PLM

PENNSYLVANIA LUMBERMENS MUTUAL INSURANCE COMPANY

ANNUAL REPORT

2018

CONTENTS

AR18

MISSION STATEMENT

To be recognized by stakeholders as America's premier property and casualty insurance company serving the lumber and building material industries by establishing long-term relationships built on stability in the marketplace, superior service, industry-specific risk management, quality products, and the utmost professionalism as we consistently strive for profitable growth.

PLM AT A GLANCE

- There were 12,024 inforce policies with PLM at the end of 2018.
- We wrote 580 new accounts generating over $22 million of new premium in 2018.
- Over 2,165 brokers partner with PLM throughout the continental U.S.
- PLM ended 2018 with a combined ratio of 108.8%.
- We wrote $249.5 million in direct written premium in 2018 with an 92.5% renewal retention.
- Our total assets surpassed $552 million in 2018.
- 152 dedicated employees work at PLM.
- 80% of PLM employees participated in professional development in 2018, with two employees receiving their CPCU designation. A total of 13 employees earned designations in 2018.
- We participated in 125 wood-related industry conventions, meetings and events and 83 broker conventions, meetings and events in 2018.
- We were named as one of the Top Insurance Workplaces 2018 by Insurance Business America.

PRESIDENT'S MESSAGE

MUCH WAS ACCOMPLISHED IN 2018, BUT SO MUCH MORE REMAINS TO BE DONE IN 2019.

It was a rewarding and challenging year for me personally, but also one of the most disappointing since I took the helm as President and Chief Executive Officer of PLM in April 2003. What follows are my thoughts and projections of what was accomplished and what still needs to be done as we look forward to 2019.

Premium growth was excellent. Over 5,300 wood and building material-related businesses in America have chosen PLM to assist them in their risk management efforts by partnering with us for their property and casualty insurance. Over 2,165 brokers believe in the added value that PLM brings to the risk management process that they recommended PLM to their clients for their insurance needs. Over 94% of our retail/wholesale building material dealers and lumberyards, the largest segment of our customer base, renewed their coverage with PLM!

On the other hand, it has been a difficult and challenging year from a profitability standpoint. Like much of the insurance industry, we are facing extremely poor commercial auto results that have led us to take significant actions from a loss control and underwriting perspective in an effort to return this area to profitability. On top of that, we had a number of general liability cases that did not have the outcome for which we were hoping. Subsequently, we had to increase reserves dramatically on several cases, putting negative pressure on our results. On our property line of business, a surge in large losses associated with our retail building material dealers and light and heavy manufacturers plagued us throughout the year. This was topped by two hurricanes that made landfall; both costing us dearly. To complete the picture, our sawmill book of business continued to produce poor results. We will go into more detail in the profitability section of this report.

On a positive note, we did an excellent job managing our business expenses resulting in a world class expense ratio!

Investment and innovation in new technology was advanced in 2018 following several years of core system upgrades. We maintained 99.9% uptime in daily computing operations, addressed significant changes in audit and regulatory demands for cyber security, consolidated computing operations, and delivered several key system improvements. Our CRM (customer relationship management) system was upgraded, allowing us to stay current continuously and preventing future investments in large-scale upgrades. In addition to traditional lead and prospect tracking, our

new system provides an account-centric view of our insureds. It is now a platform for all PLM departments to connect and share their insured and broker interactions in a single place. We also rolled out "RootSource" this year, a web-based platform that replaces our previous Intranet and file storage with a collaborative system for internal communications and document control. Corporate policies, procedures, standards and guidelines are maintained centrally with cross-company access and search capabilities to reduce duplication and improve process consistency.

We implemented a new predictive analytic system providing underwriters with point-in-time risk selection and improved underwriting guidelines for all quoted vehicles upon new business and renewal. The solution will be further enhanced with additional reporting to compare the risks as predicted and priced against loss results.

Behind the scenes, we dedicated significant effort to the many new and emerging regulatory requirements and audit standards related to cyber risk. A state-of-the-art monitoring system and 24/7 security operations center (SOC) monitors our equipment and network perimeter for obvious threats and incorporates intelligence to identify suspicious behavior patterns to trigger rapid response. Our servers and networking equipment were reviewed and updated with tighter configurations to address various potential exposures. Many key policies were updated to align our standard operating procedures with the tighter restrictions and requirements. The emphasis on security will continue as we solidify cyber security as a new and permanent core IT competency.

