Insert employee name]** (the “Employee” or “you”).

---

1. General. Unless otherwise defined herein, the terms defined in the Protective Insurance Corporation Long-Term Incentive Plan (the “Plan”) shall have the same defined meanings in this Award Agreement. The Plan and the Employee’s Agreement(s) (as defined below), which are incorporated by reference, and this Award Agreement, constitute the entire understanding and agreement between Employee and the Company regarding the target number of Performance Units and restricted shares in your account.

- a. “Employee’s Agreement” shall mean the **[Insert name and date of any employment or Non-Compete/Severance agreement with Employee]**
- b. “Performance Units” means the right of a Participant to receive cash or Shares, upon achievement of the Performance Goals, in accordance with the Plan.
- c. “Share” shall mean one share of the Company’s Class B Common Stock.

2. Grant of Shares and Performance Units. Subject to the terms and conditions of the Plan, the Employee’s Agreement(s), and this Award Agreement, the Company grants to Employee restricted Shares and/or Performance Units as detailed in the Exhibit(s).

3. Vesting of Shares and Performance Units. Subject to the terms and conditions of the Plan and this Award Agreement, the Shares, Performance Units and any related accrued Dividend Equivalents shall vest as specified in the applicable Exhibit, provided that you remain continuously employed by the Company or a Subsidiary on the Vesting Dates.

4. Form and Timing of Payment. Subject to the terms and conditions of the Plan, the Employee’s Agreement(s) and this Award Agreement, each vested Performance Unit, plus any related Dividend Equivalents, regardless of form, will be paid as soon as practical after its Vesting Date, but in no event later than seventy-four (74) days following its Vesting Date; provided, however, that you will not be permitted, directly or indirectly, to designate the taxable year of the distribution.

5. Dividends or Dividend Equivalents. As specified in the applicable Exhibit, Share and Performance Unit awards may entitle you to earn Dividends or Dividend Equivalents. “Dividends” are the cash dividends on issued but unvested Shares. Any Dividends or Dividend Equivalent will be in the form of cash, will be subject to the same terms and vesting date as the corresponding Shares or Performance Units (including the attainment of the vesting terms specified in the applicable Exhibit), and will be paid at the same time as payment is made on the corresponding Performance Units. Any Dividend or Dividend Equivalent payment will be included in the Employee’s regular payroll as gross wages, when paid to you. IRS regulations require that Dividends paid by the Company on restricted shares prior to vesting be taxed as ordinary income. Dividend Equivalents will vest at the same time as their corresponding Performance Units and convert into the right to receive payment only to the extent the underlying Performance Units vest and become payable.

---

6. Effect of Termination of Employment

- 6.1 Termination of Employment with or without Cause; Resignation for any Reason. If your employment with the Company or a Subsidiary is terminated with or without Cause or you resign your employment with the Company or a Subsidiary for any reason, any unvested Shares (and any related Dividends), all outstanding Performance Units (and any related Dividend Equivalents), and any vested Performance Units (and any related Dividend Equivalents) that have not yet been settled, will immediately be cancelled and forfeited without payment.
- 6.2 Termination of Employment Due to Disability or death. If your employment with the Company or a Subsidiary is terminated on account of death or Disability, (i) any awarded but unvested Shares will vest in accordance with the applicable Exhibit and payment (if any) will be made in accordance with Section 4 or as otherwise provided in the applicable Exhibit and (ii) any outstanding Performance Units (and related Dividend Equivalents) shall be immediately cancelled and forfeited without payment.
- 6.3 Termination of Employment without Cause following a Change of Control. Unless specifically prohibited by the Plan or unless the Committee provides otherwise prior to a Change of Control, upon the occurrence of a Change of Control and a termination of your employment with the Company or a Subsidiary without Cause on or before the first anniversary of the occurrence of a Change of Control, (i) any unvested Shares shall vest and be payable in accordance with Section 4 and (ii) any outstanding Performance Units shall be payable in accordance with Section 10(b) of the Plan.
- 6.4 Specified Employees. Notwithstanding anything herein to the contrary, if you are a “specified employee” within the meaning of Section 409A(a)(2)(B)(i), as determined under the Company’s established methodology for determining specified employees, at the time of your separation from service, any payment hereunder that provides for a “deferral of compensation” within the meaning of Section 409A shall not be paid or commence to be paid on any date prior to the first business day after the date that is six months following your separation from service; provided, however, that a payment delayed pursuant to this Section 6.4 shall commence earlier in the event of your death prior to the end of the six-month period.

