

Live Assured

An unwavering mission
fueled by a promise

2016
Annual Report



An unwavering mission fueled by a promise

Our Mission

*Assuring Our Customers'
Ability to Live Confidently.*



Christopher P. Taft
President and Chief
Executive Officer

We always begin with our statement of Mission. We regard it as our Promise to you. And to continue to assure your ability to live confidently, Preferred Mutual must seek opportunities to continuously improve ourselves in a highly competitive market.

I'm delighted to once again have the opportunity to report on the progress Preferred Mutual achieved over a very successful year. 2016 was an important year for many reasons, and I'm proud to share several of them on behalf of our 300 employees:

2016 Highlights

The Company announced near record profitability. With milder weather conditions supporting the results, significant operational advancements were deployed throughout the first year of our 2020 Strategic Plan. The highlights of those achievements were seen across four dimensions:

- **Financial Performance** - Direct written premium exceeding \$300 million and a return on equity of 9.6%
- **Customer Centricity** - Extensive efforts to understand the customer experience in their journey with Preferred
- **Internal Process Improvement** - Innovation and operational excellence throughout the organization
- **Organizational Capability** - Launch of an Enterprise Project Management Office fueled by data driven decisions and best talent



A Commitment to Excellence

These initiatives, and hundreds more across Preferred, are driving our high-performance culture and business results.

You should also know that we are committed to continuing our longstanding tradition of “paying back” an important percentage of our earnings to the communities we serve. PMIC donated nearly \$90,000 through our Foundation to many nonprofits dedicated to the wellness, quality or life, and longevity of our local and extended communities.

Lastly, we are gratified that Preferred was once again honored by industry and financial institutions in 2016: Preferred received a Best Practice of the Year Award from the Independent Insurance Agents and Brokers of America (IIABA) in recognition of our innovative efforts to support and disseminate the evolving best business practices of highly successful agencies. The Company also earned a reaffirmed “A” (Excellent) rating from A.M. Best, a score held since 2002 -- a confirmation of Preferred’s excellent financial standing and ability to meet its contractual obligations.

Our Vision

To be the most sought after insurance company, renowned for exceeding the evolving expectations of our customers.

Our Thanks

Please review the details of 2016 in this Annual Report. On behalf of our Board of Directors and employees, thank you for another successful year! I wish you a safe and prosperous 2017.

Live Assured.

Christopher P. Taft, CIC, CPA
President and Chief Executive Officer



2016 Highlights

Financial Highlights

	2016	2015
Income Statement		
Direct Written Premium	\$311,000,000	\$297,000,000
Net Underwriting Gain	7,000,000	3,000,000
Investment Income	11,000,000	15,000,000
Other Income	5,000,000	5,000,000
Pre-Tax Operating Income	\$23,000,000	\$23,000,000
Net Income	\$16,000,000	\$19,000,000
Growth in Surplus	\$22,000,000	\$13,000,000

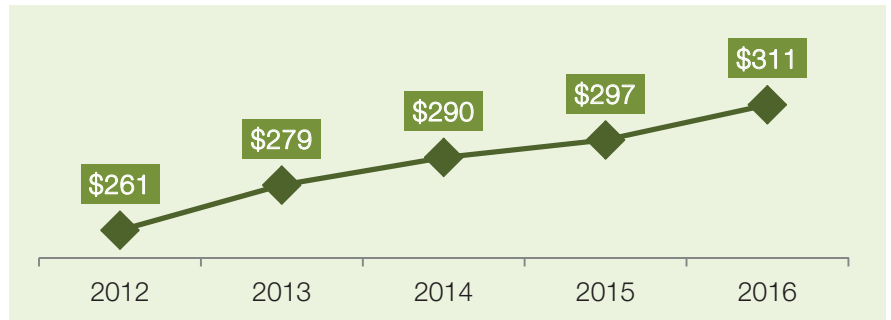
Key Performance Indicators		
Direct Written Premium Growth	4.9%	2.3%
Loss & Loss Adjusting Expense Ratio	60.4%	67.7%
Expense Ratio	35.2%	30.5%
Combined Ratio	95.6%	98.2%
Return on Equity	9.6%	7.2%

Balance Sheet		
Total Invested Assets	\$435,000,000	\$421,000,000
Total Assets	\$539,000,000	\$523,000,000
Loss and Loss Adjusting Reserves	\$143,000,000	\$150,000,000
Unearned Premium Reserve	116,000,000	110,000,000
Total Liabilities	\$304,000,000	\$310,000,000
Policyholders' Surplus	\$235,000,000	\$213,000,000