In 2019, our Information Technology goals center around business process efficiency, underwriting effectiveness, communications and collaboration, and efficient and secure computing infrastructure sustainment.

You will recall that in 2014 we rolled out a new direct bill system. In 2018, we processed over 66,000 premium payments resulting in a year-end "statutory overdue balance" under $100,000.

This was due to the outstanding efforts of our Customer Service Department. In addition to the premium payments, they fielded over 24,000 incoming phone calls through the call center. They also made 2,252 outbound phone calls to our insureds in the paths of Hurricane Florence and Michael prior to landfall. Then they made phone calls after the storms to identify any claims and to see how we could assist our policyholders in their time of crisis.

Our Policy Services Department processed over 7,500 new and renewal policies and 24,000 endorsements in 2018. They met a 95% on-time rating, well within our processing standards, and with ever-improving quality.

We were very pleased that A.M. Best reaffirmed our Financial Strength Rating as A- (Excellent) with an upgraded outlook to stable in 2018.

Our investment portfolio was put under pressure and our surplus was up at the end of September over the same time last year. With the change in the equity markets in the last quarter and the impact of the two aforementioned hurricanes, we ended with a loss in surplus by year-end. More about this in the investment section that follows. We are in the insurance business to pay losses. We can't have a good year every year! We are coming off three very strong years, and as such, we will absorb these losses and move on.

I have spoken before about our need to transition our team to a new generation while enhancing our professional development. Like a sports team, you cannot just show up on game day. It takes practice to win. Our employees answered our call for professional development with over 80% of them enrolling in professional designation courses. On top of that, we ran a host of in-house training programs and a variety of webinars. Two employees, Stephen Hicks, Underwriting Manager, and Lindsey DiGangi, Business Analyst,

were awarded the Chartered Property Casualty Underwriter (CPCU) designation, the insurance industry's foremost professional designation. Our ongoing efforts to bring in qualified recent college graduates through our internship program resulted in us offering full-time positions to three of our five interns before they returned to college for their senior year. Keeping in mind that our sole focus as a company is based on wood, we sent a number of our young (and not so young) leaders to various wood industry courses in an effort to broaden their knowledge. We at PLM feel that you are entitled to deal with an insurance professional that understands your business. We could not do what we do, as well as we do it, without the group of loyal and talented people we employ.

I would like to thank everyone who supported the recent Insurance Society of Philadelphia (ISOP) event and donated to the scholarship program or the smoke detector campaign. I was honored to be recognized with their Distinguished Leadership Award, but more importantly, touched by the many donations that we received for this great organization and the Philadelphia Fire Department Foundation. This is the first time since the ISOP started this award that they recognized a smaller mutual insurance company. The outpouring of support was indeed humbling and very much appreciated.

This was an extraordinary year of giving not only from our outside supporters but also for PLM and its employees. We place strong importance on our responsibility as a corporate citizen to support our stakeholders, our industry, and the communities in which we operate. PLM continues to support the wood industry through sponsorships for different trade organizations. Many of our leadership sit on different boards of wood industry and insurance associations. We are also actively involved in legislative issues that affect both the insurance industry and the wood industry through our support of organizations such as NAMIC and NLBMDA.

In addition, our employees are involved in volunteer events for various charitable organizations in their local communities and active with the company-wide campaign with United Way. Not only are our employees giving their valuable time volunteering but they give monetary support to the different charities that are important to them personally and to their communities. With employees all throughout the United States, we have corporately been able to help broader communities through United Way's network. We will go into more detail on our charitable endeavors this past year later in this report.

We continued our partnership with Cristo Rey Philadelphia. Four local high school students spent a few days a week working in our office to gain valuable work experience to help nurture and challenge them to realize their full potential.

We were able to look beyond our local area and extend our help to other communities as well. There were many people and businesses affected by the California wildfires this past year. One of our customer's locations was in close proximity to the Camp Fire Wildfire. Fortunately, due to the valiant efforts of its employees who stayed on-site to protect the property, there was no loss to the plant. Sadly, some of the employees lost their homes and possessions to the fires. PLM was able to help through a fundraiser hosted by the Moulding & Millwork Producers Association (MMPA) as well as donations directly to the children of the affected employees.

