

PINNACOL ASSURANCE

EXECUTIVE PERFORMANCE PLAN (As Amended and Restated January 1, 2016)

SUMMARY

The Executive Performance Plan (“Performance Plan”) is hereby amended and restated effective for Plan Years commencing on or after January 1, 2016. The Performance Plan is intended to recognize the achievement of major company objectives and individual objectives, measured on an annual basis.

This Performance Plan appropriately emphasizes individual and group accountability for making specific contributions to Pinnacol Assurance’s overall business results. Based on Board of Directors of Pinnacol Assurance (“Board”) approval, the Performance Plan will be finalized and communicated to Executive Staff. A relatively short decision-result cycle should be attainable (first quarter of the following year) to determine award payout following Board approval.

PLAN DESCRIPTION

Plan Year – The Plan Year shall be a calendar year.

Performance Measures – Awards are paid under this Performance Plan for meeting or exceeding annual performance objectives for pre-established company metrics for the Plan Year, as set forth by the Board.

Eligibility – This Performance Plan will only apply to the following positions, each of which will be considered an Eligible Employee: CEO, Vice Presidents, and Associate Vice Presidents. An Eligible Employee who is hired on or after October 1 of a Plan Year is not eligible to participate in the Performance Plan for the year of hire.

Incentive Award Plans – Eligible Employees will have incentive award plans based on meeting major company objectives and individual objectives related to Pinnacol Assurance’s annual business plan. For Vice Presidents and Associate Vice Presidents, the amount of an award under this Performance Plan, if any, is subject to the approval of the CEO and then ultimately the Board. For the CEO, the amount of an award under this Performance Plan, if any, is subject to the approval of the Board.

Determination of Payment

1. Eligible Employees Other Than the CEO

The CEO shall make a determination as soon as practicable after the end of the Plan Year as to whether each Eligible Employee (other than the CEO) has met his or her individual objectives and whether the company objectives have been met. The CEO shall make an initial determination as to the award that each such Eligible Employee is eligible for under this Performance Plan for the Plan Year. The Board shall then approve the amount of all awards (the date of such approval being the "Initial Determination Date" with respect to such Eligible Employee). The "Determination" of an award by the Board, as well as the decision as to whether to make any such award, and the amount, if any, of such award, shall be in the sole discretion of the Board. Determination means the Board has passed a resolution approving or denying a bonus award as well as the amount of any such award.

2. CEO

The Compensation Committee of the Board (the "Committee") shall make a determination as soon as practicable after the end of the Plan Year as to whether the CEO has met his individual objectives and whether the company objectives have been met. The Committee shall make an initial determination as to the award that the CEO is eligible for under this Performance Plan for the Plan Year. The Board shall then approve the amount of the final award (the date of such approval being the "Initial Determination Date" with respect to the CEO). The Determination of an award by the Board, as well as the decision as to whether to make any such award, and the amount, if any, of such award, shall be in the sole discretion of the Board. Determination means the Board has passed a resolution approving or denying a bonus award as well as the amount of any such award.

3. Subsequent Adjustment Due to Error

The Board may increase or decrease the amount of an award subsequent to an Initial Determination Date (a "Subsequent Adjustment Due to Error"), provided, however, that a Subsequent Adjustment Due to Error shall only be made because of a mathematical error, an adjustment to results as described below under "Company Objectives," or upon the determination of the Board that a metric or criterion used to compute an award had been determined in error. The date on which the Board approves a Subsequent Adjustment Due to Error shall be a Subsequent Determination Date with respect to such adjustment.

4. Determination Dates

The Initial Determination Date with respect to a Plan Year shall be on or after January 1 of the calendar year immediately following the Plan Year but no later than the May 31 of the calendar year immediately following such Plan Year. Any Subsequent Determination Date with respect to a Plan Year shall be no later than the September 30 of the calendar year immediately following such Plan Year.

Payment – Payment of an award, or of a Subsequent Adjustment Due to Error that increases an award, shall be made within 2-1/2 months of the Initial Determination Date (with respect to the award) or within 2-1/2 months of the Subsequent Determination Date (with respect to the Subsequent Adjustment Due to Error). In the event that a Subsequent Adjustment Due to Error reduces an award that has already been paid, Pinnacol Assurance may recoup such Subsequent Adjustment Due to Error from the recipient of an award by reducing the compensation otherwise payable to such recipient within sixty (60) days of the Subsequent Determination Date (including, but not limited to, regular compensation, bonuses, commissions, or severance pay and any amount of such Subsequent Adjustment Due to Error that Pinnacol Assurance has not recouped from such compensation shall be paid by the recipient to Pinnacol Assurance on the sixtieth (60th) day following the Subsequent Determination Date. This paragraph applies whether or not such recipient has remained an Eligible Employee.

