PURE

You’ve built a life that’s grounded in values and responsibility.

A life propelled by work ethic and guided by a clear vision for your family’s legacy. It’s a good life. A life filled with accomplishment and good fortune.

You deserve an insurance company that’s built the same way. One who shares your goals and values. One whose interests are aligned with yours.

PURE is designed from the ground up for a select community of like-minded families whose deep values deserve to be rewarded with higher value.

PURE is dedicated to providing best-in-class coverage, service and communication. To innovating how risk is assessed, managed, and proactively reduced. To delivering an exceptional member experience.

PURE is simple, intuitive, and transparent.

DEAR PURE MEMBERS:

As we have outlined in previous reports, our priorities are to provide exceptional service to the PURE membership and to manage the insurance company with the professionalism required to preserve and grow the surplus capital of the PURE Group. In 2012, we responded to more than 4,000 claims from our 18,000+ members and produced the highest levels of member satisfaction in our brief history. Our most populated region was hit with the second costliest natural disaster in U.S. history (Superstorm Sandy), yet I am pleased to report that PURE saw policyholder surplus grow by more than $1,500,000 in 2012. We are awaiting approval from regulators to honor our request to allocate surplus growth to Subscriber Savings Accounts. 2012 was a very good year for PURE.

We grew the membership and premiums written by over 40% in 2012. This growth was fueled, in part, by entering new markets and adding new independent agents and brokers to represent PURE in their communities. We are now licensed in 46 states (including Washington, D.C.) and increasingly can serve all of the personal insurance needs of our membership. This rapid diversification of our membership will continue to produce a more profitable bottom-line result, as the cost of reinsurance protection is spread across the country.

Our Gross Combined Ratio was under 100% again in 2012, meaning the cost of claims and expenses was less than the sum of all premiums (before the cost and benefit of reinsurance). We continue to purchase significant layers of reinsurance protection to reduce volatility and enhance the claims-paying ability of the PURE Group. The cost of these reinsurance contracts – and the impact of Superstorm Sandy – kept us from producing a Net Combined Ratio under 100%.

Nearly half of the claims reported by PURE members in 2012 occurred on three days. On June 13, a massive hailstorm battered the Dallas area, denting cars and damaging rooftops throughout the Metroplex. On August 28, Hurricane Isaac arrived in Louisiana, bringing heavy winds and rain to the entire Gulf Region. And last, but certainly not least, on October 29, Sandy made landfall with a record-breaking storm surge and the largest tropical storm force wind field in history. In addition to the widespread flooding, Sandy brought down tens of thousands of trees that fell on homes throughout the Northeast. The complexity of the claims response cannot be overstated. The massive footprint of this storm, combined with fuel shortages, contributed to a significant logistical challenge. I am most proud of the way our team proved to be up to the task.
In addition to growing surplus in PURE by more than $1,500,000, we also re-paid principal of more than $1,400,000 on a surplus note in order to further reduce our cost of capital. The surplus contributions from PURE members provide an important source of new capital to PURE. PURE members are also protected by additional capital — and capital flexibility — that comes from other member companies within the PURE Group of Insurance Companies. In 2012, Privilege Underwriters, Inc. (PUI), the parent company of PURE’s Attorney-in-Fact, contributed $8,000,000 of additional capital to PURE Insurance Company (PIC) to create even greater financial strength. Already in 2013, PUI contributed $20,000,000 of additional capital into PIC to support continued growth. In February 2013, A.M. Best affirmed a Financial Strength Rating of A- (Excellent) for the PURE Group with a “Stable” outlook.

We have traditionally measured satisfaction of the PURE membership through retention (94%) and claims satisfaction (98%). Recently, we have begun to use Net Promoter Score (NPS) as one of our core performance metrics. If you aren’t familiar with NPS, it is fast becoming the true measure of customer satisfaction and enthusiasm. Using the NPS methodology, respondents are categorized as “Promoters,” “Passives” or “Detractors.” The NPS is created by subtracting the percentage of Detractors from the percentage of Promoters.

Based on studies produced by independent research firms, PURE’s NPS of 58% is excellent — and among the highest in any financial services segment. Most importantly, this gives us a benchmark against which we will strive to improve, and insights that will help us identify ways to deliver an even more exceptional member experience.

We’re privileged to be able to serve such a prestigious and engaging membership. PURE is stronger than ever with an expanding and diversified membership, a growing and liquid balance sheet and opportunities as far as the eye can see. I am most grateful for your support of PURE and look forward to serving you for many years to come.

Ross J. Buchmueller | President & CEO
Our commitment to providing best-in-class service is personified by the work of The PURE Member Advocate®. This team of professionals works hard to save our members time and eliminate hassles associated with reducing risks and resolving claims.