I would be remiss if I did not recognize Fran Santoro, our Vice President of Claims, who retired from PLM at the beginning of this year. Many of our insureds and brokers have dealt with Fran during his 25 years at PLM. He has been the stable hand that has lead our Claims Department for many years. His expertise, guidance and wisdom will indeed be missed. We wish him and his wife, Betsy, a much deserved long, healthy and enjoyable retirement.

> I WOULD LIKE TO TAKE THIS FINAL MOMENT TO THANK OUR CUSTOMERS FOR THEIR BUSINESS. AS A MUTUAL COMPANY, WE TAKE THIS COMMITMENT TO PROTECT YOUR BUSINESSES SERIOUSLY.

Our Board of Directors once again showed their unwavering commitment to our organization throughout the year. It's easy to be a member of a board when the results are good. Great boards demonstrate their importance and ability in difficult times. Our Board of Directors did not let us down. They offered their counsel freely and made sure we stayed the course as we weathered a difficult year.

We have accomplished a wide array of objectives and overcame numerous challenges this past year. However, we must also recognize that we recorded a significant underwriting loss that was in fact one of the worst in our history. Despite the increase in frequency of loss that has put some strain on our claims department, we still receive very positive feedback about the timeliness and the quality of our claims settlement process. We also receive regular kudos from our customers regarding our loss control and risk management efforts.

I would like to take this final moment to thank our customers for their business. As a mutual company, we take this commitment to protect your businesses seriously. We very much appreciate the faith and trust you have placed in us to do so. I want to also thank the brokers who choose to do business with us. We value their continued efforts on your behalf and their willingness to work with our organization during a period of far-reaching change.

I WELCOME YOUR FEEDBACK. IF YOU HAVE ANY COMMENTS OR WANT TO CHAT AFER REVIEWING THIS YEAR'S ANNUAL REPORT, PLEASE GIVE ME A CALL OR SEND ME AN EMAIL AT 267-825-9246 OR AT JSMITH@PLMINS.COM!

Regards,

JOHN K. SMITH, CPCU
PRESIDENT & CEO

PLM

PROFITABLE GROWTH

PREMIUM GROWTH WAS THE HIGHLIGHT IN 2018. WRITTEN PREMIUM INCREASED 8.1% OVER 2017.

New business was robust at just over $25 million and premium renewal retention was at an all-time high of 92.5%. Over 5,300 insureds chose to place their faith and confidence in Pennsylvania Lumbermens Mutual Insurance Company, and for that, we are extremely grateful.

We saw positive growth in exposures as the price of lumber peaked in 2018. Our insureds added to their fleets and their sales grew. At the same time, many customers took the opportunity to increase the values on their buildings, personal property, and business interruption insurance. In addition, many increased their umbrella limits to counter the ever-increasing size of verdicts being handed out by juries today.

Once again, we saw another wood niche insurance carrier withdraw from the market and non-renew all of their policies. There is a history of insurance carriers entering this market without fully understanding the severity of exposures inherent in insuring wood risks and subsequently experiencing significant fire losses or auto losses. We were able to negotiate an agreement with this carrier to purchase the renewal rights to their accounts. Each risk was carefully examined before we offered renewal insurance terms.

Unfortunately, on all our lines of coverage we produced a very unacceptable net loss ratio of 81.9%. Despite our excellent expense ratio of 26.9%, we produced a combined ratio of 108.8%, well above our break-even point even after our return on investment. This is one of the worst underwriting results in the company's history which was somewhat surprising to us after the great results of the prior three years. Looking deeper into the loss picture, we found that we were unprofitable in almost every line of business.

When measuring our claims from a severity standpoint we use a $100,000 minimum claim threshold to gauge changes on a year-over-year basis. New property losses over $100,000 increased from 64 in 2017 to 85 in 2018. The total of those losses went from $36,600,000 to $101,600,000. Catastrophes played a significant role in these numbers as well as large fires. We had 42 property claims over $1 million. One loss was $10 million with the largest, a sawmill fire, at $15 million.

There are classes of business within the property line that are not profitable and we feel we must act immediately to correct the deficiencies within this line of business. Our five-year loss ratio on property is 95.3%. We have spoken for years and published many articles about the profitability problems in the heavy manufacturing segment of the niche. Some would say we have taken drastic actions to return the segment to some semblance of profitability. We would challenge that. Drastic actions in our minds would be to do what others have done and simply non-renew all the business and leave the niche.

