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Dear PURE Members,

2013 was a wonderful year for PURE. We exceeded expectations in every area, especially in the service and satisfaction of our membership. We look back at 2013 as the best year yet in our history.

**Bigger, Stronger, More Diversified.** As we have in every year since our formation, PURE grew by more than 40% in 2013 (44%). Direct Premiums Written exceeded $250,000,000 and, as of the close of the year, we serve more than 26,000 members in 46 states. In January of 2014, we earned a license to welcome members in California and expect to begin doing so in the second quarter. Florida residents now represent fewer than 20% of our membership and with continued Western expansion, we are moving closer and closer to our optimal diversification.

**More Financial Strength, More Financial Flexibility.** With relatively benign weather, we produced an excellent net underwriting result, with a combined ratio of less than 100%. We saw significant growth in surplus capital with the power of our model on full display. The growing impact of surplus contributions from PURE members is critical for our strength and competitive advantage (lowering our cost of capital). We continue to accelerate the repayment of one surplus note, but also demonstrated the flexibility of our structure with an influx of new capital from the holding company of the PURE Group of Insurance Companies (Privilege Underwriters, Inc.) into the pooled insurer, PURE Insurance Company. The capital infusion was enabled by continued support of our existing investors and the ability to access affordable debt serviced by the for-profit Attorney-in-Fact. The net impact of all of these changes to the PURE Group is asset growth of greater than 50% (to over $300,000,000) and statutory surplus growth of nearly 70% (to more than $155,000,000).

**Love your insurance®.** Over the past two years, we have more than doubled the number of claims professionals, risk managers and Member Advocates to serve the PURE membership. We have introduced a “Situation Room” as a place where PURE members can get important information about risk. We are in the process of introducing a Member Portal, including a Claims Tracker that will extend our commitment to keeping the membership connected during the claims process. Based on the tremendous feedback on the service experience to date, we launched a new expression of our brand, “Love your insurance.” Our employees embraced the challenge to delight the membership at every turn, and the results show. The preliminary Net Promoter Score for 2013 is an extraordinary 65% (up from an excellent 58% last year).

**Engagement and Alignment.** We created PURE with the idea that we could build a profitable and valuable enterprise by focusing on the needs of our policyholders. Our independent Attorney-in-Fact would attract talented and motivated people who would feel liberated by the opportunity to manage an insurance company with policyholders in the center of their focus. Our commitment to this model has never been stronger. We see evidence of member engagement and referrals at unprecedented
levels, as more than 75% of respondents to a recent member survey indicated that they have already referred a friend or colleague to PURE. As tangible evidence of our alignment of interests, we have allocated $5,000,000 to Subscriber Savings Accounts in recognition of the excellent operating results from 2013.

The future is lined with opportunities and challenges.

The Weather. The horrific winter weather was a strong reminder of the risks of this business (and our lives). We are responding to burst pipe claims, and doing everything we can to proactively encourage and assist our membership to find ways to prevent loss. We continue to be conservative in our approach to catastrophic losses — limiting the amount of members we accept in any one area and protecting our business with comprehensive reinsurance. Nonetheless, we must be prepared to view dramatic and destructive weather patterns as the new normal.

The Interest Rate Dilemma. Low interest rates have placed an enormous burden on insurers who are accustomed to a certain level of return from their fixed income portfolio. In turn, the burden has been placed on policyholders as premiums have been increasing in order for underwriting results to make up for lost investment income. PURE feels the impact of those headwinds, as our fixed income yields are at historic lows. But there is a silver lining for PURE and its membership. Low interest rates have contributed to a surge in capital flowing to reinsurance markets as “insurance-linked securities” are now viewed as an attractive asset class. The result for us is a highly competitive reinsurance market that allows us to grow responsibly and hedge our bets with increasingly affordable reinsurance coverage.

California. We cannot help but be intrigued by the potential that lies in California. On one hand, it is the largest and wealthiest state in the nation. On the other hand, the extended drought conditions increase the risks for wildfires, and it’s been 20 years since the last major earthquake (Northridge). Because these potential hazards are all but completely non-correlated to our predominantly East Coast business, the opportunities outweigh the potential risks. We have begun to hire an excellent local team, based in San Francisco, and we aim to enter the market carefully and thoughtfully in the second quarter of 2014.

Thousands of PURE members have already fully satisfied their obligation to make surplus contributions to strengthen this great company. In many cases, the cost of insurance has started to go down for these members; I thank them for their commitment and loyalty to PURE. And to the more than 20,000 PURE members who have joined us within the past five years, I am committed to proving that the absolute best is yet to come.

Sincerely,

Ross Buchmueller, President & CEO
Dear PURE Members,

The PURE Subscribers’ Advisory Committee had a busy and productive year.

We continued to balance our dual roles of providing advice to PURE’s Attorney-in-Fact (AIF) and representing the membership in the governance process. One of our primary governance roles is to select an independent auditor to review the financial condition of both the insurance exchange (PURE) and the AIF. Since inception more than seven years ago, EisnerAmper have affirmed our confidence in PURE.

The Committee also played an important role alongside the AIF and our regulators to improve the simplicity and effectiveness of the PURE Subscriber’s Agreement and Limited Power of Attorney by clarifying some conditions for the benefit of the membership and introducing a plain English summary and signature page. We expect that these changes will make it easier for new members to understand the workings of PURE. We also strengthened and clarified our own governance rules, including a new procedure for electing Committee members which will begin later this year.

