

PASSION
PURPOSE
PERFORMANCE
PRINCIPLED



2018 ANNUAL REPORT

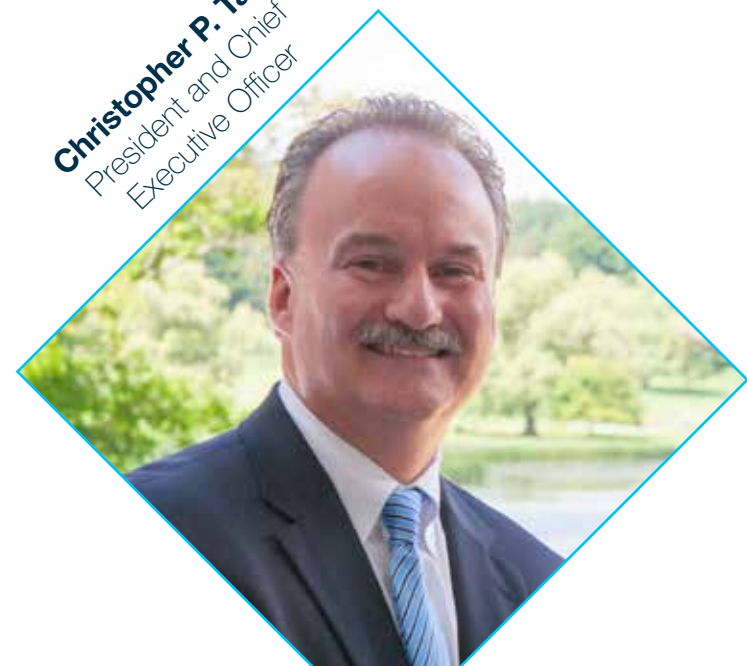


Passion, Purpose, Performance, Principled

— these are the fundamentals that guide us as we deliver on our mission to policyholders – assuring your ability to live confidently. Our mission remains at the forefront of our minds and efforts each year. This commitment to our purpose fuels our passion, and is reflected in the performance of our employees each day as they strive to exceed the evolving expectations of our Agents and Customers.

While we work hard to deliver in the present, we also keep our eyes focused on our 2020 Strategic Plan, and the objectives we want to accomplish in both the short and longer term. Each year we set key targets for both operational and financial performance, and we remain principled in our expectations to deliver those results. We ended 2018 having experienced 11 catastrophic weather-related claim events (CATs) within 11 months. While we've made accommodations for such occurrences, the 11 CATs did contribute to a higher loss ratio and thus, combined ratio, than anticipated.

Christopher P. Taft
President and Chief
Executive Officer



However, we exceeded two other key metrics, and we were encouraged by growth in Direct Written Premium (DWP) and our ability to decrease our expense ratio.

During this highly active CAT year, we relied on our fundamentals more than ever. We are:

PASSIONATE

We continue our unwavering focus on our customers and agents, and are passionate about driving innovation and leveraging technology in order to provide enhanced products and a better customer experience. From pricing sophistication to data analytics to mobile technology to cyber security, we are committed to using the latest techniques to create operational efficiencies.

PURPOSEFUL

Claims is the core of our business, and we are purposeful in delivering a claims experience that gives peace of mind during difficult times. Our Claims Team worked nights and weekends during 11 CATs to ensure that we were contacting policyholders within 24 hours and providing claims support. This commitment to providing policyholders with exceptional claims support resulted in an average claims satisfaction rate for 2018 of 97.25%.

PERFORMANCE-DRIVEN

We are always evaluating and evolving our products in order to provide insurance solutions that meet the needs of our insureds. This year we rolled out several product enhancements, including Service Line and Equipment Breakdown, Cyber Liability Coverage for Businessowners, and Personal Lines Umbrella Coverage for Uninsured and Underinsured Motorists.

PRINCIPLED

Being principled underlies all we do. Our financial position remains strong with a growth this year of Total Assets by \$8 million and DWP by \$16 million, our A.M. Best "A" (Excellent) rating has been reaffirmed for the

Our Mission

*Assuring Our
Customers' Ability to
Live Confidently.*

Our Vision

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

16th consecutive year and we are confident in our future. We aim to be a trusted partner for both our agents and policyholders, and we take pride in being good community stewards.

Our accomplishments in 2018 were thanks to the passion, purpose, performance and principles of our employees. I am proud to be a part of an organization that is driven by these fundamentals so our customers can truly Live Assured.

On behalf of the Board of Directors and employees, thank you.