7. Tax Withholding.

- 7.1 You acknowledge and agree that Company may refuse to issue or deliver Shares or the proceeds of the sale of Shares to you until satisfactory arrangements (as determined by the Company) have been made for the payment of income, employment, payroll tax, fringe benefit tax, payment on account or other tax-related items related to your participation in the Plan and legally applicable to you, including in connection with the vesting and settlement of the Performance Units, the subsequent sale of Shares acquired upon settlement of the Performance Units [and the receipt of any Dividend Equivalents] (“Tax-Related Items”) that the Company determines must be withheld.
- 7.2 The Company has the right (but not the obligation) to satisfy any Tax-Related Items by (i) withholding from proceeds of the sale of Shares acquired upon the settlement of the Performance Units through a sale arranged by the Company (on your behalf pursuant to this authorization without further consent), (ii) requiring you to pay cash, (iii) withholding from any wages or other cash compensation payable to you by the Company or your employer (the “Employer”), and/or (iv) reducing the number of Shares otherwise deliverable to you. The Company will have discretion to determine the method of satisfying Tax-Related Items consistent with its current policy. In this regard, you authorize the Company and/or the Employer, or their respective agents, at their discretion, to satisfy any applicable withholding obligations with regard to all Tax-Related Items by one or a combination of the aforementioned withholding methods. Depending on the withholding method, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding rates or other applicable withholding rates, including maximum applicable rates, in which case you will receive a refund of any over-withheld amount in cash with no entitlement to the Share equivalent or if not refunded, you may seek a refund from the local tax authorities. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, you are deemed to have been issued the full number of Shares subject to the vested Performance Units, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items.
-

7.3 Regardless of any action of the Company, you acknowledge that the ultimate liability for all Tax-Related Items is and remains your responsibility and may exceed the amount actually withheld by the Company or the Employer. You further acknowledge that the Company and the Employer (x) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Performance Units; and (y) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Performance Units to reduce or eliminate your liability for Tax-Related Items or achieve any particular tax result.

8. Acknowledgements and Award Agreements. You agree, accept and acknowledge the following:

(a) THE PERFORMANCE UNITS AND THIS AWARD AGREEMENT DO NOT CREATE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED EMPLOYMENT FOR ANY PERIOD, AND WILL NOT INTERFERE IN ANY WAY WITH YOUR RIGHT OR THE RIGHT OF THE COMPANY OR THE EMPLOYER TO TERMINATE YOUR EMPLOYMENT AT ANY TIME, WITH OR WITHOUT CAUSE.

(b) All decisions or interpretations of the Committee or the Company regarding the Plan, this Award Agreement, and the Performance Units that are consistent with the terms of this Award Agreement shall be binding, conclusive and final on you and all other interested persons.

(c) The Plan is established voluntarily by the Company, it is discretionary in nature, and may be modified, amended, suspended or terminated by the Company at any time, to the extent permitted by the Plan.

(d) The grant of Performance Units is exceptional, voluntary and occasional and does not create any contractual or other right to receive future grants of Performance Units, or benefits in lieu of Performance Units, even if Performance Units have been granted in the past. All decisions regarding future Awards, if any, will be at the discretion of the Company.

(e) No claim or entitlement to other compensation or damages shall arise from forfeiture of the Performance Units resulting from the termination of your employment or other service relationship (for any reason whatsoever, whether or not later found to be invalid or in breach of employment laws in the jurisdiction where you are employed or the terms of your Employee's Agreement(s)).

9. No Advice Regarding Grant. The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding your participation in the Plan, or your acquisition or sale of the underlying Shares.

10. Section 409A Compliance. The Performance Units are intended to comply with Section 409A or an exemption thereunder, and, accordingly, to the maximum extent permitted, the Performance Units and this Award Agreement shall be interpreted and administered in compliance therewith. Notwithstanding any other provision of this Award Agreement, payments provided pursuant to this Award Agreement may only be made upon an event and in a manner that complies with Section 409A or an applicable exemption. Any payments pursuant to this Award Agreement that may be excluded from Section 409A as a short-term deferral shall be excluded from Section 409A to the maximum extent possible. To the extent that any provision of this Award Agreement would cause a conflict with the requirements of Section 409A or would cause the administration of the Performance Units to fail to satisfy Section 409A or an applicable exemption, such provision shall be deemed null and void to the extent permitted by applicable law. Nothing herein shall be construed as a guarantee of any particular tax treatment. The Company makes no representation that this Award Agreement or the Performance Units comply with Section 409A and in no event shall the Company be liable for the payment of any taxes and penalties that you may incur under Section 409A.