Our quarterly meetings with the management of the AIF include a broad financial and operational review as well as the opportunity to provide feedback on potential product and service enhancements. We pride ourselves on being able to empathize with the larger membership and offer constructive advice to improve the relevance and effectiveness of new and existing offerings. As you experience the new and improved services offered by PURE, we can only hope that our advice positively influenced the development of those services.
Lastly, in 2013, we made great strides to act as model PURE members. As ambassadors for the company, Committee members opened doors and referred friends and colleagues like never before. We have enjoyed the engagement with other members across the country and hope to be able to do even more in future years. It is in all of our interests for PURE to become larger, stronger and more diversified. I encourage you to act as a “promoter” in your community.

I have served on this Committee for the past seven years and have enjoyed watching the company become even better every year. I join my fellow Committee members in applauding the work done by the PURE team and look forward to being a satisfied member for many years to come.

Sincerely,

William W. Wilson III, Chairman, Subscribers’ Advisory Committee
What has transpired on a daily basis is quite extraordinary. Edwin and Chris have taken calls 24/7. Neither of them abandoned us during the holidays. When they tell you they will take control of the situation and make sure you are taken care of they mean it and they deliver. When I called Edwin on Saturday, he was playing ball with his son—but he took the call and didn’t rush me off the telephone at all. - Sean, Missouri

...it was at this time that Eric from PURE helped me get through a very difficult ordeal. He was professional, kind and very helpful. I cannot express enough how helpful he was to me at a time I felt very overwhelmed and between a rock and a hard place.

- Rebecca, Rhode Island

I want to tell you that you have chosen amazing employees. I cannot convey to you how wonderful, articulate and helpful April was to me.

- Debra, Florida

Communication was always timely, complete and professional, not to mention compassionate. The first question was always expressing a concern for us. This was, of course, due in large part to Jeremy’s excellent service. Accidents happen. Your team helps to minimize the anguish. We absolutely know we were fortunate to have PURE help us through this event. You have our heartfelt thanks.

- Bob, South Carolina

PURE insurance has gained some pretty loyal customers out of this ordeal.

- Stavros, Illinois

LETTERS FROM OUR MEMBERS

The feedback that we receive from our members not only inspired a new expression of our brand — Love your insurance® — but also inspires us to continue delivering an exceptional member experience every day. These pages represent just a few of the unsolicited letters our members have shared with us in response to our claim service and the services of the PURE Member Advocate®.

If you have a story you would like to share, email us at shareyoursstory@pureinsurance.com.
I hope we do not have to work with you in the future, but if we do I know that we will be working with the best of the best!!!!!!!!!!!!
- Les, South Carolina

PURE handled my two claims with an exceptionally high level of service that seems to be rare these days. These incidents are disruptive and annoying, but the way PURE steps up, takes control, and makes the experience virtually hassle-free for the customer, reaffirms to me that I have made the right choice in an insurance carrier.
- David, Florida

I saved over $2,000 by going with PURE...I have never been treated better by anyone. Never a bump in the road, everyone was very nice to both me and my daughter and it was actually very well handled.
- Michael, Missouri

I would like to say that both you and PURE have handled my claims with an expertise that extends a job well done. This is a note to say thank you for handling this claim in such a wonderful, professional manner. I hope we do not have to work with you in the future, but if we do...I know that we will be working with the best.

- Matthew, New Jersey

Mike took the time to listen to my story and assured me PURE would help me navigate this process. The entire process was completed in less than two weeks and I only had to make one outbound phone call. Most of all, I was relieved of the stress that came along with this event. I knew I could not navigate the system myself. The good news was that I didn’t have to, Mike did it for me.
- Peter, Minnesota

On Monday, November 11th I received a call from the window company SKD. We had purchased our home in November 2013 and the windows provided were not suitable and needed to be replaced. The process was complete in less than two weeks and I only had to make one outbound phone call. Mike sent an adjuster and she contacted PURE.

- John, New York

On a Sunday evening my daughter, away at college in Denver, shop and my daughter was driving a rental. While I would never want to experience a loss of any kind again, I feel fortunate for the experience with your team and Karsten’s friendly and on-point nature.
- Melanie, Maryland

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- Leonard, New York

THE HOMEOWNER FLOOD INSURANCE AFFORDABILITY ACT

In March of 2014, President Obama signed the Homeowner Flood Insurance Affordability Act that intends to slow down or reverse changes to FEMA’s National Flood Insurance Program (NFIP).

The program was facing a $25 billion deficit when bipartisan legislation was passed in 2012 with designs to strengthen and stabilize the NFIP. The intent of this legislation was to create a platform for a fair and stable flood insurance program. Under the Biggert-Waters Flood Insurance Reform Act, rates would be increased for properties that suffered repetitive losses (also creating a disincentive to build new homes in high-risk areas). Flood mapping would be updated and older properties that had been “grandfathered” with preferred rates would gradually see an overall movement towards actuarially sound rates.

Under Biggert-Waters, there were some unintended consequences, including rate increases for some low-income residents that exceeded their ability to pay. Rather than address this directly with vouchers or other cost-effective and targeted subsidies, this new law will reverse the movement towards actuarially sound rates, reinstate “grandfathered” rules, and return most all of the subsidies in the NFIP.

For PURE members who were facing increases in their flood premiums, this new law can be seen as good news. For the long-term health of the program, there remain serious concerns. We are grateful to the National Association of Mutual Insurance Companies (NAMIC) for their advocacy of this and other important issues.
In the middle of the night on September 12th, Tucker Humphrey heard a strange sound coming from the lower level of her Boulder, CO home. When she went downstairs, nothing could have prepared her for what she found. Water and sewage were spewing from the toilet and tub. Tucker called for her husband, Brian, and the two worked feverishly to save whatever furniture and possessions they could. Within minutes, 18 inches of sewage filled the lower level of the Humphreys’ home.