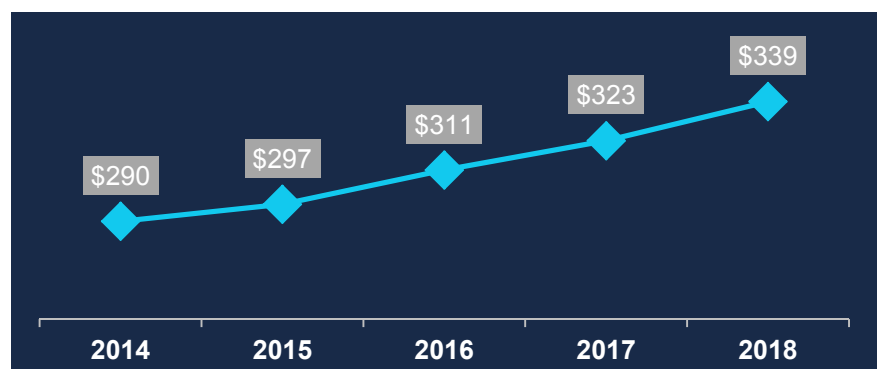
Christopher P. Taft, CIC, CPA
President and Chief Executive Officer



Financial Performance

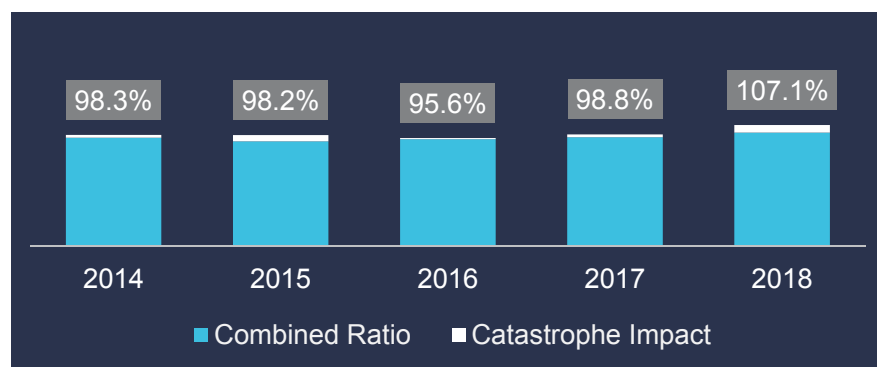
\$339
Million

Direct Written Premium



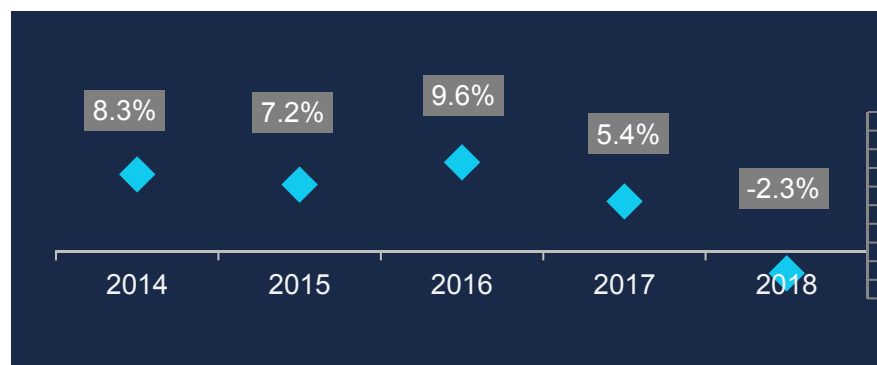
107.1
Percent

Combined Ratio



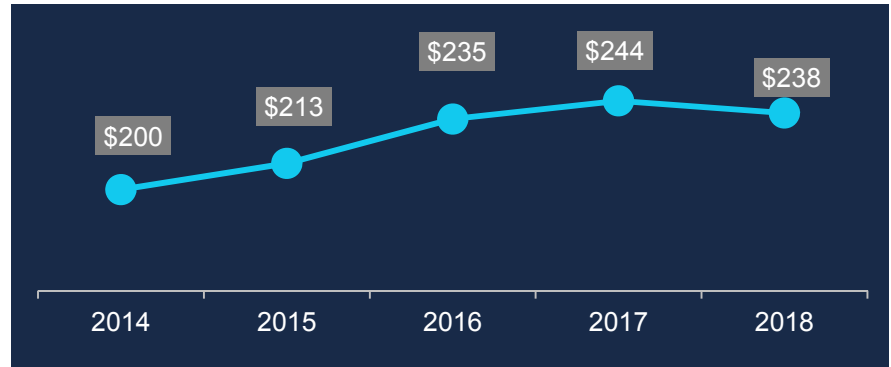
(2.3)
Percent

Return on Equity



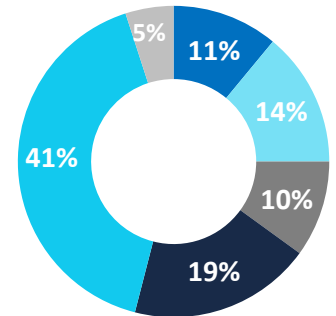
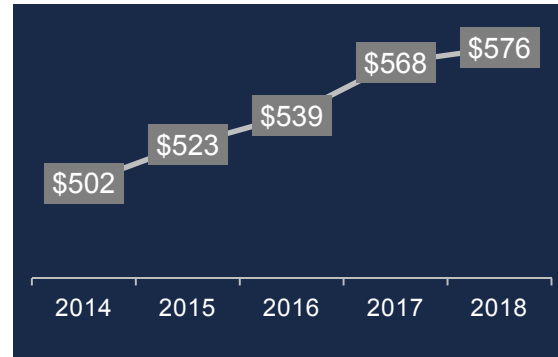
\$238
Million

*Policyholders'
Surplus*



\$576
Million

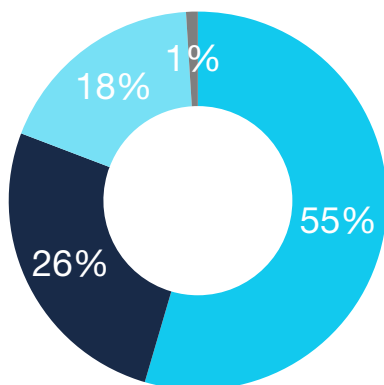
Assets



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

Premium Distribution

Preferred Mutual's DWP of \$339 million is distributed between Personal and Commercial Lines products across a four state footprint in the Northeast. This diversification has remained consistent versus prior years and is aligned with expectations.



■ New York
■ Massachusetts
■ New Jersey
■ New Hampshire

74%
Personal Lines
26%
Commercial Lines

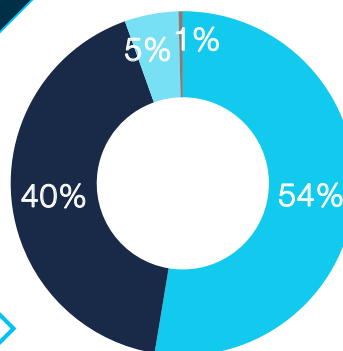


\$250
MILLION
Personal Lines
Direct Written Premium



Personal Lines

The Personal Lines profit center grew at a pace of 3.7% in 2018, and closed the year with \$250 million of DWP and an underwriting loss of \$10.7 million.



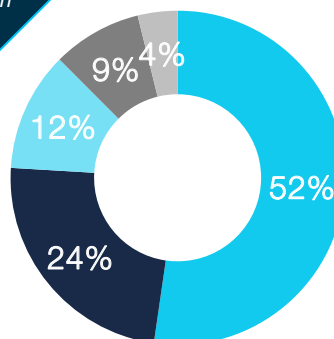
- Homeowners
- Personal Auto
- Dwelling
- All Other

\$89
MILLION
Commercial Lines
Direct Written Premium



Commercial Lines

The Commercial Lines profit center grew by 7.6% in 2017, closing the year with \$81 million of revenue and an underwriting loss of \$0.2 million. Growth was driven by Business Owners and Commercial Automobile.



- Business Owners
- Commercial Auto
- Commercial Fire
- General Liability
- All Other

Passionate about Product

We know that insurance isn't your focus each and every day – *but it is ours!*