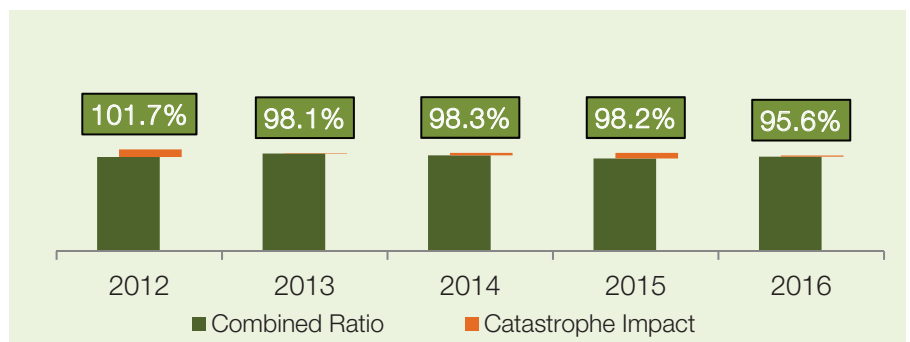


Our Performance

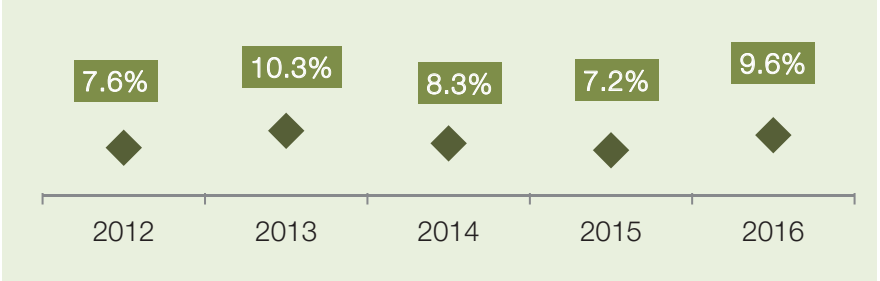
\$311
Million
Direct Written Premium



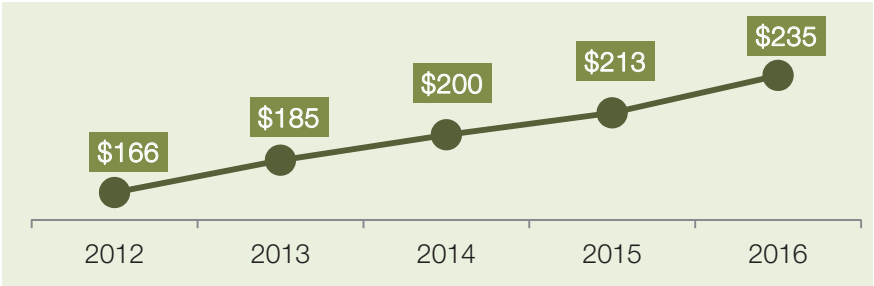
95.6
Percent
Combined Ratio



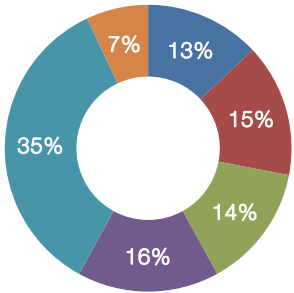
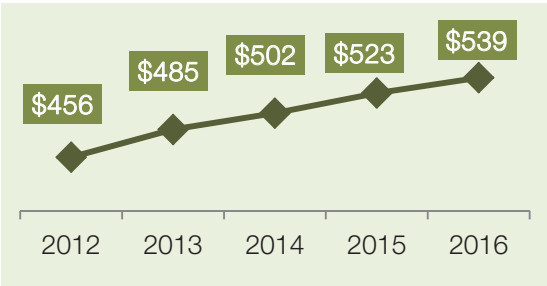
9.6
Percent
Return on Equity