Vesting – An Eligible Employee who is not employed by Pinnacol Assurance on a Determination Date (whether an Initial or Subsequent Determination Date) forfeits all rights to an award (or an increase in an award in the case of a Subsequent Adjustment Due to Error) for the Plan Year to which such Determination Date relates. An Eligible Employee who is employed by Pinnacol Assurance on an Initial or Subsequent Determination Date is fully vested in the award (or an increase in an award, in the case of a Subsequent Adjustment Due to Error) granted on such Initial or Subsequent Determination Date.

Allocation of Award Under Each Plan – Incentive awards will be earned as follows once the Board has determined that an Eligible Employee has met the criteria for an individual award, which for all Performance Plan participants shall be based 90% on achievement of company objectives and 10% on Individual Strategic Goals.

Eligible Employee’s Performance Plan Award Range (% of Base Salary)

	Threshold	Commendable	Maximum
Associate Vice Presidents	20.0%	32.5%	45.0%
Vice Presidents	22.5%	37.5%	52.5%
CEO	25.0%	42.5%	55.0%

Award Payout Calculation

Individual worksheets will be prepared for each Eligible Employee. Pinnacol Assurance will use the following factors in determining the amount of the award once the threshold criteria are met:

1. Company Objectives

Annual targets for Operational Efficiency, Risk and Capital Adequacy, Growth (New Business), Client Satisfaction, Strategic Initiatives, and Individual Strategic Goals (each as defined or described below) will be established by the Board. Projected as well as past performance will be factored into the formula for establishing company objectives.

A. Operational Efficiency

1. "Combined Ratio Before General Dividends" is the combined ratio results for insurance operations, excluding other income/expense, as determined by the company's financial statements. The numerator of the ratio is total expenses (all losses incurred, loss adjustment expenses, underwriting expenses and safety group dividends). The denominator of the ratio is net underwriting premiums earned (underwriting premiums earned minus program dividends (but not minus association and general dividends)).
2. Cost Advantage (Net Rate) – "Net Rate" is a measure of the workers' compensation premium charged by Pinnacol divided by the loss cost premium set by NCCI. NCCI calculates the net rate for the state of Colorado in a given year. Payout on this measure will be determined by comparing Pinnacol's net rate to the rest of the state of Colorado's net rate.

B. Risk and Capital Adequacy

1. Achieve/Maintain AM Best Rating of A-. This rating is determined by A.M. Best, an independent third party.
2. Surplus Management – Pinnacol's surplus target is 300-350 Best Capital Adequacy Ratio (BCAR). BCAR is defined and calculated by A.M. Best. "Surplus management" is any surplus amount above the amount needed to produce a 350 BCAR.

C. Growth

1. "New Business" will be based upon the premium generated by policies that are new business to Pinnacol Assurance during the Plan Year.

D. Customer Satisfaction

1. "Policy Holder Satisfaction" will be based on the average score, adjusted for selection bias, of the overall service quality question contained in the service quality surveys of customers (policyholders) sent during the Plan Year.
2. "Injured Worker Satisfaction" will be based on the average score of the overall satisfaction question contained in the statutory surveys of injured workers for surveys sent during the Plan Year.
3. "Original Premium Retention" will be based on the average percentage of premium Pinnacol Assurance retains during the Plan Year.

E. Strategic Initiatives

1. Geographic Expansion
2. Health and Wellness
3. Product Differentiation (Centers of Excellence) – Agent brand survey, net

promoter score

- F. "Individual Strategic Goals" will be based on the total score of the leadership competencies established by the Board. The Board will evaluate the CEO's performance, the CEO will evaluate the Vice Presidents performance and the Vice Presidents will evaluate the Associate Vice Presidents for this measure.

The weighting of the objectives shall be:

- Operational Efficiency: 45% consisting of the following:
 - Combined Ratio – 40%
 - Net Rate – 5%
- Risk and Capital Adequacy: 10% consisting of the following:
 - Achieve Maintain AM Best Rating of A- - 5%
 - Surplus Management – 5%
- Growth – New Business: 5%
- Customer Satisfaction: 10% consisting of the following:
 - Policy Holder Satisfaction – 2 %
 - Injured Worker Satisfaction – 3%
 - Original Premium Retention – 5%
- Strategic Initiatives: 20% consisting of the following:
 - Geographic Expansion – 5 %
 - Health and Wellness – 5%
 - Product Differentiation – 10%
- Individual Strategic Goals: 10%

2. Discretionary Adjustment

The CEO may review additional issues or concerns regarding any award with the Committee prior to final award approval by the full Board.