We are passionate about insurance, and you can count on us to deliver coverage that meets your evolving needs. This year we released several product enhancements geared towards doing just that, including:

- **Equipment Breakdown and Service Line Coverage** that extends your homeowners policy to protect appliances and equipment, as well as critical systems like water, power and sewer. In the event of a major breakdown, this coverage can help give you peace of mind.
- **Personal Lines Umbrella Uninsured and Underinsured Motorists Coverage** that protects policyholders from the approximately 1 in 8 drivers who are on the road without insurance.*
- **Water Backup Coverage** for New Jersey Homeowners, in the event of a direct physical loss to covered property caused by water, such as water backing up through a sewer or drain.
- **Cyber Liability Coverage for Businessowners Policies (BOP)**, protects against damages resulting from cyber breaches to your IT systems or data. It can cover costs related to data restoration, public relations, legal, credit monitoring and third party liability costs arising from a security breach.

* According to a 2015 study performed by the Insurance Research Council (IRC).

"I had an electrical failure on a stove. I received a check for the replacement stove, minus my deductible, within several days along with follow up asking if I was satisfied with the service. I would highly recommend this additional coverage to your existing policy."
-Policyholder

Driven by Our Independent Agent Network

We partner with a network of independent agents because we know they offer you the best service, and are ensuring you are obtaining the right coverage for your needs. Together with your agent, we are there when you need us, and giving you peace of mind when you don't.

"Customer Service at Preferred is great. We always speak with a live person and do not stay on hold for long."

