

STATE OF INDIANA)
) SS:) BEFORE THE INDIANA
COUNTY OF MARION)) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Protective Insurance Company)
1099 North Meridian Street)
Indianapolis, Indiana 46204)

Examination of **Protective Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **Protective Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **Protective Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

May 15, 2013
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0014 7411 79

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1099 North Meridian Street)
Indianapolis, Indiana 46204)

Examination of **Protective Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **Protective Insurance Company** (hereinafter “Company”) for the time period January 1, 2007 through December 31, 2011.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on January 30, 2012.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on March 27, 2013 and was received by the Company on April 1, 2013.

On April 24, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2011.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 15th day of May, 2013.


Stephen W. Robertson
Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

PROTECTIVE INSURANCE COMPANY
NAIC Co. CODE 12416
NAIC GROUP CODE 0867

As of

December 31, 2011

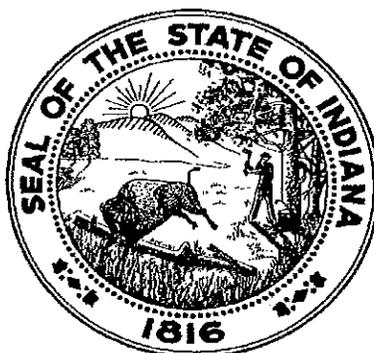


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	2
DIVIDENDS TO STOCKHOLDERS	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Officers.....	4
CONFLICT OF INTEREST	5
OATH OF OFFICE.....	5
CORPORATE RECORDS.....	5
Articles of Incorporation	5
Bylaws.....	5
Minutes.....	6
AFFILIATED COMPANIES.....	6
Organizational Structure	6
Affiliated Agreements.....	6
FIDELITY BOND AND OTHER INSURANCE.....	7
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	7
STATUTORY DEPOSITS	8
REINSURANCE.....	8
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENTS	10
Assets	10
Liabilities, Surplus and Other Funds.....	11
Statement of Income.....	12
Capital and Surplus Reconciliation.....	13
COMMENTS ON THE FINANCIAL STATEMENTS	14
SUBSEQUENT EVENTS.....	14
AFFIDAVIT.....	15



STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

January 31, 2013

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3721, an examination has been made of the affairs and financial condition of:

**Protective Insurance Company
1099 North Meridian Street
Indianapolis, IN 46204**

hereinafter referred to as the "Company," or "PIC," an Indiana domestic, stock, property and casualty insurance company. The examination was conducted at the Company's corporate offices in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2011, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES
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MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2006. The present risk-focused examination covered the period from January 1, 2007, through December 31, 2011, and was conducted by Noble Consulting Services, Inc. (Noble) on behalf of the State of Indiana.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., has been appointed by the INDOI to conduct a review of the Company's statutory reserves as of December 31, 2011. There were no actuarial adjustments from the review performed by Merlinos & Associates, Inc.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, evaluating system controls, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company is a stock property and casualty insurance company that was incorporated on December 21, 1954, under the provisions of the 1935 Acts of the Indiana General Assembly. The Company is a subsidiary of Baldwin & Lyons, Inc. (B&L), a publicly traded company formed in 1930 and specializing in marketing and underwriting property and casualty insurance.

On December 15, 1985, B&L contributed the stock of Sagamore Insurance Company (SIC) to the Company. In addition, PIC is the sole owner of Protective Specialty Insurance Company (PSIC), a surplus lines writer and underwriter of risks related to Florida business owner's policies that was formed on May 2, 2008.

CAPITAL AND SURPLUS

As of December 31, 2011, the Company had 765,000 common shares authorized, issued, and outstanding with a par value of \$10 each. The Company has no preferred stock authorized, issued, or outstanding. All issued and outstanding common shares have been owned by B&L throughout the examination period.