- **FOLLOWING A HOME INSPECTION BY OUR RISK MANAGERS**, Member Advocates are available to help research and implement loss prevention recommendations.
- **DURING A CLAIM**, Member Advocates take on and manage administrative hassles in order to reduce the time-burden for members.
- **FOLLOWING A LOSS**, our Member Advocates look for ways to help members prevent a similar loss from occurring, and in cases of larger losses, will offer our allowance towards the cost of loss prevention solutions.
- **AT ANY TIME**, our Member Advocates can connect members to specialists who can help manage risk, such as arborists, art appraisers, and personal security professionals.

Michael Charness called upon a Member Advocate after two high-performance bicycles were stolen from his Washington, D.C. townhouse. Biking enthusiasts for over 25 years, Mr. Charness and his wife, Kathy, knew how difficult it would be to replace the bicycles, which were manufactured in limited quantities. Within a week, his Member Advocate, Karsten Richards, had issued payment for both items, including accessories, and had located one of the few local shops that sold the same models.

“Karsten went beyond settling my claim; in a matter of days she had found a way for us to order replacement bikes – something I wasn’t sure was possible,” said Mr. Charness. “Then she alerted us to a registry that could help recover our stolen bikes in case they’re sold to a dealer.”
MORE EXAMPLES OF OUR UNPARALLELED SERVICE:

When **Jake Rodar**, President and CEO of New Mexico’s Reynolds Insurance, first was appointed with PURE, he was impressed with the breadth of proactive risk management services the Member Advocates offer. When he referred a prized client to PURE’s risk management appraisal service, he was thrilled by his client’s satisfaction.

“PURE’s Member Advocate didn’t just recommend that we seek out an appraisal,” says Mr. Rodar. “She went the extra step and actually scheduled one. I got the sense that PURE was on my client’s side, helping him do whatever he could to prevent losses. The appraisal company also provided the level of service our high-value homeowners expect and deserve.”

**After Patrice Missner** of Chicago lost one of her Harry Winston earrings, she called PURE and expressed concern that her jewelry may have been underinsured. After issuing payment for the full amount of Mrs. Missner’s loss, her Member Advocate encouraged her to have her entire collection appraised, and connected her to a specialist.

“The personal attention I received from PURE was wonderful,” said Mrs. Missner. “The claims process itself was painless, and I was given invaluable advice and a direct connection to an appraiser who evaluated all of my jewelry. My Member Advocate was respectful and understood the sentimental value of my jewelry, and was proactive about giving me advice to protect it.”

**Robyn Kopilow** was one of many PURE members that experienced a loss from Superstorm Sandy. When three of her family’s vehicles were flooded during the storm, she called PURE to report the loss and inquire about rental vehicles. Her PURE Member Advocate worked around the clock to secure her two cars until she chose replacement vehicles.

“My Member Advocate was incredible, making me feel as though my family’s well-being was her only concern, and offering me her personal cell phone number to ensure that I would be able to contact her at any time,” said Mrs. Kopilow. “I know people who couldn’t find one rental car, but PURE had the right connections.”
We strive to create an exceptional member experience whenever possible. This is especially important at the time of a claim, which is why we place an emphasis on attracting the industry’s most accomplished claims specialists, and enable them to delight members with creative solutions and a personalized approach. Our experienced claims team has the knowledge and know-how to handle losses big and small, but their success goes beyond their experience. Members commonly describe our adjusters as compassionate, capable and knowledgeable, and appreciate their calming presence at the time of a loss.

Susan Link is just one of the gifted members of PURE’s claims team. She joined PURE with over 30 years of insurance industry experience and an innate sense of how to exceed the expectations of successful homeowners. Susan is an invaluable asset for PURE’s growing New York membership.

Ted Rosenberg met Susan following a devastating loss to his home in Old Field, NY. Mr. Rosenberg and his wife, Deborah, were enjoying a visit from their son and granddaughters when their dog, Lucy, alerted them to trouble. Mr. Rosenberg looked out his kitchen window to see flames coming from his garage, and hurried his family out the front door. The fire ultimately engulfed two of their cars and set their kitchen aflame.

“Losing our home was horrible, but Susan made the process of assessing our loss and rebuilding our house as painless as possible,” said Mr. Rosenberg. “She handled every element of the claim so our experience was hassle-free.”

While a Member Advocate helped the Rosenbergs secure rental cars while they chose replacement vehicles, Susan arranged for a specialist to help inventory their damaged contents.

“Susan treated us fairly and was extremely patient,” said Mr. Rosenberg. “I never doubted that she had my family’s best interests at heart, and was comforted knowing that she was working on our behalf. I tell everyone that PURE did right by me.”
THE VOICE OF MEMBERSHIP

Joey Cummings, CEO/Chief Strategic & Creative Officer of The Joey Company of Brooklyn, NY, is the newest member of PURE’s Subscribers’ Advisory Committee (SAC).