---

11. Rights as Shareholder. Neither you nor any person claiming under or through you will have any of the rights or privileges of a shareholder of the Company in respect of any Shares deliverable hereunder unless and until Shares have been issued hereunder and recorded on the records of the Company or its transfer agents or registrars.

12. Notices. Any notice to be given under this Award Agreement to the Company will be addressed to: Protective Insurance Corporation, 111 Congressional Blvd, Suite 500; Carmel, IN 46032, Attention: Secretary of the Company. Any notice to be given under this Award Agreement to you will be provided to the physical or electronic mail address maintained in the Company's records; or in either case, at such other address as the Company or you, as the case may be, may hereafter designate in writing.

13. Governing Law; Venue. To the extent not preempted by federal law, the Performance Units and this Award Agreement will be governed by and construed in accordance with the laws of the State of Indiana, without regard to its conflicts of law provisions. The parties agree that any legal action, suit or proceeding arising from or related to this Award Agreement shall be instituted exclusively in the state courts of Indiana located in Hamilton County or in the federal courts for the United States for the Southern District of Indiana and no other courts. The parties consent to the personal jurisdiction of such courts over them, waive all objections to the contrary, and waive any and all objections to the exclusive location of legal proceedings in Hamilton County or in the federal courts for the United States for the Southern District of Indiana.

14. Award Not Transferable. The Performance Units and any rights and privileges conferred by the Performance Units may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by the laws of descent or distribution. The terms of the Plan and this Award Agreement shall be binding upon your executors, administrators, heirs, successors and assigns.

15. Additional Conditions to Issuance of Shares. If at any time the Company determines, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any foreign, state, federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to you (or your estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company.

16. Imposition of Other Requirements. The Company reserves the right to impose other requirements on your participation in the Plan, on the Performance Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable for legal, regulatory or administrative reasons, and to require you to sign any additional Award Agreements or undertakings that may be necessary to accomplish the foregoing.

---

17. Insider-Trading/Market-Abuse Laws. You acknowledge that you may be subject to insider-trading restrictions and/or market-abuse laws, which may affect your ability to acquire or sell Shares acquired under the Plan during such times as you are considered to have “inside information” regarding the Company. Any restrictions under these laws or regulations are separate from and in addition to any restrictions that may be imposed under any applicable Company insider-trading policy. You are responsible for complying with any applicable restrictions and are encouraged to speak to your personal legal advisor for further details regarding any applicable insider-trading and/or market-abuse laws.

18. Severability. In the event any provision of this Award Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Award Agreement, and the Award Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

19. Modifications to this Award Agreement. Amendments or modifications to this Award Agreement that adversely affect your rights under this Award Agreement in any material way may only be made with your express written consent. Notwithstanding anything to the contrary in the Plan or this Award Agreement, the Company reserves the right to revise this Award Agreement as it deems necessary, in its reasonable discretion and without your consent (provided there is no loss of economic value), to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to the Performance Units, or to comply with other applicable laws.

20. Inconsistencies. In the event of any inconsistency between any provision of this Award Agreement and any provision of the Employee’s Agreement(s), the provisions of this Award Agreement shall control unless you otherwise expressly agree in a writing signed by you. By signing below, you acknowledge and agree that the award described in Exhibit A shall not be considered a “Bonus” under the Employee’s Agreement(s) and shall not be subject to any provisions of the Employee’s Agreement(s) which trigger accelerated vesting of outstanding equity awards.

21. Waiver. You and the Company acknowledge that a waiver of any breach of any provision of this Award Agreement shall not operate or be construed as a waiver of any other provision of this Award Agreement or of any subsequent breach of this Award Agreement. No waiver of any provision of this Award Agreement shall be effective unless such a waiver is expressly agreed upon in a writing that is signed by the party against whom it is sought to be enforced.

\_\_\_\_\_  
Employee Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Company Signature

\_\_\_\_\_  
Date EXHIBIT A – November Stock Grant

---



Stock Grant of Shares. The Employee is eligible for a Stock Grant pursuant to the offer of employment. Effective as of **[Insert date]**, the Company grants to Employee **[Insert value]** worth of restricted Shares of its Class B common stock, subject to the terms and conditions of the Plan, the Award Agreement, the Employment Agreement and this Exhibit B. The number of Shares granted will be equal to the equity grant value divided by the closing price of the Company's Class B Shares on **[Insert date]** (the "Grant Date"), and rounded up the nearest whole share amount.

Time-Based Vesting Criteria. The restricted Class B shares of common stock issued pursuant to the Stock Grant shall vest, subject to your continued employment, as of **[Insert date]**. Upon vesting, the Executive shall be eligible to receive all dividends earned on the shares during the applicable vesting period.