No adjustments to contributed surplus occurred during the examination period and the risk-based capital ratio continues to be well above the Company action level.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to B&L during the examination period:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2011	\$ 14,000,000	\$ 14,000,000	\$ -
2010	15,000,000	15,000,000	-
2009	15,000,000	15,000,000	-
2008	13,000,000	13,000,000	-
2007	20,000,000	20,000,000	-
Total	<u>\$ 77,000,000</u>	<u>\$ 77,000,000</u>	<u>\$ -</u>

In accordance with Indiana Code (IC) 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the gains from operations of such insurer in the prior year. The dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified INDOI of all declared dividends to the parent during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty (50) states, the District of Columbia, and all Canadian provinces. In 2011, the Company's top two (2) states with regards to direct premiums written were Pennsylvania and Missouri, representing approximately 25% and 11%, respectively. No other area made up more than 7% of direct writings in 2011. No premiums were written in any Canadian province during 2011.

The Company specializes in underwriting casualty insurance for the trucking industry. The Company also accepts retrocessions from non-affiliated insurance and reinsurance companies, principally reinsuring against catastrophes, as well as professional liability reinsurance assumptions from non-affiliated reinsurance brokers covering business written by small and medium-sized insurance companies. PIC also reinsures certain levels of risk with primarily non-affiliated reinsurance companies.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2011	\$ 633,464,877	\$ 321,127,313	\$ 312,337,564	\$198,549,483	\$ (23,029,569)
2010	620,605,581	255,511,962	365,093,619	168,537,723	9,196,280
2009	589,992,416	234,698,280	355,294,136	151,184,418	20,762,047
2008	541,660,795	227,484,899	314,175,896	148,251,063	12,686,835
2007	619,784,943	260,152,011	359,632,932	130,678,959	27,949,117

With regards to premiums, the Company has continued to grow throughout the examination period. Major catastrophic events that occurred worldwide during 2010 and 2011 resulted in primary changes over the period. Although net income has been trending down the last two (2) years, investment income has remained relatively stable over the past three (3) years.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors consisting of thirteen (13) members. The stockholders, at the annual meeting, elect the members of the Board of Directors. The following is a listing of persons serving as directors at December 31, 2011:

<u>Name and Address</u>	<u>Principal Occupation</u>
Gary W. Miller Greenwood, Indiana	Executive Chairman Baldwin & Lyons, Inc.
Joseph J. DeVito Indianapolis, Indiana	Chief Executive Officer, Chief Operating Officer and President Baldwin & Lyons, Inc.
George P. Corydon Carmel, Indiana	Executive Vice President, Finance and Chief Financial Officer Baldwin & Lyons, Inc.
Rodger A. Cottrell Indianapolis, Indiana	Vice President, Claims Protective Insurance Company
Walter D. Osborne Mooreville, Indiana	Treasurer Baldwin & Lyons, Inc.
Craig C. Morfas Carmel, Indiana	Executive Vice President, Claims and Secretary Baldwin & Lyons, Inc.
Jennie L. LaReau Carmel, Indiana	Vice President, Underwriting Baldwin & Lyons, Inc.
John E. Mitchell Indianapolis, Indiana	Vice President, Reinsurance and Actuarial Services Baldwin & Lyons, Inc.
James D. Isham Greenwood, Indiana	Senior Vice President, Administration Baldwin & Lyons, Inc.
Mark L. Bonini Carmel, Indiana	Executive Vice President, Sales, Marketing and Underwriting Baldwin & Lyons, Inc.
Michael J. Case Zionsville, Indiana	Vice President and Secretary Protective Insurance Company
David J. Dugan Lebanon, Indiana	Vice President, Claims Protective Insurance Company
Hugh J. Cameron Carmel, Indiana	Vice President, Human Resources Protective Insurance Company

Officers

The Bylaws provide that the officers shall consist of a Chairman of the Board, President, Secretary, and Treasurer. In addition, the Board of Directors may further elect such Executive Vice Presidents, other Vice Presidents, Resident Assistant Treasurers, an Auditor-in-Chief, and other Auditors as it may decide. The Chairman of the Board and the President shall be chosen from among the Directors. Any two (2) or more offices may be held by the same person, except for the duties of the President and Secretary.