The SAC plays a role in the governance of PURE and serves to provide advice and insight, from the perspective of the membership, to PURE’s Attorney-in-Fact. Who better to provide such insight than an award-winning advertising executive whose company distinguishes itself by “Seeing What Others Fail to See®”?

Joey’s accolades are impressive. She has been recognized by Advertising Age as 100 Best and Brightest, and by ADWEEK as Creative All Star and Top Executive Women. FORTUNE magazine named her one of their “People to Watch.” Her work has won awards that span the coveted Cannes and Clio to, most recently, the Effie.

Joey has played a lead creative role in some of America’s most memorable and effective advertising. Early in her career, she was responsible for award-winning commercials like “Daddy’s Girl” and “Keep Your Eyes on Your Fries” for McDonald’s “You Deserve a Break Today” campaign, and “I Like My Chicken Finger Lickin’ Good” for Kentucky Fried Chicken.

“We are thrilled to benefit from her wisdom and insights as a member of the SAC,” said Bill Wilson, Chairman of the SAC.

“In the time that Joey has served on the SAC, I have been impressed with her intuition and understanding of consumer behavior,” said Bill Wilson. “She brings a valuable and complementary set of skills to this team.”

JOEY CUMMINGS, PURE MEMBER SINCE 2011.
This was a costly year for natural-catastrophe-related insurance claims in the U.S. Across the country, hurricanes and other weather events caused $57.9 billion in insured losses.\(^1\)

As part of our commitment to helping our members prevent losses, we identified common threads among the claims our membership experienced. The following tips, derived from real PURE losses, are intended to help our members better protect their homes in advance of the next weather event.

*Arborists not only save trees, they can significantly reduce damage to your property.*

Many claims reported to PURE in the aftermath of Superstorm Sandy were caused by or involved downed trees. Branches and trees caused extensive damage to homes, vehicles and members’ property.

In many cases, damage caused by trees can be avoided. PURE has partnered with a premier arborist service to provide complimentary property inspections to help members identify vulnerable trees and limbs. Beyond these preventative steps, we also offer priority tree removal services following major weather events.

\(^1\)2012 NATURAL CATASTROPHE YEAR IN REVIEW, MUNICH RE.
Lighting can strike twice, but its damage can be contained.

High-tech “Smart Homes” are becoming a part of modern living, but the advanced electronic equipment can increase the cost and severity of lightning damage. In 2012, PURE members reported 64 lightning claims, exceeding $4M in total damage. The damage ranged from significant fire losses to destruction of the electrical and operating systems, appliances, computers, video equipment, stereo equipment and more.

Whole House Surge Protectors, typically less than $1,000, and Lightning Suppression Systems can help to protect a home and its electrical systems from the damaging effects of lightning. A PURE Member Advocate® can help to identify the device that’s right for a family’s needs and facilitate installation.

Permanent generators help prevent losses and maintain quality of life.

Widespread power outages caused more than an inconvenience for members throughout the country in 2012. With no electricity, there is an increased chance that losses can occur. For example, freezing temperatures with no heat caused frozen pipes in many homes, and when sump pumps have no power source, they do little to keep water out of homeowners’ basements.

PURE recognizes that permanent generators help prevent losses and maintain quality of life when the power goes out. As such, we’ve teamed up with GE, a leading manufacturer of installed generators, to offer members discounted pricing and expedited installation, so that PURE members will be among the first attended to – even during a power outage when demand is high.

Superstorm Sandy left JAMES ECKEL of Southampton, NY, without power for five days. As a result, his sump pump was unable to remove the water that had entered his basement, and his lower level sustained significant damage.

“You don’t realize the implications of being without power until you’re actually in that position,” said Mr. Eckel. “But PURE made a bad situation easier.” A Member Advocate reached out to the Eckels and let them know that they were eligible for PURE’s loss prevention allowance, and recommended that they consider purchasing a generator.

“I had thought about installing a generator before, but was always put off by the cost. PURE offering to contribute, and providing a discount from GE, made the purchase much more reasonable.”

FOR ASSISTANCE IMPLEMENTING THESE OR OTHER RISK MANAGEMENT MEASURES, CONTACT A MEMBER ADVOCATE AT MEMBERADVOCATE@PUREINSURANCE.COM.
COLLECTION MANAGEMENT SERVICES

In 2012, PURE invested in additional teams of highly qualified professionals and expanded our relationship with industry experts in order to coordinate a full range of services to help you manage, protect, preserve and enhance the value of your beloved possessions. Our services include:

- **Schedule reviews, appraisals and inventories.** Our trusted providers can review your collection, at no cost to you, to ensure your items are insured at their current value. For a fee, their services include an illustrated inventory of all items, to catalogue them fully and provide details, sizes, and values.

- **Shipping and transportation advice.** Whether you are moving residences, sending items between homes or loaning pieces to a museum, our trusted providers will help ensure your collection arrives safely.