Historically, this has been the most difficult area to produce an underwriting profit for both the reinsurers that have placed their confidence in our ability to underwrite the class profitably, and for us as a primary insurance company. To that end, we can no longer continue to subsidize the losses in this class and will be making dramatic changes to our pricing structure, underwriting guidelines, deductibles and loss control recommendations in 2019. It is also important to note that the number of reinsurers, worldwide, interested in this segment of business has decreased considerably over the past 20 years.

A critical point to understand here is that most of the insureds that suffered losses have never had a loss before. This is not unusual in a **SEVERITY** niche like the wood industry. Our insureds frequently tell us that they have never had a loss and do not understand why their premium is going up. The fact of the matter is that in a severity niche, like property coverage on sawmills, past loss-free experience really does not mean all that much from a pricing standpoint. From an insurance company's perspective, it's about gathering a group of well run, high quality insureds in this segment and collecting enough premium from them all so that you can cover the loss that will inevitably occur within the class.

So, we have come to a crossroads with the significant unprofitability in this segment of our business. What is disconcerting about our results is that we have focused a great deal of time and attention to understanding the loss drivers in this class. We studied the hazards behind the large losses and taken action – aggressive action – in order to put the problems behind us! Yet, we have not been successful in turning things around. What is truly frightening in our minds is that the losses we have endured this past year involved topflight operations run by, in our estimation, excellent operators.

What made this past year distinctive was that our poor property results crossed over into almost every class of business we write. We posted over $30 million in weather-related claims, up from $12 million in 2017. As a nation, we saw multiple, unprecedented natural disasters from the deadliest wildfire in California's history to the worst hurricane to hit the East Coast since 1969. Reports from the NOAA's National Centers for Environmental Information found that climate change is playing a major role in causing natural disasters to be more intense, destructive and costly to the country. Whether this is true or not depends on your point of view. We can tell you that Hurricanes Michael and Florence both set records for property losses in several states. At least 43 people died in Hurricane Florence which flooded the Carolinas in September. North Carolina, one of our largest states in terms of written premium, was hit with 36 inches of rain and South Carolina got 24 inches – both surpassing statewide records. In October, Hurricane Michael left a trail of destruction across Florida, Georgia and the Carolinas becoming the strongest storm – based on pressure – to hit the U.S. since Hurricane Camille in 1969. Michael also brought the strongest winds seen since Hurricane Andrew in 1992. In the end, Hurricanes Florence and Michael both had a significant but manageable effect on PLM.

Hurricanes and windstorms were not the only drivers of the increase in our weather-related losses. Just about every area of the country is now faced with some type of weather pattern that can cause significant losses. Deep freeze, buildup of heavy ice and snow, flooding, tornadoes, hail and wildfires are all occurring with increased frequency and severity. No area is left untouched.

Commercial Automobile losses were a staggering $55,000,000 on $61,600,000 earned premium for a 90% gross loss ratio. This is an unacceptable result and we have put several measures in place to mitigate future losses. The auto claim count is up 7.6% from 2017 and the number of automobiles we insure is up 2%. There was no doubt in our minds that the sales growth that our insureds experienced required their vehicles to be out on the road more than prior years. This increased the opportunity for losses to occur. When we look at this loss frequency on a per vehicle basis, the increase becomes negligible. We are also aware of the difficulty in finding and keeping quality drivers. Roads are more congested and distracted driving losses are soaring. Road construction, complex technologies in vehicles, soaring medical costs, as well as increased repair costs are additional factors driving our commercial auto loss results.

It's important to understand that PLM is not alone in this area. Nationally, the insurance industry is

WE ARE ALSO PILOTING THE USE OF TELEMATICS WITH SEVERAL OF OUR CUSTOMERS. THIS INVOLVES IN-CAB AND BACKUP CAMERAS. THE POWER OF IN-CAB CAMERA SYSTEMS HAS GROWN EXPONENTIALLY IN JUST A FEW SHORT YEARS AND CAN DO MUCH MORE THAN DETERMINE FAULT.

dealing with significant underwriting losses on the commercial auto line of business. We have to do what is right for our company and our clients. We have the responsibility to move in a thoughtful and resolute way. First and foremost, our automobile book of business needs improved pricing. Much like the rest of the insurance industry, we have been and are securing significant rate increases on our automobile renewals. Frankly, however, price alone will not fix this problem.