\$235
Million
Policyholders' Surplus



\$539
Million
Assets



- Equities
- Municipals
- Asset Backed
- FNMA
- Corporate
- All Other



Our Portfolio

Premium Distribution

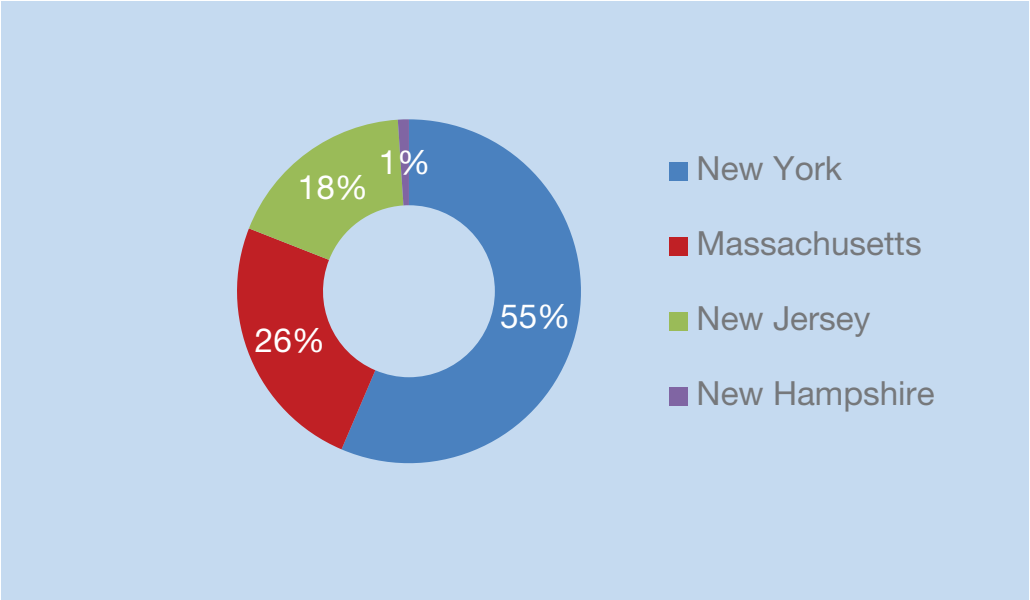
Revenue of \$311 million is generated between Personal and Commercial Lines products across our four state footprint in the Northeast.

76%

Personal Lines

24%

Commercial Lines





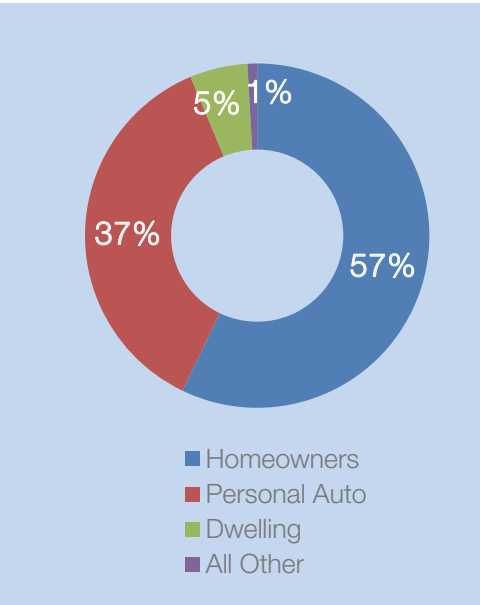
Personal Lines

The Personal Lines profit center grew at a pace of 4.4% over the prior year, closing at \$235 million of direct written premium.

\$235 Million

Personal Lines

Direct Written Premium



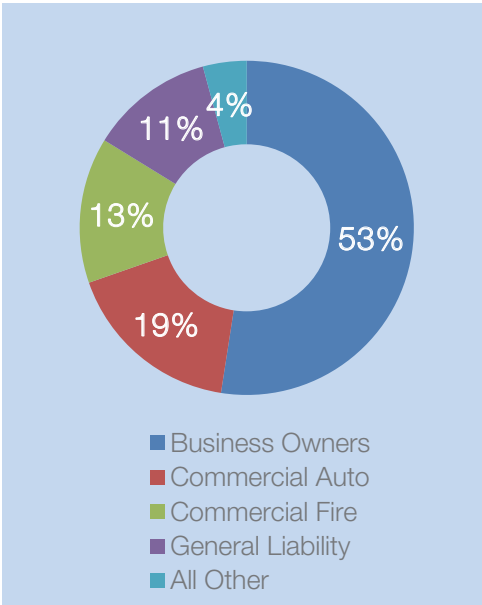
Commercial Lines

The Commercial Lines profit center grew at a pace of 6.5% over the prior year, closing the year with \$76 million of direct written premium.

\$76 Million

Commercial Lines

Direct Written Premium



A photograph of a woman and a man smiling and leaning over a glass display case filled with various cookies. The woman, on the left, has short dark hair, wears glasses, a blue top, and a gold watch. The man, on the right, has short dark hair and is wearing a dark blue shirt. They are both looking at the cookies with interest. The display case is filled with rows of cookies, including chocolate chip, vanilla, and others. In the background, there are shelves with more baked goods and a neon sign that says "FRIES".