- **Installation and storage referrals.** If you are installing new works of art, our trusted advisers can assist with advice on presentation, while improving security and helping to ensure items are safe from potential vulnerabilities. Further, they can design and build safes, customized with design specifications that match your needs and your home.

- **Restoration and conservation assistance.** Whether or not you have suffered an insured loss, our top experts can help you restore your prized possessions and preserve their value.

- **Emergency evacuation planning.** To minimize damage to collections in areas prone to wildfires, hurricanes, earthquakes and other catastrophes, we can facilitate the planning and execution of customized evacuation plans.

- **Replacement pieces.** If an item is damaged, lost or stolen, our Member Advocates will search the world in attempt to locate a suitable replacement.

To learn more about these services, contact a PURE Member Advocate® at memberadvocate@pureinsurance.com.
PURE’s Collections coverage is designed to go beyond precious jewelry and museum-quality paintings. We have the flexibility and expertise to insure virtually all of the things that our members are passionate about.

PURE members collect a myriad of items, from antique maps to Elvis Presley memorabilia. Perhaps one of our most unique insured collections is of duck decoys. These hand-carved decoys, originally used by hunters to lure ducks, have become a form of North American folk art, and the most unique can sell in the six-figure range. Donald Kirson of Glyndon, MD is one of a small group of members who proudly collect these carvings.

“I started collecting in 2003 after my wife and I retired to the country, and she began urging me to pick up a hobby,” said Mr. Kirson. “I noticed that my neighbors, who were hunters, used plastic decoys. Months later, at an antique show, I saw a few old wooden versions, and was struck by their workmanship and intricate carvings.” Mr. Kirson began reading about the decoys, and ultimately grew a collection that now spans over 100 decoys from some of the most well-regarded craftsmen in North America. Some date back to the mid-1800s.

“What started as a way to keep me busy in retirement ended up being one of the greatest passions of my life, and has led to many wonderful and lasting friendships,” said Mr. Kirson, who has authored several books and articles on the topic and often loans his collection to local museums and exhibits.
Our expansion continued in 2012 with an emphasis on strengthening our footprint in the West. On October 1, we opened an office in Scottsdale, AZ, creating a Western hub for our underwriting, claims and member services teams and offering extended phone and office hours. The opening of this new office, and our growing footprint, enable us to further diversify our risks and better serve members with multiple homes.

Ralph Merritt is just one of many members who benefited from PURE’s expansion. Encouraged by his agent, Doug Fields of BB&T–Oswald Tripe & Co, to insure his Fort Lauderdale home with PURE, Mr. Merritt preferred to wait until we were able to also cover his Beaver Creek, CO home.

“I had heard great things about PURE from my friends and agent,” said Mr. Merritt. “But I really valued a company that could insure both of my family’s properties.”

Mr. Merritt was happy to hear that PURE had entered Colorado. “When Doug told me that PURE could cover my home in the mountains with the same level of service and coverage he had seen in Florida, I couldn’t wait to join.”

Members like Mr. Merritt benefit from risk management services like our new Wildfire Mitigation Program. PURE launched this program in June with Firebreak Spray Systems, LLC, a leader in wildfire protection. Together, we offer pre-fire and emergency response services intended to reduce and prevent wildfire damage. Services include the application of Phos-Chek®, the same fire retardant used by the U.S. Forest Service, as a pre-season perimeter spray and an emergency measure should a member’s home be threatened.
Before launching in any state, PURE studies the local market carefully to fully understand its risks to ensure that we can intelligently manage our exposure. Louisiana was no exception.

Louisiana is a state with great history and culture. There is also a sizable affluent population and many homes built to PURE’s strict standards. This market opportunity, coupled with the $14.5 billion invested in fortifying the city’s levee system in response to Hurricane Katrina, made Louisiana an intriguing market for PURE.

Before opening for business, our underwriting team analyzed the topography of the state to identify low-risk areas; they also looked at building codes and studied actual homeowners losses that occurred during Katrina. In addition, Ross Buchmueller and Martin Hardley joined the Louisiana Department of Insurance and the U.S. Army Corps of Engineers for a firsthand look at the system improvements to the Greater New Orleans Hurricane and Storm Damage Risk Reduction System.

To help us attract the select membership that we seek, we partnered with a small number of the finest insurance agencies in Louisiana. Our Louisiana agency partners have a thorough understanding of the complex insurance needs of high-net-worth individuals. They are seasoned and tested and, having experienced Katrina, know firsthand the importance of high-quality insurance, adequate coverage limits, and proper documentation. Limiting our distribution channels to only a few of the best agencies will allow us to carefully select and grow the membership in Louisiana in a smart and meaningful way.
**Membership Retention**

Our nearly 94% retention rate is excellent. In the past, we have communicated the difficult action we undertook to reduce our exposure in Florida. Florida remains very important to us and we are very pleased with our current portfolio in the state.