At the time, Boulder had been experiencing significant rainfall. The storm, now referred to as the Thousand Year Rain, dropped over 17 inches of rain; it destroyed hundreds of homes and damaged thousands more.

Realizing there was nothing more they could do, the Humphreys began calling plumbers, cleaners, and restoration companies, but the severity of the situation in Boulder left no one available to respond for several days. At a loss for what to do, they called their insurance agent — and he called PURE.

“Our neighbors could not believe help came to us so quickly...when asked how we did it, I told them it was our insurance company!”

- Tucker Humphrey

AN EXCEPTIONAL RESPONSE DURING EXTRAORDINARY CIRCUMSTANCES

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“Our neighbors could not believe help came to us so quickly...when asked how we did it, I told them it was our insurance company!”

- Tucker Humphrey

How To Obtain Coverage

If you already have an NFIP policy through another carrier, ask your broker to move it to PURE. Doing so is easy.

• If you live in a low- or medium-risk flood zone, your broker should have all of the information necessary to make the switch.

• If you live in a high-risk flood zone, you will need to provide an Elevation Certificate, which your broker should have, and two photographs of the exterior of your home (front and back) dated within 90 days.

If you have not yet purchased primary flood, we encourage you to speak to your broker about this important coverage.

For more information about PURE’s flood coverage, visit pureinsurance.com/flood.
“PURE brings a personal touch to every claim that is truly genuine. They understand that no two claims are alike just as no two clients are alike and they bring this understanding to the claims process. It’s clear that in everything they do, the focus is always on the client.

PURE’s reaction to my clients’ needs during this claim has been beyond my expectation. I could not be more pleased.”

- Richard Harkwell, President & CEO, AHM Financial Group LLC

to our home almost immediately,” says Tucker. “The crew arrived at 10 a.m. that day — just hours after our agent submitted the claim. Our neighbors could not believe help came to us so quickly; they were all told it would be several days or more. When asked how we did it, I told them it was our insurance company!”

“The crew worked for 12 hours that day, and just as they were wrapping up, the toilet and tub began running again. By this time, all of the sewer lines had been cleared so it was just dirty water that was flowing. There was nothing more the crew could do that day. They left behind a pump which helped to keep the water level below our electrical outlets, sparing us an even greater loss. In the end, it took the crew a full week to complete the cleanup.”

Despite nearly impossible travel conditions, Edwin, their adjuster, arrived at the Humphreys’ home the next day. Within just a couple of days, the Humphreys had a check to cover the costs of the cleanup and repairs. “The process was very easy and very friendly,” says Tucker.

“We had switched to PURE only six weeks before the claim. Our agent, David of AHM Financial Group, had been trying to convince us to switch to a high net worth specialist like PURE for years. I am so thankful that we finally did. Had we not, I know that our claim experience would have been very different,” says Tucker.
WILDFIRE DAMAGE CAN BE MITIGATED

Each year, wildfires devastate thousands of acres of wildland, destroying homes and other structures. Fires can erupt at any time from a variety of causes, including arson, lightning, debris burning and abandoned campfires. Adding to the fire hazard is the growing number of wildland areas being converted to residential communities.

However, these losses can be minimized by taking steps to protect your home. In studying many of the worst wildfires, PURE’s Risk Management team learned that the probability of a house surviving a wildfire is greatly influenced by the type of roofing materials; vents, eaves, and other openings; and by the amount of clearance around the perimeter of the home.

Minimize Your Risk From Wildfires

Make sure you have adequate defensible space.

Maintaining a defensible space around your home’s perimeter is your first line of protection against wildfire. This area should be free of fuels, flammable vegetation, and any combustibles to help slow the spread of wildfire. Many experts, including the Insurance Institute for Business & Home Safety, suggest taking a zoned approach to defensible space. This approach breaks your property into three zones and outlines specific safety precautions for each.

Use noncombustible roofing materials.

The roof has a significant impact on a home’s ignitability because of its extensive surface area. If a flying ember lands on a wood shake roof, the chances of the home withstanding a total fire loss are small. Roofs should be constructed of noncombustible or fire-resistant materials. If you prefer the look of wood shake over masonry types, metal, and slate, consider Polymer roof tiles. They look and feel like cedar shake but are fire-resistant and more durable.

Protect vents, eaves and other openings.

Vents, eaves, and other openings can be entry points for embers and flames. Seal off these entry points to better protect your home.

- Vents should be louvered or covered with a protective wire screen.
- Eaves should be boxed or covered with a soffit to help deflect fire.
- Openings in roof tile or metal roofs should be fitted with bird stops.
- Chimneys should be fitted with spark arrestors.

Become Firewise.

The Firewise Communities/USA Recognition Program empowers neighbors to work together to reduce their wildfire risk. Communities develop a plan to guide their residential risk reduction activities, while engaging and encouraging neighbors to become active participants in building a safer place to live. To learn more about becoming Firewise, visit firewise.org.

Enroll in PURE’s Wildfire Mitigation Program.

If you live in a wildfire prone region and have not yet enrolled in PURE’s Wildfire Mitigation Program, we encourage you to do so. Visit pureinsurance.com/wildfire-enrollment.

For more comprehensive tips to help protect your home from wildfire, visit pureinsurance.com/loss-prevention.
In August, PURE helped Santa Fe members, Bud and Valerie Hamilton, make strides toward helping their neighborhood become a Firewise community. With the help of Nora Hughes, PURE Risk Manager and former volunteer firefighter, and Bobby Collins, PURE SVP of Member Engagement, the Hamiltons hosted an educational event at their home. Attendees included neighbors and members of the homeowners association. They were addressed by a panel of fire prevention and environmental experts, including Santa Fe County’s Fire Chief, as well as representatives from the county’s Wildland Division, and Firebreak Spray Systems — the industry leader in wildfire mitigation.