The final results pertaining to any objective may be adjusted at the discretion of the Board, based on the recommendation of the Committee, to account for unforeseen or uncontrollable events. Such adjustments will be made to assure that the results of this Performance Plan are a fair reflection of the business performance of Pinnacle Assurance. Unforeseen or uncontrollable events may include, without limitation, adverse court rulings, imposed regulatory costs and/or revenue reductions, significantly better than expected performance results, and Board-approved

budget adjustments.

3. Calculation of the Award Amount

- A. If the actual result is between two measurements (i.e., threshold and commendable or commendable and maximum) then the award will be linearly interpolated to match the actual result, but not to exceed the maximum award for that performance measure.
- B. If an Eligible Employee has been employed in an eligible position for less than the full twelve calendar months of the Plan Year and was hired prior to October 1 of the Plan Year, the award will be calculated based on the Eligible Employee's base salary on December 31 of the Plan Year or if the Eligible Employee moves from an Eligible Position to a non-eligible position, on the Eligible Employee's base salary on the last day in the eligible position in the Plan Year, in either case prorated based on the number of months in the eligible position.
- C. If an Eligible Employee has been employed in more than one classification eligible for an award under this Performance Plan (e.g., as both an Associate Vice President and a Vice President) during a Plan Year, the award will be calculated based on the Eligible Employee's base salary in each eligible classification, using the base salary on the day prior to any eligible classification change during the year and the base salary on December 31 of the Plan Year in the additional eligible classification, in each case prorated based on the number of months in the eligible classification and multiplied by the Eligible Employee's Performance Plan Award Range for each eligible classification.
- D. The principles of B. and C. above are illustrated by the following examples.

Dakota is hired (or promoted) on July 1 into an AVP position with a base salary of \$100,000 per year. He performs at a commendable level for the Plan Year.

$$\text{Dakota's award} = \$50,000 \times 32.5\% = \$16,250$$

Montana is an AVP on January 1 with a base salary of \$100,000 per year. She is promoted to a VP with a base salary of \$150,000 on July 1. She performs at a commendable level for the Plan Year.

$$\text{Montana's award} = (\$50,000 \times 32.5\%) + (\$75,000 \times 37.5\%) = \$44,375$$

Section 409A

All payments contemplated by this Plan are intended to qualify as "short-term deferrals" as such term is defined in Treasury Regulation Section 1.409A-1(b)(4) and this Performance Plan shall be administered and construed accordingly. To the extent that any such payment is not a short-term deferral, this Performance Plan is intended to otherwise comply with Section 409A of the Internal Revenue Code of 1986, as amended, the Treasury Regulations promulgated thereunder, and any administrative guidance or judicial decisions with respect thereto ("Section 409A") and shall be administered and construed accordingly. It is the intention of Pinnacle Assurance that payments under this Performance Plan not be subject to the additional tax or interest imposed pursuant to Section 409A. To the extent such potential payments or benefits are or could become subject to Section 409A, Pinnacle Assurance may amend this Performance Plan with the goal of giving Eligible Employees the economic benefits described herein in a manner

that does not result in such additional tax or interest being imposed. It is the intention of Pinnacol Assurance that no person shall be considered to have a legally binding right to any award under this Performance Plan at any time prior to an Initial Determination Date that relates to an award, or, in the case of a Subsequent Adjustment Due to Error that provides for an increase to an award, prior to such Subsequent Determination Date. Each payment described in this Performance Plan shall be a separate payment and a separately identifiable payment to the maximum extent permitted by Section 409A.

Pinnacol Assurance reserves the right to add, change, end, or suspend this Performance Plan at any time, with or without notice. This document shall not be construed as a contract of employment, nor does it restrict the right of Pinnacol Assurance to discharge the employee or the right of the employee to terminate his or her employment at any time.

Pinnacol Assurance has evidenced its adoption of the Pinnacol Assurance Executive Performance Plan (As Amended and Restated January 1, 2016) effective January 1, 2016, by the signature of its duly authorized officer.

PINNACOL ASSURANCE

By: 
Philip B. Kalin

Title: President and Chief Executive Officer

Date: 12/23/15