Accelerated Vesting. Should Employee's employment with the Company be terminated by either the Company or the Employee prior to **[Insert date]**, the Employee's rights to any portion of the unvested Stock Grant shall be forfeited.

---

---

**SUBSIDIARIES OF PROTECTIVE INSURANCE CORPORATION**

| <u>NAME</u>                                | <u>STATE OR JURISDICTION OF ORGANIZATION OR INCORPORATION</u> |
|--|---|
| Protective Insurance Company               | Indiana   |
| Sagamore Insurance Company (1)             | Indiana   |
| Protective Specialty Insurance Company (1) | Indiana   |
| B&L Insurance, Ltd.                        | Bermuda   |
| B&L Brokerage Services, Inc.               | Indiana   |
| B&L Management, Inc.                       | Indiana   |

(1) Wholly-owned subsidiary of Protective Insurance Company

---

---

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-90452) pertaining to the Company's 2002 Stock Purchase Plan, and the Registration Statement (Form S-8 No. 333-167142) pertaining to the Company's Restricted Stock Compensation Plan of our reports dated March 5, 2020, with respect to the consolidated financial statements and schedules of Protective Insurance Corporation and subsidiaries, and the effectiveness of internal control over financial reporting of Protective Insurance Corporation and subsidiaries included in this Annual Report (Form 10-K) for the year ended December 31, 2019.

/s/ ERNST & YOUNG LLP  
Indianapolis, Indiana  
March 5, 2020

---

---

## POWERS OF ATTORNEY

**Know All Men By These Presents**, that each person whose signature appears below constitutes and appoints John R. Barnett and Sally B. Wignall, or either of them, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities noted below to sign the Protective Insurance Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and any and all amendments thereto, required to be filed pursuant to the requirements of Sections 12(g), 13, or 15(d) of the Securities and Exchange Act of 1934, as amended, granting unto each of said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may lawfully do or cause to be done by virtue hereof.

| <u>Signature and Title</u>  | <u>Date</u>   |
|---|---------------|
| <u>/s/ Jeremy D. Edgecliffe-Johnson</u><br>Jeremy D. Edgecliffe-Johnson, Chief Executive Officer and Director | March 5, 2020 |
| <u>/s/ Steven J. Bensinger</u><br>Steven J. Bensinger, Director   | March 5, 2020 |
| <u>/s/ Stuart D. Bilton</u><br>Stuart D. Bilton, Director   | March 5, 2020 |
| <u>/s/ Otto N. Frenzel IV</u><br>Otto N. Frenzel IV, Director   | March 5, 2020 |
| <u>/s/ Stephen J. Gray</u><br>Stephen J. Gray, Director   | March 5, 2020 |
| <u>/s/ LoriAnn Lowery-Biggers</u><br>LoriAnn Lowery-Biggers, Director   | March 5, 2020 |
| <u>/s/ David W. Michelson</u><br>David W. Michelson, Director   | March 5, 2020 |
| <u>/s/ John D. Nichols, Jr.</u><br>John D. Nichols, Jr., Director, Chairman of the Board of Directors         | March 5, 2020 |
| <u>/s/ James A. Porcari III</u><br>James A. Porcari III, Director   | March 5, 2020 |
| <u>/s/ Nathan Shapiro</u><br>Nathan Shapiro, Director   | March 5, 2020 |
| <u>/s/ Robert Shapiro</u><br>Robert Shapiro, Director   | March 5, 2020 |

**CERTIFICATION  
PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION**

I, Jeremy D. Edgecliffe-Johnson, certify that:

1. I have reviewed this Annual Report on Form 10-K of Protective Insurance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2020

/s/ Jeremy D. Edgecliffe-Johnson

Jeremy D. Edgecliffe-Johnson

Chief Executive Officer

**CERTIFICATION  
PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

**CERTIFICATION**

I, John R. Barnett, certify that:

1. I have reviewed this Annual Report on Form 10-K of Protective Insurance Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 5, 2020

/s/ John R. Barnett

\_\_\_\_\_  
John R. Barnett  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Protective Insurance Corporation (the "Company") on Form 10-K for the annual period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Jeremy D. Edgecliffe-Johnson, Chief Executive Officer of the Company, and John R. Barnett, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Jeremy D. Edgecliffe-Johnson*

\_\_\_\_\_  
Jeremy D. Edgecliffe-Johnson  
Chief Executive Officer  
March 5, 2020

*/s/ John R. Barnett*

\_\_\_\_\_  
John R. Barnett  
Chief Financial Officer  
March 5, 2020