"Wildfire is always a threat when you live in the Southwest. It’s a topic my neighbors and I discuss often,” says Bud. “I thought it would be an incredible learning opportunity to have such seasoned experts educate us on ways to better protect our community against these natural disasters.”

From left: Bud and Valerie Hamilton, PURE members since 2013; Mike Feulner, Santa Fe County Wildland Captain; Nora Hughes, PURE Risk Manager; Krys Nystrom, Santa Fe County Fire Prevention Specialist; David Sperling, Santa Fe County Chief; and Porfirio Chavarria, City of Santa Fe Wildland Urban Interface Specialist.

Helping One Family Help Their Community

“Most insurance companies can be counted on in the event of a loss, but it’s a great feeling to know we’re insured by a company that actually wants to help us prevent one from happening in the first place.”

- Bud Hamilton

To learn more about protecting your home from wildfire, contact a PURE Member Advocate® at (888) 813-PURE (7873) or memberadvocate@pureinsurance.com.
PURE insures thousands of vacation and secondary homes for our members, from Nantucket to Jackson Hole to Beaver Creek and everywhere in between. We know that these properties are cherished by the families who own them, representing summer vacations, ski trips, and weekends away.

While losses are less likely to occur in an unoccupied home, their severity is significantly amplified when they do happen. Fires can spread without response, and a leak or burst pipe can cause water to run unnoticed. This year, we responded to a number of devastating, disruptive losses for members who were away from home.

When Martin and Margaret Banks returned to their Houston home after visiting family in the U.K. for two weeks, they were devastated to find that a water line in their attic had rusted through and split. The rushing waters had collapsed their son’s bedroom ceiling and floor, and had destroyed their master bedroom below. Precious antique furniture, a rare Persian rug, and brand new hardwood floors were just a few of the damaged items the Banks family was devastated to lose.

“After nearly 24 hours of traveling, we walked through our back door to a disaster,” says Martin. “It was awful seeing such damage to our home. We called PURE and within an hour they had a remediation company here, removing ruined items, protecting our salvageable belongings, and preventing any more damage. Starting at 11:30 that evening, PURE worked tirelessly around the clock to fix our home.”

Construction on the Bankses’ home lasted for 10 weeks. Repairs were extensive, and included replacing the home’s galvanized pipes with PVC pipes that are impervious to rust. While initially able to remain in their home, ultimately Martin and Margaret looked to Reggie, their adjuster, for help finding a local apartment when repair of their floors began.

“Even when we had to evacuate, we were confident everything would be taken care of,” says Margaret. “From the beginning, Reggie was concerned about our well-being — confirming that my son had not been hurt when his room collapsed, ensuring that we had a comfortable place to stay during the repairs, reassuring us that we would be back in our home in time for Thanksgiving.”

Margaret now recommends that friends and family who are traveling make sure they enlist a caretaker or neighbor to check in on their home.

“If we had arranged for someone to look after our home during our trip abroad, had turned off our water, or invested in a leak detection system, the damage wouldn’t have been nearly as severe,” she says. “We will never make those mistakes again.”

Margaret and Martin Banks, PURE members since 2011, with their agent Leash Yu.
Avoid a Loss When You’re Away from Home

Before going on vacation or leaving for any period of time, prepare your home for your departure.

- To prevent frozen pipes and water damage in cold climates, set your thermostat to keep the inside temperature above 60°F. Opening cabinets under sinks and in front of plumbing can help warm air to circulate.
- To prevent mold and mildew in warm, damp climates, set temperatures to keep homes below 80°F. A humidity indicator can also help maintain a reasonably dry interior.
- Set your alarm and notify your alarm company of your travel plans. Provide names of house-sitters or caretakers, as well as your contact information while away. Assign alternate codes to caretakers or expected visitors that can be deactivated upon your return.
- Store outdoor furniture in a garage, shed, or storage unit.
- Remove all fire hazards. Dispose of or move flammable items like stacked papers and oily rags.

If you’re leaving your home for the season, consider these added precautions.

- Enlist the services of a professional caretaker to maintain your home. Meet with your caretaker to discuss their responsibilities and the frequency of their visits. Establish an emergency plan, inclusive of a list of preferred vendors. When hiring a caretaker, consider performing a background check on candidates — your PURE Member Advocate® can facilitate a complimentary screening for you.
- Winterize your home (especially if it’s required by your PURE policy). Work with a licensed plumber to turn off your water supply, drain pipes and insulate your sprinkler system. Make sure caretakers and other visitors are aware that the home has been winterized.
- Alert local authorities to your absence. Many municipalities will send authorities to drive by unoccupied homes to check for intruders or signs of trouble. Be sure to let them know if a caretaker or house-sitter will be stopping by.

Make use of today’s technology.

- Many leading alarm companies have mobile apps or websites that enable homeowners to remotely change temperature, light, and security settings in their home. Many provide alerts if the temperature rises or falls, if a smoke detector is activated, even if a door is opened. Others allow families to view footage from security cameras within the home directly on their smartphones. Talk to your alarm company to find out what options are available to you.

For help protecting your home even in your absence, contact a PURE Member Advocate® at (888) 813-PURE (7873) or memberadvocate@pureinsurance.com.
STAFF GROWTH

To help deliver exceptional coverage and service, PURE, through its for-profit Attorney-in-Fact, works to hire remarkable people from a variety of backgrounds who take great pride in doing great work. In the eight years since inception, we’ve added staff to build and maintain an exceptional member experience, help expand our footprint, and become more efficient in the process.