The following is a list of key officers and their respective titles as of December 31, 2011:

<u>Name</u>	<u>Office</u>
Gary W. Miller	Executive Chairman of the Board
Joseph J. DeVito	Chief Executive Officer, Chief Operating Officer and President
Michael J. Case	Vice President and Secretary
Thomas W. Thompson	Assistant Vice President and Treasurer
G. Patrick Corydon	Executive Vice President, Finance and Chief Financial Officer
Rodger A. Cottrell	Vice President, Claims
John E. Mitchell	Vice President, Reinsurance and Actuarial Services
Craig C. Morfas	Executive Vice President, Claims & Secretary
Jennie L. LaReau	Vice President, Underwriting
Walter D. Osborne	Treasurer
James D. Isham	Senior Vice President, Administration
Mark L. Bonini	Executive Vice President, Sales, Marketing and Underwriting
David J. Dugan	Vice President, Claims

CONFLICT OF INTEREST

Officers and directors are required to review and sign Conflict of Interest statements annually. It was determined that officers and directors listed in the management and control section of this Report of Examination have reviewed and signed their statements as of year-end 2011.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. Each director subscribed to an Oath of Office statement in 2011.

CORPORATE RECORDS

Articles of Incorporation

The Company's Articles of Incorporation were amended and approved in June, 2011 to add provisions to Article III regarding the purposes for which the corporation was formed. The amended Articles of Incorporation were submitted to the INDOI for approval.

Bylaws

The Bylaws were amended in November, 2007 to allow for thirteen (13) members of the Company's Board of Directors. Prior to the amendment, the Board of Directors was composed of six (6) members.

Minutes

The Board of Directors, shareholders, audit, investment, nominating, and compensation committee meeting minutes were reviewed for the period under examination through the fieldwork date and significant actions taken during each meeting were noted. The annual meetings and other regular board meetings were held in accordance with the Company's Bylaws.

AFFILIATED COMPANIES

Organizational Structure

An organizational chart depicting the Company's relationship with its ultimate parent and other affiliates, as of December 31, 2011, is presented below:

	<u>NAIC Code</u>	<u>Domiciliary State</u>
Baldwin & Lyons, Inc.		IN
- B&L Insurance, Ltd.		BM*
- B&L Brokerage Services, Inc.		IN
- B&L Capital Markets		DE
- Transportation Specialty Insurance Agency		MI
- Protective Insurance Company	12416	IN
- Sagamore Insurance Company	40460	IN
- Protective Specialty Insurance Company	13149	IN

* Affiliate is licensed in Bermuda.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI as required in accordance with IC 27-1-23-4.

Intercompany Expense Allocation Agreement

On July 28, 2005, the INDOI approved an Intercompany Expense Allocation Agreement between the Company, B&L, and SIC. The Company is allocated certain expenses paid by B&L under this agreement on an invoice-by-invoice basis using appropriate allocation methods, such as square footage utilized and employee time allocation percentages. A subsequent agreement, dated December 1, 2007, added PSIC to the Intercompany Expense Allocation Agreement and was approved by the INDOI on January 23, 2009. In 2011, the Company paid \$14,965,456 under this agreement.

Agency Agreement

B&L, in its capacity as an insurance broker, places risks with the Company pursuant to an Agency Agreement that was executed in 1993. Commissions vary by product and are commensurate with those allowed to other agents and brokers. The Company paid B&L commissions of approximately \$19 million in 2011.

Intercompany Federal Income Tax Allocation Agreement

B&L and its subsidiaries, including the Company, are parties to an Intercompany Federal Income Tax Allocation Agreement in effect since 1986. The allocation of taxes is based upon the amount of tax that each company would have paid had separate returns been filed. These agreements have been in effect between B&L, PIC, and SIC since 1986. A subsequent agreement was entered into between B&L, PIC, and PSIC in December, 2007. The 2007 Intercompany Federal Income Tax Allocation Agreement between B&L, PIC, and PSIC was approved by the INDOI in February, 2009.