We recently partnered with an advanced data and analytics provider to improve our underwriting performance by leveraging our policy data to perform portfolio management predictive analytics to help us understand the risk quality of each insured in our portfolio. Through the data, we can predict a policy's loss ratio to identify high risk policies that are predicted to have five times the future loss ratios of best performing policies. We have also partnered with Samba Safety to help you monitor your employees' Motor Vehicle Reports (MVRs) in real time. Too often we see that one of your drivers may have had a careless driving offense or DUI on his MVR of which you were not aware. Samba will notify you of any offense in real time. Our data shows that customers who employ drivers with serious moving violations perform more than 20 points worse in loss ratio results than customers with employees with clean driving records. Your company is potentially facing more than four times that amount in indirect costs from business interruptions such as lost productivity or administrative costs as a result. An MVR monitoring program will help you identify your driver risk and enable you to modify your drivers' behavior, reduce accidents, ensure compliance, and lower your costs – ultimately improving driver safety and reducing losses. However, for this to be effective our insureds need to be committed to doing these things.

We are also piloting the use of telematics with several of our customers. This involves in-cab and backup cameras. The power of in-cab camera systems has grown exponentially in just a few short years and can do much more than determine fault. Today they not only capture video footage of events, but also record details such as vehicle speed, motion and specific driver actions at the time of the accident. This information is invaluable to you and to PLM. A camera speaks the truth and there's no arguing with the evidence. Cameras can help us avoid fraudulent claims, or let us save time and money settling cases where our insureds are at fault.

We have invested quite a few dollars in a partnership with the National Lumber and Building Material Dealers Association (NLBMDA) to update and rewrite their delivery and fleet safety training program. We are also attempting to rework our claim processes to better control claims costs.

Yet, loss frequency and severity on the auto line has surged, and there is no sign of abatement. So, what can you do? The first step to addressing this issue is to understand that this problem will require your leadership, attention and involvement. Driver selection and training needs to be improved. More than 75 percent of our new losses have been caused by "driver error". Equipment maintenance needs to be prioritized. Loading and unloading activities need to be evaluated, reworked and enforced, and supervised more carefully. Load securement procedures need to be followed. Drivers should have the authority to not leave the yard if they believe the load has been improperly built and secured. Telematics in your trucks need to be embraced and acted on. Lastly, your personal commitment and involvement in fleet safety is a must and **YOU MUST FORMALIZE YOUR PROGRAMS IN WRITING**. Without your total commitment and leadership, serious large losses will continue and they can and will happen to you!

The general liability line was also extremely unprofitable coming in at 103% gross loss ratio. A deeper dive into our loss numbers shows that new claim frequency is up 15.8% over 2017. There were six claims over $1 million compared to not having any in 2017. The losses are driven by slip and fall, forklift injuries, loading and unloading, products liability and construction defect.

Our largest losses are a testament to the need to place additional emphasis on temporary employees that you hire as well as the need for formalized loading and unloading guidelines.

In the truss manufacturing class, we are seeing products claims for truss failure, unloading claims at the jobsite, as well as auto claims. Some of the largest claims in our company's history in the general liability and umbrella lines have come from truss manufacturing and in particular from "truss setting". We have had more than a few losses involving this exposure in spite of the fact that most insureds tell us that they don't set trusses!

The losses involving vehicles entering and exiting a business's premises continue to be problematic. With the pick-up in economic activity, pulling into and exiting your facility and your customers' facilities, have been more of an issue. Take a look at how vehicles are entering and exiting your facility. Think about whether you need to send a "flagperson" on certain deliveries where traffic needs to be stopped so your driver can safely deliver a load. You should provide a safe area for drivers as their vehicles are being loaded or unloaded. Your employees should be able to call a work stoppage if the driver is present outside or near the vehicle.

Forklift losses are also prevalent. Forklift operation training needs to be mandatory with management taking a hard stance regarding anyone using a forklift that is not certified. Keep in mind that forklifts are not people lifters or elevators!

We have created safety guides and videos to address loading and unloading as well as forklift exposures. We urge you to take advantage of these resources.