**EMPLOYEE COUNT**

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**STAFF BY OFFICE**

In addition to those employees who are based out of each of PURE’s eight offices, our robust field team includes Claims Adjusters, Risk Managers and Sales and Marketing Managers who are based in nearly 20 states.

In 2014, we will open new offices in Basking Ridge, NJ, and in San Francisco, CA to help support our growing membership and the brokers that serve it.

BROKER RELATIONSHIPS

PURE works with a select network of independent agents and brokers that are among the most qualified and respected in their field. They have a thorough understanding of the personal insurance needs of high net worth families, strong reputations within the communities they serve, and have dedicated professionals that act as trusted advisors.

By most estimates, there are roughly 30,000 independent insurance agencies throughout the U.S. Though many thousands have applied for appointment with PURE, our careful selection process has resulted in only a small fraction of those being appointed.

**BROKER COUNT**

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BROKER SPOTLIGHT: CELEDINAS INSURANCE GROUP

Selecting the right members starts with selecting the right brokers. Among PURE’s exceptional independent brokers is Celedinas Insurance Group.

Ray Celedinas, President & CEO, joined the agency in 1985. Over the next 29 years, he built a small family business into one of the nation’s largest personal insurance agencies, serving nearly 20,000 clients. Today the agency is licensed nationally and represents many of the country’s top insurance carriers, including all of the high net worth carriers. It has been recognized by the Insurance Journal as one of the “Top 10 Personal Lines Agencies” and “Top 100 Privately Held Property & Casualty Agencies” in the U.S. In 2012, Celedinas Group was selected as the exclusive Assurex Global partner representing South Florida. Ray attributes much of the agency’s growth and success to having a profound understanding of the challenging insurance market, with a particular knowledge of the unique needs of the high net worth customer, as well as a commitment to delivering more than just a policy to their clients.

Ray also serves as the Founder of the Assurex Global Private Client Practice Group. Assurex Global is an exclusive partnership of the most prominent independent insurance agents and brokers in the world. Partners are selected on the basis of their premier market position, history of growth, quality and breadth of services, integrity, and commitment to serving their clients. Every firm must go through an exhaustive review process, ensuring only the very best are selected to join. PURE is a proud sponsor of Assurex Global and honored to work with many of the organization’s partners, including Gillis, Ellis & Baker, Inc, Starkweather & Shepley Insurance Brokerage, Inc. and Thames Batre Insurance, to name a few. For a complete list of Assurex Global partners visit assurexglobal.com.

Ray also serves on the Board of Trustees of the Private Risk Management Association (PRMA), an independent, non-profit organization committed to lifting the specialist high net worth insurance category through enhanced education, practice management, awareness and advocacy. PURE is also proud to be a founding member of PRMA. To learn more about PRMA, visit privateriskmanagement.org.

PURE PARAGON

We align ourselves with brokers who are independent and act in the interests of their clients. We are proud to recognize those who combine client advocacy with insurance professionalism and who deliver exceptional results for PURE with our PURE Paragon designation.
SERVICE INNOVATIONS

Over the course of 2013, we made significant investments to provide our members and agents with enhanced service. Listening intently to the feedback of these key stakeholders, we implemented and prepared to introduce a number of new offerings.

SATURDAY HOURS

PURE Member Services representatives are now available on Saturdays from 8:30 AM - 5 PM EST, in addition to Monday - Friday from 8:30 AM - 8:00 PM EST.

Billing and payment questions, requests for documentation, and new car purchases have long occurred on Saturdays. From now on, members can be confident that we’re there to help them if these or other issues arise. Rest assured, our team is also available to help you with broker-specific services like endorsements, premium indications, and more.

To reach a Member Services representative, call (888) 813-PURE (7873) or email service@pureinsurance.com.

IN-HOME RISK MANAGEMENT CONSULTATION

We introduced the PURE360™, an innovative new approach to the home appraisal process. At its core is the Right Coverage Valuation – our commitment to helping members obtain both the right coverage and valuation of their home. The detailed risk management report includes an assessment of how resilient your home is to risk, followed by smart loss prevention advice that can help you better protect your home and family. The PURE Member Advocate® is available to assist in fulfilling any of these recommendations. We also provide a summary of all available premium credits and confirm what the member qualified for. Lastly, we share photos, diagrams and detailed notes to help streamline the claims process in the event of a loss.

To help make this process a success, we have and will continue to add additional Risk Management resources throughout the country. Our growing staff conducted more than twice as many home appraisals in 2013 as in 2012.

To learn more, visit pureinsurance.com/pure360.

SELF-SERVE ACCOUNT MANAGEMENT

An online Member Portal will be rolled out this year to improve connectivity during the claims process and to offer members enhanced visibility into their policies. The Portal’s Claim Tracker, Billing Center and Policy Details pages ensure members have all important information at their fingertips.

SIMPLIFIED BILLING STATEMENT

We began the process of redesigning our billing invoices to further improve transparency and ease of payment. Our new statement, which will be in circulation later this year, includes a simplified summary page, a breakdown of specific charges, a log of recent transactions and payments, and a projected payment schedule.

For more on how to get the most out of your PURE membership, visit the Member’s Guide to Working with PURE at pureinsurance.com/memberguide.
NET PROMOTER SCORE

As of this printing, the annual member survey has been issued to half of the membership, and PURE’s NPS stands at 65%. This is trending notably higher than our score of 58% for 2012 — which was excellent, and among the highest in any financial services segment.

ABOUT NPS

NPS is derived by classifying customers into three categories — Promoters, Passives and Detractors — based on their answer to one simple question: How likely are you to recommend [company] to a friend or family member? Customers respond on a 0 - 10 scale, where 0 - 6 are Detractors, 7 - 8 are Passives and 9 - 10 are Promoters. NPS is calculated by subtracting the percentage of Detractors from the percentage of Promoters.