Reinsurance Agreements

See the "Reinsurance" section of this report of examination for further information regarding affiliated reinsurance agreements.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by employees through a financial institution bond issued by St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$6 million with a deductible of \$100,000. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2011, through B&L including, but not limited to, general liability, professional liability, directors and officers liability, auto liability, fiduciary liability, excess liability, property, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

B&L maintains a defined contribution Employee Salary Savings and Profit Sharing Plan (the 401k Plan) in which all eligible employees of B&L participate. The Company's expense allocations for contributions to the 401k Plan were \$666,600 and \$660,900, for 2010 and 2011, respectively. The Company's allocation for contribution to the 401k Plan is based on the Intercompany Expense Allocation Agreement, described in the Affiliated Agreement section of this Report of Examination.

STATUTORY DEPOSITS

The Company reported the following statutory deposits at December 31, 2011:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For all Policyholders:		
Indiana	\$ 2,543,010	\$ 2,545,902
All Other Special Deposits:		
Arizona	1,275,833	1,282,831
Arkansas	360,252	362,093
California	15,171,360	15,242,127
Delaware	100,089	100,012
Georgia	100,000	100,832
Idaho	90,017	90,304
Massachusetts	501,319	502,110
Montana	50,114	50,006
Nevada	125,023	125,166
New Mexico	500,242	502,345
North Carolina	325,288	327,142
Oklahoma	200,112	200,669
Oregon	1,500,896	1,504,036
Tennessee	100,000	100,832
Virginia	215,068	215,329
Total Deposits	<u>\$ 23,158,623</u>	<u>\$ 23,251,736</u>

REINSURANCE

Under an agreement effective August 1, 1981, PIC cedes certain risks to B&L Insurance, Ltd. (a Bermuda reinsurer wholly-owned by Baldwin & Lyons, Inc.). PIC receives ceding commission commensurate with industry standards and associated acquisition expenses. In 2011, PIC ceded premium to B&L Insurance, Ltd. of \$2,534,899 and losses of \$997,154. This agreement was approved by the INDOI.

In addition, effective October 1, 1994, B&L Insurance, Ltd. cedes certain risks to PIC. In 2011, B&L Insurance, Ltd. ceded premium to PIC of \$225,443 and PIC incurred \$0 in losses and expenses under this agreement.

Effective January 1, 1996, PIC indemnifies SIC for certain losses and expenses. Under this reinsurance agreement, SIC ceded premium to PIC of \$0 and PIC reimbursed SIC \$0 in 2011. This agreement was approved by the INDOI.

Effective December 1, 2009, PIC entered into a Professional Liability Quota Share Reinsurance Agreement with PSIC whereby PIC cedes certain risks to PSIC. PIC ceded premium of \$3,131,269 and PSIC incurred \$922,102 in losses and expenses under this agreement in 2011. This agreement was approved by the INDOI on August 5, 2011.

Effective October 1, 2010, PIC entered into a Contingent Liability Quota Share Reinsurance Agreement with PSIC whereby PIC indemnifies PSIC for certain losses and expenses. No premiums were ceded or losses incurred by any party under this agreement in 2011. The agreement was approved by the INDOI on August 5, 2011.

The Company also accepts retrocessions from non-affiliated insurance and reinsurance companies, principally reinsuring against catastrophes. The Company accepts professional liability reinsurance assumptions from non-affiliated reinsurance brokers covering business written by small and medium-sized insurance companies. Lastly, PIC provides limited reinsurance support for SIC. During 2011, reinsurance assumed was \$60,526,042, of which \$795,552 was assumed from affiliates and \$59,730,490 from non-affiliates.