Recently we have been seeing losses regarding roofing materials and deck top deliveries. Three or four times last year, inexperienced employees stacked all the roofing materials in one location on a roof causing building collapse. Interestingly, in one case the general contractor instructed the delivery guy to place the load in a specific location. Unfortunately, the general contractor did not have adequate limits and our insured was forced to rebuild the building that collapsed.

As mentioned previously, products liability and construction defect losses are increasing. If you are directly importing a product manufactured in a foreign country, you are considered the manufacturer in the United States and are responsible for that product as the first line of defense unless you have ironclad agreements or the foreign company has assets in the U.S.

We are seeing losses from subcontracted installation where there was no written contract with the subcontractor. The contract must be in writing and it must include you as an additional insured on the subcontractor's policy. It should also contain a hold harmless agreement and primary and noncontributory wording. You must also require and monitor their insurance by certificate!

This past year we saw an increase in losses associated with temporary employees. There is a difference between temporary workers and leased workers as far as coverage is concerned, and you should understand the difference. Before turning a driver loose with your truck, you need to know their background, training and skill. We would encourage you to review your insurance contract with your broker before signing a contract leasing or using a temporary employee.

We have also witnessed an upswing in liability loss demands from plaintiff attorneys as well as juries awarding larger verdicts. This has led to more losses in the umbrella line of business for some insureds, and with several going beyond their umbrella limits. When this happens, the insured becomes personally liable for the loss settlement above the policy limits. You need to ask yourself if you are buying a high enough limit.

So, there has been a lot going on in regards to losses this past year. While we normally do not "preach" in an annual report, we felt that it was important to share the types of losses we are seeing and what we can do together to prevent or mitigate these losses.

INVESTMENTS

WE WITNESSED A RETURN TO VOLATILITY IN THE GLOBAL INVESTMENT MARKETPLACE IN 2018 AFTER A CONSISTENTLY POSITIVE 2017.

A negative start to the year turned around by July followed by the equity markets sharply turning negative in the last three months of the year. Unfortunately, the market forces of fluctuating interest rates and declining stock and commodity prices had a negative impact on our company's diversified investment portfolio. In spite of downsizing significantly, our equity investments could not overcome these market forces by year end 2018, but we did participate nicely in the rebound that followed.

Interest and dividend income collected on our portfolio grew by $800,000 (7%) over 2017, exceeding our plan. This was driven by the combination of additional investment in our portfolio and our ability to invest these funds at rising interest rates. Our portfolio growth came from positive cash flow from underwriting operations (which is different than the underwriting loss discussed earlier) and reinvesting portfolio income.

PLM has been at the forefront of our industry in coping with years of declining investment interest rates. We have commented in prior reports on our use of Real Estate Investment Trusts (REITs) and energy Master Limited Partnerships (MLPs) as substitutes for bond investments. We continued holding these securities through 2018 although our allocation to them was reduced in the fourth quarter as the risk-return profile became less positive and our concern about asset side risk from an enterprise risk management viewpoint. In last year's report, we discussed our initial investment of $7 million in three alternative investment vehicles in the fixed income arena. All three performed as planned in 2018. We did not, however, add to our investment in alternative funds during the year as we did not see any structures that met our risk-reward criteria.

Our allocation of the portfolio to cash and fixed income securities increased 8.5 percentage points to 82.2% by year-end 2018. We took several actions to

reduce the portfolio's exposure to equity investments during the fourth quarter. The actions were driven by a combination of management's enterprise risk management program, prudent portfolio management given the market downturn, and our opinion of the risk of further decline compared to the prospects for appreciation. In accordance with our views, investments in broad equity market index vehicles were reduced in greater proportion than were investments in individual equity holdings. Our portfolio allocation to equities has shifted towards individual investments with superior dividend-payment or appreciation prospects.

Our portfolio is managed conservatively by a mixture of management and independent investment advisors, overseen by an experienced Investment Committee of the Board of Directors. The Investment Committee formally meets on a quarterly basis and informally at least four more times per year to review aspects of the portfolio holdings in greater detail. The array of independent advisors, all specialists in their market niches and/or knowledgeable of insurance company portfolios, remained unchanged in 2018. We plan to maintain this structure through the coming year.