EXCELLENCE PERSONIFIED

In addition to our annual survey, we survey each PURE member at the close of their claim. The scores and reviews are used as learning tools to help us enhance our service and develop our people.

One adjuster in particular, Cathy Lugo, earned nothing but perfect scores and high praise from the members whom she assisted in 2013. This remarkable achievement is a testament to Cathy’s exceptional level of service.

Cathy joined PURE in 2010 with a decade of claims adjusting experience. Since then she has succeeded in delighting countless families, and truly exemplifies the qualities of professionalism, empathy and responsiveness that sets PURE’s Claims team apart. Following are just a sampling of the accolades members have provided after working with Cathy:

“Superb, fast, open, straight forward — totally professional — provided calm, considerate direction at a very difficult time.”

“Each element of the communication process surrounding our claim was prompt, professional and courteous.”

“Our agent is reviewing our other policies to see if we can transfer any to PURE.”

“I was very impressed with the way this claim was handled. I was amazed at the efficiency of it all.”

“Our claim was handled professionally and proficiently.”

“Great customer service.”

MEMBER SERVICES

As our membership and agency distribution channel have grown, we strive to continue providing responsive and timely service.
GROSS WRITTEN PREMIUM

This year, the membership grew by more than 7,400 families, and premiums grew by 44% to nearly $251.3M. This marks the seventh consecutive year since our launch that written premium has grown by more than 40%.

MEMBERSHIP DIVERSIFICATION

Dollars in Millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$251.3M</td>
</tr>
<tr>
<td>2012</td>
<td>$174.2M</td>
</tr>
<tr>
<td>2011</td>
<td>$121.8M</td>
</tr>
<tr>
<td>2010</td>
<td>$83.3M</td>
</tr>
<tr>
<td>2009</td>
<td>$52.7M</td>
</tr>
<tr>
<td>2008</td>
<td>$32.5M</td>
</tr>
<tr>
<td>2007</td>
<td>$18.4M</td>
</tr>
</tbody>
</table>

FIFTH RENEWAL BENEFIT

In 2013, members who joined PURE in 2008 reached their five year service date and as a result are no longer required to make surplus contributions. These members will see an annual cost savings of more than $700 on average. In 2014, members who joined in 2009 will experience this benefit.

SUBSCRIBER SAVINGS ACCOUNTS

PURE is proud to announce that we have made an allocation of $5 million to Subscriber Savings Accounts (SSAs) for 2013.

SSAs are notional accounts that remain on PURE’s balance sheet (supporting PURE’s overall claims-paying ability) in the name of each member, into which PURE may allocate surplus. They allow PURE greater financial strength while showing our commitment to serve the membership well.

MEMBERSHIP RETENTION

We are pleased that so many members choose to renew their coverage year after year, as shown by our nearly 95% member retention rate.

93.7% 94.8%

2012 2013

MEMBERSHIP DIVERSIFICATION

As we move towards national expansion, we continue to diversify our book of business. As we enter California and other Western states, we move closer to our optimal diversification. Diversified growth will enable PURE to continue to improve the efficiency of its reinsurance spend and improve bottom-line results.
NATIONAL EXPANSION

At the time of publication, PURE is licensed in 48 states (and Washington, D.C.). As a larger company, PURE is able to better serve our membership. In early 2014, we earned a license to write business in California — the largest and most affluent state in the country. We anticipate a launch in the second quarter. We are now actively engaging regulators in the remaining two states, Idaho and Alaska, and have every intention of being a national carrier in 2014.

MEMBERSHIP GROWTH

This year, the membership grew by more than 7,400 members.

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 of art and jewelry).
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 23).

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 claims-paying ability and overall economic performance in any given year.

INVESTMENTS IN LOSS PREVENTION

PURE is dedicated to helping members prevent losses. Following a covered property loss resulting in damages of greater than $10,000, PURE will contribute up to $2,500 toward the cost of preventing future losses.

**MOST COMMON INVESTMENTS**

In 2013, these were five of the most common loss prevention methods that the PURE Member Advocates® helped to fund.

- **ARBORISTS** to prune or remove trees likely to fall in future storms.
- **WATER SHUT-OFF VALVES** to automatically stop the flow of water into a home, preventing significant water damage.
- **GENERATORS** to help keep sump pumps working and maintain quality of life when the power goes out.
- **HOME SECURITY SYSTEMS** to improve a home’s protection against theft, fire, and carbon monoxide.
- **WHOLE-HOUSE SURGE PROTECTORS/LIGHTNING SUPPRESSION SYSTEMS** to shield a home from lightning strikes and electrical damage.

For help with these and many more loss prevention measures, contact your Member Advocate at memberadvocate@pureinsurance.com.
As we continue to grow, we are naturally experiencing an increasing number of claims. The table on the right shows the top ten costliest causes of loss across all policy lines for PURE members in 2013. The percent of total cost reflects what PURE has paid or expects to pay to help members repair or replace their assets. While auto collisions represent the greatest number of claims, the cost impact of water damage claims is greater.