A Commitment to Excellence



232

Thousand
Policyholders



491

Agency
Partners



938

Independent
Agent Storefronts



\$235

Million
Surplus



\$539

Million
Total Assets



120

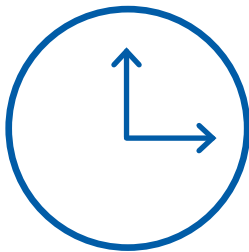
Years
In Business

**RATED “A”
EXCELLENT**

From A.M. Best

**BEST PRACTICE OF
THE YEAR AWARD**

From Independent Insurance
Agents and Brokers of America



Over the Past
Ten Years

\$2.5

Billion
Direct Written
Premium

\$1.3

Billion
Claims Paid

92%

Surplus
Growth

55%

Asset
Growth



Our Best Talent

Exceeding Our Customers' Expectations

Every one of our dedicated professionals understands that the customer is at the center of our business. We continually strive to exceed the evolving needs and expectations of our customers.

We are developing a highly engaged team of talent and leadership across the enterprise, bringing tremendous energy and innovative solutions to realize our Vision and 2020 Strategic Plan.

297

Highly-Talented Leaders
& Professionals

22

Newly-Created
Professional Roles



12

States Where our
Employees Reside

47

Internal Placements

Board of DIRECTORS

Robert A. Wadsworth

Chairman of the Board & Corporate Secretary;
Chairman and Chief Executive Officer,
Preferred Mutual Insurance Company (Retired)

Christopher P. Taft

President & Chief Executive Officer,
Preferred Mutual Insurance Company

Matthew T. Cooney, Jr.

President, Cooney Communications Corporation (Retired)

William C. Craine

Chenango County Treasurer

Martin A. Dietrich

Chairman of the Board, NBT Bancorp

David B. Emerson

Chairman of the Board, Blueox Corporation

Patrick J. Flanagan, Esq.

Attorney at Law, Nelson & Flanagan

Mary Ellen Luker, Esq.

Principal, The Bonadio Group

John C. Mitchell

President, I.L. Richer Co., Inc. (Retired)

Rip Reeves

Senior Vice President & Chief Investment Officer,
Aegis Insurance Services

Geoffrey A. Smith

President, Medical Coaches, Inc.