-Agent

"I value the relationships your underwriters have made with our agency. They really do help accommodate risks when needed."

-Agent





You're Our Purpose; You're Our Priority

We wouldn't exist without you! Our mission is to assure your ability to live confidently. From Claims to Customer Service, IT to Product, we are committed to providing you with market-leading products and an excellent customer experience.



“I recently switched to Preferred Mutual for my car and home insurance. I'm very impressed with how helpful and how quickly you respond.
-Policyholder”

“I had goosebumps because [your Claims Rep] knew exactly what I was going through and understood me.
-Policyholder”

“[I] have referred many friends... to Preferred Mutual because of my exceptional experience.
-Policyholder”

Board of DIRECTORS

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Chairman and Chief Executive Officer,
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Preferred Mutual Insurance Company

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Senior Vice President & Chief Investment Officer,
Aegis Insurance Services

Geoffrey A. Smith

President, Medical Coaches, Inc.

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Jenifer L. Rinehart

Executive Vice President, Chief Human Resources Officer

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Senior Vice President, Strategic Services

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Senior Vice President, Chief Financial Officer and Treasurer

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Senior Vice President, Chief Actuary

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Senior Vice President, Technology

Ernest W. Weeks

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Vice President, Claims

Andrew P. Forstenzer

Vice President, General Counsel & Corporate Secretary

Ronald R. Martin

Vice President, Business Compliance & Research

James J. Almy

Director, Commercial Lines Underwriting

Sean P. Campbell

Director, Personal Lines Underwriting

Arron J. Monroe

Director, Infrastructure and Network Services

Vida J. Tamoshunas

Director, Data & Analytics



Preferred Proud – Driven by Passion, Purpose, Performance and Principles

We strive to meet and exceed customer expectations – no exceptions, no excuses. We do that by being passionate about our work, finding purpose in our roles, and being principled in values that ground us in trust and integrity. It is at the interconnection of these variables - passion, purpose and principles – that our performance shines.

Our people are loyal, our culture empowering. Our most important asset is our people, and we are committed to investing in career growth and development opportunities for our employees.

In 2018, we championed employees in achieving the following designations:

- Associates in Insurance Services (AIS)
- Associates in General Insurance (AGI)
- Certified Claims Professional (CCP)
- Associates in Personal Insurance (API)
- Casualty Claims Law Associate (CCLA)
- Professional in Human Resources (PHR)
- Lean Six Sigma White Belt
- Professional in Business Analysis (PMI - PBA)
- Scrum Master Accredited Certification
- Associates of Casualty Actuarial Society (ACAS)

A Purpose to Support Local Communities Runs Deep

#PreferredCares

Live Assured isn't just a tagline. At Preferred Mutual, we proudly take its meaning to heart. Giving back to the communities we do business in continues to bring us pride, and this year was an incredibly giving year.

We raised over \$116,000 for 164 charities and non-profit organizations. Whether it's being a Pink Warrior to raise money for breast cancer, going Casual for a Cause, or "flocking" co-workers to raise money for the American Heart Association, we come together with purpose, strengthening the bond between each of us and our communities.

Founded on a Purpose; Delivering on a Promise

A Passion for Education and Community

In 1985, the Preferred Foundation, Preferred Mutual's corporate giving entity, was founded to help enhance the quality of life in the communities where we live and work. Since 2000, the Preferred Foundation has awarded more than \$253,000 in scholarships to local students. In 2018, the legacy continued and we were honored to award four scholarships to local seniors for their strength in academics and community involvement. The four scholarships will total \$28,000 over the course of the recipients' four year college term.



Committed to Performance, 16 Years...and Counting

We are proud to report that A.M. Best reaffirmed our financial strength rating as “A” (Excellent) for the 16th consecutive year. This rating solidifies our dedication to excellent financial stability, and our ability to meet the contractual needs of our policyholders. We couldn’t achieve this rating without the collaboration and commitment of our employees and agency partners.



16 YEARS
Rated “A”Excellent
From A.M. Best

Company Quick Facts



510

Agency
Partners



978

Independent
Agent Storefronts



122

Years
In Business



236

Thousand
Policies



\$238

Million
Surplus



\$576

Million
Total Assets

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, Equipment Breakdown & Service Line Coverage

COMMERCIAL LINES PRODUCTS

Business Owners, Commercial Package, Commercial Auto, Commercial Umbrella, Professional Liability, Cyber Liability

Membership & Participation in:

- National Association of Mutual Insurance Companies
- New York Insurance Association
- Massachusetts Insurance Federation
- Insurance Council of New Jersey
- Independent Insurance Agents & Brokers of America, New Jersey & New York
- Trusted Choice
- Professional Insurance Agents
- Massachusetts Association of Independent Agents



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