### Claims Count by Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Claims Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,423</td>
</tr>
<tr>
<td>2011</td>
<td>3,153</td>
</tr>
<tr>
<td>2012</td>
<td>5,179</td>
</tr>
<tr>
<td>2013</td>
<td>5,954</td>
</tr>
</tbody>
</table>

### Costliest Causes of Loss

<table>
<thead>
<tr>
<th>Cause</th>
<th>Percent of Total Cost</th>
<th>Percent of Total Claims</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Damage</td>
<td>28.2%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Collision with Motor Vehicle</td>
<td>25.8%</td>
<td>32.2%</td>
</tr>
<tr>
<td>Fire</td>
<td>10.9%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Mysterious Disappearance of a Valuable</td>
<td>3.9%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Hail</td>
<td>3.4%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Lightning</td>
<td>3.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Collision with Fixed Object</td>
<td>2.8%</td>
<td>4.7%</td>
</tr>
<tr>
<td>Wind</td>
<td>2.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Burglary</td>
<td>2.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Lost or Misplaced Article</td>
<td>1.2%</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

**Top 10 Causes: 83.5% 60.6%**

### Large Losses

PURE insures high-value homes, automobiles, collections, and other assets whose losses are likely to be more costly than those experienced by standard carriers. Our staff is experienced and well-equipped to respond to nearly all loss types, from the large and complex to the more typical.
**THE PURE GROUP STRUCTURE**

**Privilege Underwriters Reciprocal Exchange (PURE)** is the member-owned insurer at the center of the PURE Group. PURE is fueled by surplus contributions from members and is the company that underwrites policies for our members.

**Privilege Underwriters, Inc. (PUI)**, a for-profit entity, was founded in 2006 and provides the management resources and capital that enabled PURE’s creation and early success. PUI was initially capitalized through investments from management and Trident III, a private equity fund managed by Stone Point Capital, a preeminent investor in the insurance industry.

**PURE Risk Management, LLC (PRM)**, a subsidiary of PUI, serves as the Attorney-in-Fact for PURE. PRM is paid a fee to provide marketing, underwriting and claims administration services for PURE.

**PURE Insurance Company (PIC)** is also a subsidiary of PUI, and plays a major role in the Group. PIC is a reinsurance company that is pooled with PURE and shares in its net results. PIC also holds surplus notes issued by PURE. It's important to note that the pooling agreement does not apply to surplus contributions. PURE and PIC share all net premiums and net losses equally— but 100% of all surplus contributions exclusively benefit PURE and its membership.

---

**ASSETS**

- **PURE**
- **PURE Group**

Dollars in Millions

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PURE</strong></td>
<td>$59.4</td>
<td>$59.9</td>
<td>$71.5</td>
<td>$85.4</td>
<td>$111.0</td>
<td>$132.1</td>
<td>$171.7</td>
</tr>
<tr>
<td><strong>PURE Group</strong></td>
<td>$59.4</td>
<td>$59.9</td>
<td>$71.5</td>
<td>$85.4</td>
<td>$111.0</td>
<td>$132.1</td>
<td>$171.7</td>
</tr>
</tbody>
</table>

PURE and the PURE Group (the combined assets of PURE and PIC), have experienced a steady growth in admitted assets each year since inception.
GROWING IMPACT OF SURPLUS CONTRIBUTIONS

PURE members make surplus contributions for each of their first five full years of membership. These contributions provide a steady flow of capital to PURE, enabling PURE to sustain a much lower cost of capital than most stock insurers. A lower cost of capital contributes to highly competitive rates.

STATUTORY SURPLUS

PURE’s statutory surplus grew by 13% in 2013. PURE members are also protected by the additional capital (and capital flexibility) of the PURE Group of Insurance Companies.

SURPLUS NOTES

PURE grew statutory surplus while repaying $1.5M in third-party surplus note principle for the second consecutive year.

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 an additional $14M in 2013.
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 protect against large individual losses as well as the impact of catastrophic events on several members at once. As it pertains to catastrophe, our philosophy is to evaluate our potential exposures and 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.

Below is a list of the companies that make up our reinsurance program.

<table>
<thead>
<tr>
<th>REINSURER SPOTLIGHT: SWISS RE</th>
</tr>
</thead>
</table>

We are proud to partner with Swiss Re, a financially strong provider of traditional and nontraditional reinsurance solutions.

In each of the past four years, our partnership with Swiss Re has grown deeper. In 2013, 10 PURE employees participated in the Swiss Re Insurance Management Symposium, a program of the Swiss Re Academy. Alongside other Swiss Re clients, the PURE staff were challenged to run their own insurance company as executive managers while competing in a virtual marketplace. PURE participants left enthused.

“IT was an incredibly powerful learning experience and very well orchestrated,” said PURE attendee, James Pozzi.

---

**REINSURANCE COSTS**

Over the last seven 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 actual reinsurance spend as a percentage of its total direct written premium.

**PERCENT OF TOTAL WRITTEN PREMIUMS CEDED TO REINSURANCE SPEND**

(PURE GROUP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>60.1%</td>
</tr>
<tr>
<td>2011</td>
<td>52.3%</td>
</tr>
<tr>
<td>2012</td>
<td>47.9%</td>
</tr>
<tr>
<td>2013</td>
<td>40.8%</td>
</tr>
</tbody>
</table>
## Balance Sheet and Investments