Strategic LEADERSHIP

Christopher P. Taft

President & Chief Executive Officer

Brian D. Lopata

Senior Vice President, Profit Center Operations
& Customer Relations

Jeffrey M. Lopata

Senior Vice President, Chief Information Officer

Brian J. Smith

Senior Vice President, Chief Human Resources Officer

Aaron J. Valentine

Senior Vice President, Treasurer & Chief Financial Officer

Kindra L. Butler-Andersen

Vice President, Sales & Distribution

Michele R. Graham

Vice President, Enterprise Project Management Office

Eugene T. Heaney

Vice President, Claims

Andre G. Hill

Vice President, Customer & Product Strategy

Timothy R. Hyle

Vice President, Finance & Risk Management

Ronald R. Martin

Vice President, Business Compliance & Research

David D. Smith

Vice President, Technology

Ernest W. Weeks

Vice President, Underwriting

Andrew P. Forstenzer

General Counsel

Sean P. Campbell

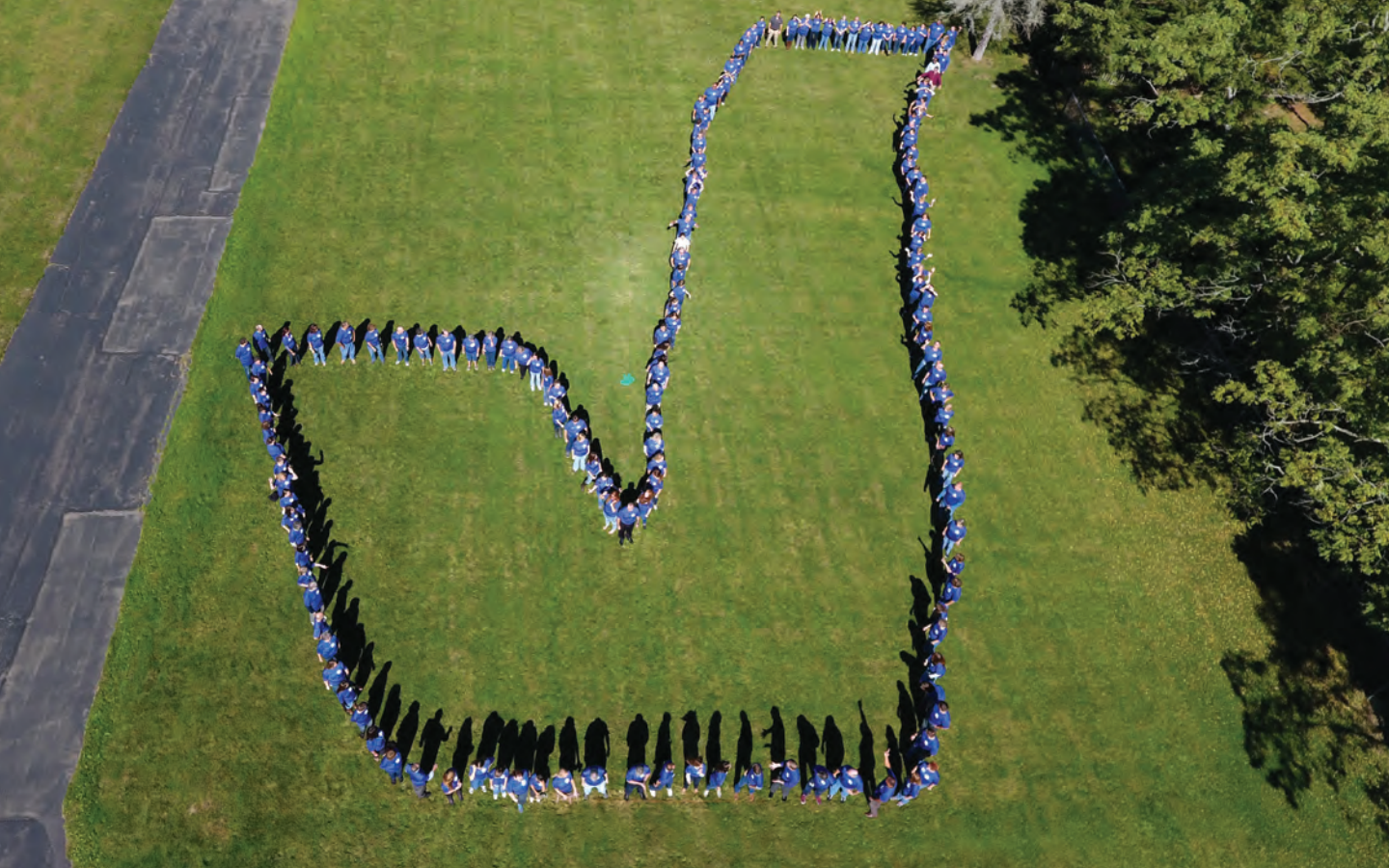
Director, Personal Lines Underwriting

Arron J. Monroe

Director, Infrastructure and Network Services

Vida J. Tamoshunas

Director, Data & Analytics



Helping Others Live Assured is Not Limited to Providing Insurance.

We advance the communities we serve and our industry through active involvement in organizations that support such efforts.

\$120

Thousand in
Charitable Donations
in 2016



\$950

Thousand in Charitable
Contributions Over Past 10 Years

26%

Employees Participating
in Matching Gift Program
in 2016

Preferred's corporate philanthropy efforts support disaster relief, safe housing and transportation, small business development and growth, and other charitable causes.

- Students Against Drunk Driving
- Child Car Seat Safety
- Fire Safety Program
- American Red Cross Home Fire Preparedness
- American Cancer Society
- American Heart Association
- YMCA
- High School Student Scholarships

Company Quick Facts

Year Founded:	1896
Employees:	297
Independent Agents:	491
Offices:	New Berlin, Norwich, and Latham, NY
Policyholders:	232,000
Direct Written Premium:	\$311 Million
Policyholders' Surplus:	\$235 Million
Assets:	\$539 Million
Geographic Footprint:	New York, New Jersey, New Hampshire, Massachusetts

PERSONAL LINES PRODUCTS

Homeowner, High Value Home, Seasonal Home, Condominium, Renter/Tenant, Mobile Homeowner, Dwelling Rented to Others, Personal Auto (NY & MA), Snowmobile (NY), Motor Home, Boat Coverage, Personal Umbrella

COMMERCIAL LINES PRODUCTS

Business Owners, Commercial Package, Commercial Auto (NY, NJ, NH), Commercial Umbrella, Professional Liability

Membership & Participation in:



National Association of Mutual Insurance Companies



Independent Insurance Agents & Brokers of America, New Jersey & New York



New York Insurance Association



Trusted Choice



Massachusetts Insurance Federation



Massachusetts Association of Independent Agents



Insurance Council of New Jersey



Professional Insurance Agents



Scan our QR code to visit our website, check out products and services, find an agent, and view helpful consumer tips and videos!



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