**Gross Written Premium**

By entering new states and earning the trust of our nation’s finest independent insurance agents, PURE has grown written premium by more than 40% for five consecutive years following our launch in 2007.

Dollars (in millions)

- **2007**: $18.4
- **2008**: $32.5
- **2009**: $52.7
- **2010**: $83.3
- **2011**: $121.8
- **2012**: $174.2

**Lines per Member**

More members rely on PURE for all of their personal insurance needs, as shown by the steady increase in the lines of coverage we provide to each member (home, auto, excess liability, watercraft, and collections).

**Net Promoter Score**

58%

**Membership Growth**

- **2007**: 18,625
- **2008**: 12,988
- **2009**: 8,970
- **2010**: 5,542
- **2011**: 3,140
- **2012**: 1,690

**Loyalty Rewarded**

This year, members who joined PURE in 2007 saw a decrease in the cost of their policies, as after five years with PURE they were no longer required to make surplus contributions. In 2013, those members who joined in 2008 will experience this same benefit.
In 2012, we began measuring our membership’s enthusiasm, engagement and willingness to recommend PURE using the well-established Net Promoter Score (NPS) methodology. Based on studies produced by independent research firms, PURE’s NPS of 58% is excellent—and among the highest in any financial services segment. We value the feedback of our members and endeavor to become even better.

This year, we added more than 5,000 new members from across the country as we continued to diversify our book of business. As of the end of 2012, less than a quarter of our membership resides in Florida. Diversified growth will enable PURE to continue to improve the efficiency of its reinsurance spend and continue to improve bottom-line results.

**Diversification of Membership by Region**

- **24.9%** Florida
- **19.3%** New York
- **13.3%** Texas & The Gulf
- **13.0%** New England
- **12.0%** Carolinas
- **10.3%** Mid-Atlantic
- **7.2%** Other

**Six Years of Expansion**

At the time of publication, PURE is licensed in 46 states (including Washington, D.C.), enabling us to better serve existing members with multiple homes, while adding new members from new states to create a larger and more diversified membership. We are committed to becoming a nationwide company in the near future.

> As of publication date

In 2007, PURE began measuring membership’s enthusiasm and engagement using the Net Promoter Score (NPS) methodology. Based on studies produced by independent research firms, PURE’s NPS of 58% is excellent—and among the highest in any financial services segment. We value the feedback of our members and endeavor to become even better.

This year, we added more than 5,000 new members from across the country as we continued to diversify our book of business. As of the end of 2012, less than a quarter of our membership resides in Florida. Diversified growth will enable PURE to continue to improve the efficiency of its reinsurance spend and continue to improve bottom-line results.
Combined Ratios

An insurer’s **combined ratio** measures losses and expenses against premium to help evaluate underwriting results. A combined ratio below 100 typically indicates profitability. However, a growing insurance company may show statutory underwriting losses even with a combined ratio under 100 (see Deferred Acquisition Costs on page 18).

PURE management monitors three combined ratios to evaluate operating performance:

**Gross Combined Ratio.** This measure indicates whether or not an insurer is collecting enough premium to cover its claims obligations and operating expenses prior to the cost/benefit of reinsurance.

**Net Combined Ratio.** This measure indicates profitability net of the cost/benefit of reinsurance. It reflects items included in the statutory P&L.

**Adjusted Combined Ratio.** This measure adjusts the Net Combined Ratio to reflect the benefit of member surplus contributions, which go directly to PURE’s balance sheet. We believe that this measure provides the most accurate picture of PURE’s overall economic performance in any given year.

Superstorm Sandy, which is likely to go down as the second costliest event in U.S. insurance history, hit PURE in its most heavily populated region and had a significant impact on 2012 results. PURE’s 2012 combined ratios are presented below, both with and without the impact of Sandy.

**2012 Without Sandy**

<table>
<thead>
<tr>
<th>Category</th>
<th>2012</th>
<th>2012 Without Sandy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Combined Ratio</strong></td>
<td>76.8%</td>
<td>96.8%</td>
</tr>
<tr>
<td><strong>Net Combined Ratio</strong></td>
<td>100.2%</td>
<td>118.3%</td>
</tr>
<tr>
<td><strong>Adjusted Combined Ratio</strong></td>
<td>75.9%</td>
<td>89.2%</td>
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Claims Count by Year

As we continue to grow and diversify our membership, we are experiencing an increasing number of claims from varying causes. In 2012, PURE received over 120 claims of $100,000 or greater – over half of which were the result of catastrophic weather events.

**Total Incurred**

- **$80 M**

**Large Claims**

- **$33 M**

Large (over $100,000) claims made up 2.5% of all claims in 2012
But those claims made up over 40% of total costs incurred.
Sandy Claims

Superstorm Sandy wreaked havoc along the Eastern Seaboard, forcing the evacuation of hundreds of thousands of residents and causing widespread power outages and massive disruption to public transit systems. Approximately one-third of PURE’s membership own homes in the areas hit hardest by Sandy, resulting in over 1,300 claims totaling nearly $30M in losses. At the time of publication, we have closed 90% of these claims.