### PURE

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>CHANGE</th>
<th>VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash and Invested Assets</td>
<td>$107,694,338</td>
<td>$76,632,717</td>
<td>$31,061,621</td>
<td>41%</td>
</tr>
<tr>
<td>Net Accounts Receivable</td>
<td>$63,105,032</td>
<td>$54,644,943</td>
<td>$8,460,089</td>
<td>15%</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$879,440</td>
<td>$843,571</td>
<td>$35,869</td>
<td>4%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$171,678,810</td>
<td>$132,121,231</td>
<td>$39,557,579</td>
<td>30%</td>
</tr>
<tr>
<td>Unpaid Losses &amp; LAE</td>
<td>$15,368,292</td>
<td>$10,810,014</td>
<td>$4,578,278</td>
<td>43%</td>
</tr>
<tr>
<td>Accounts Payable &amp; Accrued</td>
<td>$15,937,787</td>
<td>$14,600,800</td>
<td>$5,936,987</td>
<td>42%</td>
</tr>
<tr>
<td>Unearned Premiums</td>
<td>$38,023,514</td>
<td>$29,181,360</td>
<td>$8,842,154</td>
<td>30%</td>
</tr>
<tr>
<td>Reinsurance Payable</td>
<td>$35,970,253</td>
<td>$28,366,944</td>
<td>$7,603,309</td>
<td>27%</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>$6,297,549</td>
<td>$4,090,563</td>
<td>$2,206,986</td>
<td>54%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$111,597,395</td>
<td>$76,933,311</td>
<td>$34,664,084</td>
<td>44%</td>
</tr>
<tr>
<td>Surplus Notes</td>
<td>$46,087,209</td>
<td>$47,552,326</td>
<td>$(1,465,117)</td>
<td>-3%</td>
</tr>
<tr>
<td>Member Surplus Contributions</td>
<td>$54,007,884</td>
<td>$40,988,250</td>
<td>$13,019,634</td>
<td>32%</td>
</tr>
<tr>
<td>Subscriber Savings Accounts</td>
<td>$2,256,455</td>
<td>$2,191,229</td>
<td>$65,226</td>
<td>3%</td>
</tr>
<tr>
<td>Unassigned Surplus &amp; Other</td>
<td>$(42,270,134)</td>
<td>$(32,810,898)</td>
<td>$(9,459,236)</td>
<td>29%</td>
</tr>
<tr>
<td>Surplus as Regards to Policyholders</td>
<td>$60,081,414</td>
<td>$53,187,920</td>
<td>$6,893,494</td>
<td>13%</td>
</tr>
</tbody>
</table>

### PURE GROUP

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>CHANGE</th>
<th>VARIANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Cash and Invested Assets</td>
<td>$243,042,914</td>
<td>$146,374,147</td>
<td>$96,668,767</td>
<td>66%</td>
</tr>
<tr>
<td>Net Accounts Receivable</td>
<td>$64,613,777</td>
<td>$51,256,032</td>
<td>$13,357,745</td>
<td>26%</td>
</tr>
<tr>
<td>Other Assets</td>
<td>$1,236,236</td>
<td>$1,145,484</td>
<td>$90,752</td>
<td>8%</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$308,892,927</td>
<td>$198,775,663</td>
<td>$110,117,264</td>
<td>55%</td>
</tr>
<tr>
<td>Unpaid Losses &amp; LAE</td>
<td>$30,736,583</td>
<td>$23,555,315</td>
<td>$7,181,268</td>
<td>30%</td>
</tr>
<tr>
<td>Accounts Payable &amp; Accrued</td>
<td>$16,111,858</td>
<td>$10,903,885</td>
<td>$5,207,973</td>
<td>48%</td>
</tr>
<tr>
<td>Unearned Premiums</td>
<td>$76,047,028</td>
<td>$47,736,266</td>
<td>$28,310,762</td>
<td>59%</td>
</tr>
<tr>
<td>Reinsurance Payable</td>
<td>$24,534,643</td>
<td>$19,147,394</td>
<td>$5,387,249</td>
<td>28%</td>
</tr>
<tr>
<td>Other Current Liabilities</td>
<td>$6,297,549</td>
<td>$4,793,368</td>
<td>$1,504,181</td>
<td>31%</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$153,727,661</td>
<td>$106,136,228</td>
<td>$47,591,433</td>
<td>45%</td>
</tr>
<tr>
<td>Common Capital Stock</td>
<td>$920,000</td>
<td>$920,000</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td>Contributed Capital</td>
<td>$144,122,400</td>
<td>$91,080,000</td>
<td>$53,042,400</td>
<td>58%</td>
</tr>
<tr>
<td>3rd Part Surplus Notes</td>
<td>$12,087,209</td>
<td>$13,552,326</td>
<td>$(1,465,117)</td>
<td>-11%</td>
</tr>
<tr>
<td>Member Surplus Contributions</td>
<td>$54,007,884</td>
<td>$37,569,025</td>
<td>$16,438,859</td>
<td>44%</td>
</tr>
<tr>
<td>Subscriber Savings Accounts</td>
<td>$2,256,455</td>
<td>$877,467</td>
<td>$1,378,988</td>
<td>157%</td>
</tr>
<tr>
<td>Unassigned Surplus &amp; Other</td>
<td>$(58,228,682)</td>
<td>$(51,359,383)</td>
<td>$(6,869,299)</td>
<td>13%</td>
</tr>
<tr>
<td>Surplus as Regards to Policyholders</td>
<td>$155,165,266</td>
<td>$92,639,435</td>
<td>$62,525,831</td>
<td>67%</td>
</tr>
</tbody>
</table>

### Investments at a Glance

PURE grew its cash and invested assets by over $31M in 2013 and maintained a highly conservative and liquid investment portfolio.

### 2013’s Investment Mix

- **Cash**: 31%
- **US Governments**: 9%
- **Asset Backed Securities**: 10%
- **Mortgage Backed Securities**: 19%
- **Corporate Bonds**: 23%
- **Taxable Municipal Securities**: 4%
- **Equities**: 1%
- **Convertible Bonds not available for sale**: 2%

### Total Cash and Invested Assets

- **2011**: $76.6M
- **2012**: $107.7M
- **2013**: $146.374.147
PRIVILEGE UNDERWRITERS
RECIPROCAL EXCHANGE

SUBSCRIBERS’ ADVISORY COMMITTEE
Ross J. Buchmueller
President & CEO, Privilege Underwriters, Inc.

Joey Cummings
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