In addition, the Company seeks to reduce the loss that may arise from events that cause unfavorable underwriting results by reinsuring certain levels of risk with reinsurers. Premiums ceded and recoveries of losses are reported as a reduction of premiums and claims incurred, respectively. During 2011, reinsurance ceded amounted to \$94,747,605, of which \$8,954,166 was ceded to affiliates and \$85,793,439 to non-affiliates.

Subsequent to the examination date the Company reviewed its reinsurance program covering catastrophe reinsurance and terminated several of its assumed reinsurance treaties covering catastrophe risks in response to unacceptable underwriting results.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2010 and 2011, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2010 and 2011, were agreed to the independent audit report with no material exceptions noted. The Company's accounting procedures, practices, and account records were deemed satisfactory.

PROTECTIVE INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 199,325,764	\$ -	\$ 199,325,764	\$ 202,601,842
Stocks:				
Preferred stocks	251,510	-	251,510	757,518
Common stocks	251,901,391	-	251,901,391	258,118,046
Cash, cash equivalents and short-term investments	43,326,651	-	43,326,651	18,533,778
Other invested assets	58,895,219	-	58,895,219	77,953,185
Receivable for securities	1,186,864	-	1,186,864	125,000
Aggregate write-ins for invested assets	8,600,576	-	8,600,576	8,509,457
Subtotals, cash and invested assets	563,487,975	-	563,487,975	566,598,826
Investment income due and accrued	2,525,141	-	2,525,141	2,429,976
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	45,852,761	-	45,852,761	43,763,413
Accrued retrospective premiums	112,000	-	112,000	2,000
Reinsurance:				
Amounts recoverable from reinsurers	2,414,011	-	2,414,011	3,596,565
Current federal and foreign income tax recoverable and interest thereon	12,115,970	-	12,115,970	-
Net deferred tax asset	3,537,549	-	3,537,549	-
Guaranty funds receivable or on deposit	326,543	-	326,543	380,464
Electronic data processing equipment and software	1,601,849	-	1,601,849	2,039,920
Aggregate write-ins for other than invested assets	1,491,078	-	1,491,078	1,794,417
Total	\$ 633,464,877	\$ -	\$ 633,464,877	\$ 620,605,581

PROTECTIVE INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2011

	<u>Per Annual Statement</u>	<u>Exam Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Liabilities:				
Losses	\$ 256,143,845	\$ -	\$ 256,143,845	\$ 186,932,731
Reinsurance payable on paid losses and loss adjustment expenses	-	-	-	2,133,120
Loss adjustment expenses	15,914,000	-	15,914,000	14,300,000
Commissions payable, contingent commissions and other similar charges	3,895,887	-	3,895,887	3,163,047
Other expenses	1,497,532	-	1,497,532	1,664,357
Taxes, licenses and fees	2,048,989	-	2,048,989	3,027,267
Current federal and foreign income taxes	-	-	-	131,393
Net deferred tax liability	-	-	-	9,621,999
Unearned premiums	6,446,022	-	6,446,022	5,793,244
Ceded reinsurance premiums payable (net of ceding commissions)	3,535,506	-	3,535,506	2,307,940
Funds held by company under reinsurance treaties	574,567	-	574,567	833,919
Amounts withheld or retained by company for account of others.	2,322,985	-	2,322,985	2,090,740
Remittances and items not allocated	20,610	-	20,610	(337,892)
Provision for reinsurance	397,000	-	397,000	378,000
Payable to parent, subsidiaries and affiliates	884,671	-	884,671	247,143
Derivatives	-	-	-	2,250
Payable for securities	3,208,870	-	3,208,870	857,063
Aggregate write-ins for liabilities	24,236,829	-	24,236,829	22,365,641
Total liabilities	321,127,313	-	321,127,313	255,511,962
Common capital stock	7,650,000	-	7,650,000	7,650,000
Gross paid in and contributed surplus	42,164,205	-	42,164,205	42,164,205
Unassigned funds (surplus)	262,523,359	-	262,523,359	315,279,414
Surplus as regards policyholders	312,337,564	-	312,337,564	365,093,619
Totals	\$ 633,464,877	\$ -	\$ 633,464,877	\$ 620,605,581