<table>
<thead>
<tr>
<th>State</th>
<th>Total Claims</th>
<th>Closed Claims</th>
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<tbody>
<tr>
<td>Massachusetts</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>29</td>
<td>29</td>
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<td>Connecticut</td>
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<td>Maryland</td>
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<td>13</td>
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<tr>
<td>Other</td>
<td>13</td>
<td>11</td>
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MEMBERS WHO HAVE REPORTED A CLAIM HAVE GIVEN PURE AN NPS OF 78 PERCENT, 20 POINTS HIGHER THAN OUR OVERALL SCORE OF 58%.

PURE INVESTED ALONGSIDE OUR MEMBERS IN LOSS PREVENTION MEASURES 88 TIMES (COMPAED TO 33 IN 2011).

CLAIMS HAVE BEEN HANDLED SINCE INCEPTION (AS OF YEAR END 2012).
Statutory Surplus

PURE’s statutory surplus grew by $1.7M in 2012. PURE members are also protected by the additional capital (and capital flexibility) of the PURE Group of Insurance Companies.

Deferred Acquisition Costs

Statutory accounting requires an insurer to book expenses when a policy is written, but revenue is earned pro-rata over the term of the policy. This puts a strain on a growing company. If we were to illustrate the matching of PURE’s revenue and expenses (as in GAAP), the PURE Group’s surplus would have grown by nearly $9M in 2012.

Surplus Notes

PURE grew its statutory surplus while repaying $1.5M in third-party surplus note principal. PURE’s third-party surplus note balance as of year-end was:

Growing Impact of Surplus Contributions

PURE members make surplus contributions for each of their first five years of membership. This is an important source of capital for PURE.

The PURE Group Structure

When examining the financial strength and claims-paying ability of PURE, one must look at the pooled PURE Group of Insurance Companies.

To learn more about the PURE Group, visit www.pureinsurance.com/puregroup.

In the first quarter of 2013, PUI contributed $20M to PIC to further strengthen the claims-paying ability of The PURE Group.
Reinsurance

PURE continues to purchase significant reinsurance protection from some of the largest, most highly rated, and well-respected reinsurance companies in the industry. These reinsurance arrangements help to reduce volatility and enhance the claims-paying ability of the PURE Group.

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<thead>
<tr>
<th>REINSURANCE PARTNERS</th>
<th>HOME</th>
<th>CATASTROPHE</th>
<th>ALL OTHER</th>
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<tbody>
<tr>
<td>BERKLEY RE AMERICA</td>
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<td>CATLIN INSURANCE COMPANY LTD.</td>
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<td>EVEREST REINSURANCE COMPANY*</td>
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<td>FLAGSTONE REASSURANCE SUISSE SA*</td>
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<td>GENERAL RE (A BERKSHIRE HATHAWAY CO)*</td>
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<td>HANNOVER AG*</td>
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<td>LLOYD’S SYNDICATES*</td>
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<td>ODYSSEY REINSURANCE COMPANY*</td>
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<td>SWISS RE</td>
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<tr>
<td>TRANSATLANTIC REINSURANCE COMPANY*</td>
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<td>MUNICH RE</td>
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HOMEOWNERS REINSURANCE

The PURE Group is protected by two comprehensive treaties relating to our Homeowners writings. Our Quota Share treaty creates a partnership with seven large reinsurers to share premiums and losses for each property risk. This treaty also provides a valuable response to events like Hurricane Irene and Superstorm Sandy that affect hundreds of PURE members. An Excess of Loss treaty is in place with General Re. In return for a premium, General Re will afford coverage relating to very large losses to individual properties.

CATASTROPHE REINSURANCE

The PURE Group purchases comprehensive reinsurance to protect against natural catastrophe events. Our philosophy is to evaluate our potential exposures to extreme events and to purchase coverage that will expose no more than 20% of the prior year capital (surplus) to any event modeled with a 1 in 100 year probability. We also purchase coverage to ensure that we could respond to multiple events of this magnitude in the same year. To give a sense as to the conservativeness of our catastrophe reinsurance program, losses from Superstorm Sandy were not significant enough to reach our first catastrophe layer. As our business grows and diversifies, we anticipate that the cost of these covers (as a percentage of total writings) will continue to come down.

ALL OTHER REINSURANCE

We purchase three other important Quota Share treaties. First, we share premiums and losses on all Excess Liability policies with a panel of excellent reinsurers. This allows us to afford important limits to our membership, while protecting us against the impact of an individual large loss. Second, we have organized a quota share treaty for our Jewelry, Art & Collections writings, enabling us to compete effectively for some important collections of art. Our third quota share treaty is for Watercraft policies. We also purchase facultative reinsurance for the occasional risk that fits outside of our traditional limits. These are “one off” placements that relate to unique circumstances, such as extremely high limits of liability or property coverage. In most cases, we rely on General Re for our facultative placements.

Reinsurance Costs

(PURE Group)

Over the last five years, PURE has substantially increased its level of reinsurance protection, both on a catastrophe and per-risk basis. However, as PURE continues to grow, diversify and spread its risk, this conservative reinsurance program is becoming more and more affordable. The following chart highlights these efficiency gains by displaying the PURE Group’s third-party reinsurance spend as a percentage of its total direct written premium in each of the last four years.

2009 63.1%
2010 60.1%
2011 52.3%
2012 47.9%
In January of 2012, PURE began a relationship with Wellington Management, a leading global institutional asset manager, to oversee the management of PURE’s fixed income portfolio. Wellington’s broad investment capabilities make them an ideal partner to help guide PURE through a historically low interest rate environment. PURE maintains a conservative investment strategy with a portfolio of diversified investment classes and high-credit quality.

PURE’s investment portfolio had a market value of $71,422,932 at the end of the year, including $941,675 in unrealized gains. PURE also retained its short duration investment strategy with an effective duration of 2.78 years at the end of 2012.

**Balance Sheet**

**PURE (PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE)**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>CHANGE</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL CASH &amp; INVESTED ASSETS</td>
<td>$76,632,717</td>
<td>$64,872,027</td>
<td>$11,760,690</td>
<td>18%</td>
</tr>
<tr>
<td>NET ACCOUNTS RECEIVABLE</td>
<td>$54,644,943</td>
<td>$45,988,367</td>
<td>$8,656,576</td>
<td>19%</td>
</tr>
<tr>
<td>OTHER ASSETS</td>
<td>$843,571</td>
<td>$95,714</td>
<td>$747,857</td>
<td>781%</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>$132,121,231</td>
<td>$110,956,108</td>
<td>$21,165,123</td>
<td>19%</td>
</tr>
<tr>
<td>UNPAID LOSSES &amp; LAE</td>
<td>$11,777,657</td>
<td>$7,760,999</td>
<td>$4,016,658</td>
<td>52%</td>
</tr>
<tr>
<td>ACCOUNTS PAYABLE &amp; ACCRUED EXPENSES</td>
<td>$10,810,014</td>
<td>$6,488,424</td>
<td>$4,321,590</td>
<td>67%</td>
</tr>
<tr>
<td>UNEARNED PREMIUMS</td>
<td>$23,868,133</td>
<td>$14,870,107</td>
<td>$8,998,026</td>
<td>61%</td>
</tr>
<tr>
<td>REINSURANCE PAYABLE</td>
<td>$28,386,944</td>
<td>$24,919,354</td>
<td>$3,467,590</td>
<td>14%</td>
</tr>
<tr>
<td>OTHER CURRENT LIABILITIES</td>
<td>$4,090,563</td>
<td>$5,473,076</td>
<td>$(1,382,513)</td>
<td>-25%</td>
</tr>
<tr>
<td>TOTAL LIABILITIES</td>
<td>$78,933,311</td>
<td>$59,511,960</td>
<td>$19,421,351</td>
<td>33%</td>
</tr>
<tr>
<td>SURPLUS NOTES</td>
<td>$47,552,326</td>
<td>$49,017,442</td>
<td>$(1,465,116)</td>
<td>-3%</td>
</tr>
<tr>
<td>SURPLUS CONTRIBUTIONS</td>
<td>$37,569,025</td>
<td>$24,494,027</td>
<td>$13,074,998</td>
<td>53%</td>
</tr>
<tr>
<td>SUBSCRIBER SAVINGS ACCOUNTS</td>
<td>$877,467</td>
<td>$975,098</td>
<td>$(97,631)</td>
<td>-10%</td>
</tr>
<tr>
<td>UNASSIGNED SURPLUS</td>
<td>$(32,810,898)</td>
<td>$(23,042,419)</td>
<td>$(9,768,479)</td>
<td>42%</td>
</tr>
<tr>
<td>SURPLUS AS REGARDS TO POLICYHOLDERS</td>
<td>$53,187,920</td>
<td>$51,444,148</td>
<td>$1,743,772</td>
<td>3%</td>
</tr>
</tbody>
</table>