PROTECTIVE INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

	As of December 31, 2011			
	<u>Per Annual</u>	<u>Exam</u>	<u>Per</u>	<u>December</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>31, Prior</u>
				<u>Year</u>
Premiums earned	\$ 198,549,483	\$ -	\$ 198,549,483	\$ 168,537,723
DEDUCTIONS				
Losses incurred	170,760,512	-	170,760,512	102,092,629
Loss adjustment expenses incurred	15,011,562	-	15,011,562	13,657,294
Other underwriting expenses incurred	57,892,308	-	57,892,308	51,258,737
Total underwriting deductions	<u>243,664,382</u>	<u>-</u>	<u>243,664,382</u>	<u>167,008,660</u>
Net underwriting gain (loss)	<u>(45,114,899)</u>	<u>-</u>	<u>(45,114,899)</u>	<u>1,529,063</u>
Net investment income earned	7,734,231	-	7,734,231	7,982,157
Net realized capital gains (losses) less capital gains tax	2,025,187	-	2,025,187	3,533,178
Net investment gain (loss)	<u>9,759,418</u>	<u>-</u>	<u>9,759,418</u>	<u>11,515,335</u>
Finance and service charges not included in premiums	10,015	-	10,015	18,040
Aggregate write-ins for miscellaneous income	678,084	-	678,084	1,036,140
Total other income	<u>688,099</u>	<u>-</u>	<u>688,099</u>	<u>1,054,180</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(34,667,382)	-	(34,667,382)	14,098,578
Federal and foreign income taxes incurred	<u>(11,637,813)</u>	<u>-</u>	<u>(11,637,813)</u>	<u>4,902,298</u>
Net income	<u>\$ (23,029,569)</u>	<u>\$ -</u>	<u>\$ (23,029,569)</u>	<u>\$ 9,196,280</u>

PROTECTIVE INSURANCE COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Reconciliation

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and Surplus Account:					
Surplus as regards policyholders,					
December 31 prior year	\$ 365,093,619	\$ 355,294,136	\$ 314,175,896	\$ 359,632,932	\$ 342,690,968
Net income	(23,029,569)	9,196,280	20,762,047	12,686,835	27,949,117
Change in net unrealized capital gains or (losses) less capital gains tax	(17,763,872)	13,533,334	35,418,368	(42,864,871)	10,860,665
Change in net deferred income tax	1,867,214	2,812,089	205,530	330,710	3,316,331
Change in nonadmitted assets	189,172	(1,212,220)	(41,705)	(2,238,710)	(5,024,149)
Change in provision for reinsurance	(19,000)	470,000	(226,000)	(371,000)	(160,000)
Dividends to stockholders	(14,000,000)	(15,000,000)	(15,000,000)	(13,000,000)	(20,000,000)
Surplus as regards policyholders,					
December 31 current year	<u>\$ 312,337,564</u>	<u>\$ 365,093,619</u>	<u>\$ 355,294,136</u>	<u>\$ 314,175,896</u>	<u>\$ 359,632,932</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2011, based on the results of this examination.

SUBSEQUENT EVENTS

Subsequent to the examination date the Company reviewed its reinsurance program covering catastrophe reinsurance and terminated several of its assumed reinsurance treaties covering catastrophe risks in response to unacceptable underwriting results.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos & Associates, Inc., hereinafter collectively referred to as the "Examiners," performed an examination of **Protective Insurance Company**, as of **December 31, 2011**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the 2012 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of **Protective Insurance Company**, as of **December 31, 2011**, as determined by the undersigned.



Daniel P. McBay, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 28 day of February, 2013, before me personally appeared, Daniel P. McBay, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires  _____
Notary Public