**Investments at a Glance**

**INVESTMENT MIX**

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOVERNMENT BONDS</td>
<td>17.4%</td>
</tr>
<tr>
<td>MORTGAGE BACKED SECURITIES</td>
<td>27.6%</td>
</tr>
<tr>
<td>CORPORATE BONDS</td>
<td>32.9%</td>
</tr>
<tr>
<td>CASH</td>
<td>0.9%</td>
</tr>
<tr>
<td>TAXABLE MUNICIPAL SECURITIES</td>
<td></td>
</tr>
<tr>
<td>ASSET BACKED SECURITIES</td>
<td>15.2%</td>
</tr>
<tr>
<td>CREDIT QUALITY</td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td>48.38%</td>
</tr>
<tr>
<td>BAA</td>
<td>18.13%</td>
</tr>
<tr>
<td>A</td>
<td>14.59%</td>
</tr>
<tr>
<td>AAA</td>
<td>16.40%</td>
</tr>
<tr>
<td>BA AND BELOW</td>
<td>2.50%</td>
</tr>
</tbody>
</table>

**BOOK VALUE**

$70,092,185

**MARKET VALUE**

$71,422,932

**NET UNREALIZED GAIN/LOSS**

$941,695

**ANNUALIZED RETURNS**

3.72%

**EFFECTIVE DURATION**

2.78
SU RPLUS as Rega R holde Rs $ 53,187,920 $ 51,444,148 $ 1,743,772 3%

UNASSIgNED SURPlUS 
$ (32,810,898) $ (23,042,419) $ (9,768,479) 42%

SUBSCRIBER SA v ING ACCOUNTS $ 877,467 $ 975,098 $ (97,631) -10%

SURPlUS NOTES $ 47,552,326 $ 49,017,442 $ (1,465,116) -3%

REINSURANCE PAYABLE $ 28,386,944 $ 24,919,354 $ 3,467,590 14%

ACCOUNTS PAYABLE & ACCRUED EXPENSES $ 10,810,014 $ 6,488,424 $ 4,321,590 67%

UNPAId LOSSES & LAE $ 11,777,657 $ 7,760,999 $ 4,016,658 52%

TOTAL ASSETS $ 132,121,231 $ 110,956,108 $ 21,165,123 19%

OTHER ASSETS $ 843,571 $ 95,714 $ 747,857 781%

NET ACCOUNTS RECEIVABLE $ 54,644,943 $ 45,988,367 $ 8,656,576 19%

TOTAl CASH & INVESTED ASSETS $ 76,632,717 $ 64,872,027 $ 11,760,690 18%

PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE

SUBSCRIBERS ADVISORY COMMITTEE
ROSS J. BUCHMUELLER 
President & CEO, Privilege Underwriters, Inc.

JOEY CUMMINGS 
CEO/Chief Strategic & Creative Officer 
The Joey Company

DOUGLAS G. FIELDS (Secretary) 
Senior Vice President, BB&T–Oswald Trippe and Co.

RICHARD A. JACOBS 
Managing Director, CGA Capital

JAMES H. MCLAUGHLIN 
CEO, James H. McLaughlin & Co., LLC

WILLIAM W. WILSON III (Chairman) 
CEO, Refocus Inc.

ATTORNEY-IN-FACT
PURE RISK MANAGEMENT, LLC
(wholly-owned subsidiary of Privilege Underwriters, Inc.)

ACTUARIAL SERVICES
PERR & KNIGHT 
Boca Raton, FL

AUDITOR
EISNERAMPER LLP 
Edison, NJ

INVESTMENT MANAGEMENT
WELLINGTON MANAGEMENT 
Boston, MA

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Senior Vice President & Treasurer, Nationwide Mutual Insurance Company

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Principal, Stone Point Capital

NICOLAS D. ZERBIB 
Senior Principal, Stone Point Capital

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AAM – ASSET ALLOCATION AND MANAGEMENT 
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CORPORATE OFFICERS
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President & CEO

MARTIN A. HARTLEY 
Executive Vice President, COO

JEFFREY A. PARASCHAC 
Executive Vice President, CFO

EXECUTIVES
W. KEITH SELF 
Executive Vice President & Zonal Executive

ROBERT O. COLLINS 
Senior Vice President, Member Engagement

PHIL M. FIGUEIREDO 
Senior Vice President, Controller

MARK C. GALANTE 
Senior Vice President, Marketing & Zonal Executive

VIVIAN S. GEE 
Senior Vice President, Regional Executive

DENNIS P. KIRWIN 
Senior Vice President, Regional Executive

JOHN R. MINER 
Senior Vice President, Zonal Executive

MARK W. MUSSER 
Senior Vice President, General Counsel

MARK J. ROTHERMEL 
Senior Vice President, Zonal Executive

GARY D. STEPHEN 
Senior Vice President, Claims & Risk Management

STUART G. TAINSKY 
Senior Vice President & CIO

TIMOTHY J. ARONE 
Vice President, Risk Management

RANDALL C. DAVIS 
Vice President, Claims

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Vice President, Underwriting

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Vice President, Technology

MARLOT R. MCMICHAEL 
Vice President, PURE Services

JASON R. METZGER 
Vice President, Agency Distribution

KAREN M. RIEMER 
Vice President, Technology Implementation

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Vice President, New York Regional Executive

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Vice President, Product Management

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