DIRECT WRITTEN PREMIUM (IN MILLIONS)

* 2018	$249.5
* 2017	$230.7
* 2016	$219.4
* 2015	$230.9
* 2014	$219.4
* 2013	$205.6
2012	$152.9
2011	$141.8

* YEARS 2013–2018 NUMBERS ARE COMBINED PLM/ILM RESULTS. ALL YEARS PRIOR ARE PLM ONLY.

COMBINED RATIO (%)

* 2018	108.8
* 2017	95.3
* 2016	96.6
* 2015	101
* 2014	113.27
* 2013	111.1
2012	112.4

ANNUAL LOSS RATIO (%)

* 2018	81.9
* 2017	64.4
* 2016	64.3
* 2015	68.3
* 2014	77.83
* 2013	70.1
2012	76.3

YEAR END SURPLUS (IN MILLIONS)

* 2018	$136
* 2017	$149.4
* 2016	$134.7
* 2015	$121.4
* 2014	$127
* 2013	$133.7
2012	$106.6

DIVIDENDS (IN MILLIONS)

* 2018	$0.3
* 2017	$1.9
* 2016	$1.8
* 2015	$0.9
* 2014	$0.8
* 2013	$1.0
2012	$0.8

* YEARS 2013–2018 NUMBERS ARE COMBINED PLM/ILM RESULTS. ALL YEARS PRIOR ARE PLM ONLY.

CONDENSED COMPARATIVE STATUTORY BALANCE SHEET

2018 VS. 2017 ($ IN MILLIONS)

ASSETS	2018	2017	2018 vs. 2017 Change
Investments and Cash			
Fixed Income Securities (at amortized cost)	$278.0	$248.7	$29.3
Equity Securities (at market)	63.3	106.8	(43.5)
Cash, Short Term and Other Investments	34.7	22.3	12.4
Total Cash and Investment	**376.0**	**377.8**	**(1.8)**
Receivables			
Premiums Due	153.2	146.3	6.9
Reinsurance Recoverable on Paid Losses	9.6	7.6	2.0
Receivables for Securities Sold	0.4	0.4	–
Accrued Investment Income	2.8	2.7	0.1
Total Receivables	**166.0**	**157.0**	**9.0**
Other Assets	10.8	6.1	4.7
TOTAL ASSETS	**$552.8**	**$540.9**	**$11.9**

LIABILITIES AND SURPLUS			
Liabilities			
Loss Reserves	$203.3	$175.5	$27.8
Unearned Premium Reserves	175.0	167.6	7.4
Premium Due Reinsurers	5.5	8.6	(3.1)
Expenses Payable and Other Liabilities	33.0	39.8	(6.8)
Total Liabilities	**416.8**	**391.5**	**25.3**
Surplus	**136.0**	**149.4**	**(13.4)**
TOTAL LIABILITIES AND SURPLUS	**$552.8**	**$540.9**	**$11.9**

CONDENSED COMPARATIVE STATUTORY OPERATING RESULTS

2018 VS. 2017 ($ IN MILLIONS)

	2018	2017	2018 vs. 2017 CHANGE
Premiums Written – Direct	$249.5	$230.7	$18.8
Premiums Written – Net	$181.8	$172.4	$9.4
Premiums Earned	$174.3	$159.6	$14.7
Losses Incurred	142.8	102.8	40.0
Expenses Incurred	48.9	53.3	(4.4)
Total Losses and Expenses	191.7	156.1	35.6
Underwriting Profit/(Loss)	(17.4)	3.5	(20.9)
Dividends	0.3	1.9	(1.6)
Underwriting Profit/(Loss) After Dividends	(17.7)	1.6	(19.3)
Net Investments Income	11.2	10.7	0.5
Pre-Tax Operating Income/(Loss)	(6.5)	12.3	(18.8)
Realized Gains & Other	7.0	4.4	2.6
Pre-Tax Income	0.5	16.7	(16.2)
Federal Income Taxes	(0.8)	1.2	(2.0)
Net Income	1.3	15.5	(14.2)
Change in Unrealized Gains/(Losses) (Net of Tax)	(14.4)	4.8	(19.2)
Other Surplus Decreases	(0.3)	(5.6)	5.3
Change in Surplus	($13.4)	$14.7	($28.1)
Total Surplus	$136.0	$149.4	($13.4)
% Increase/(Decrease) in Surplus	(9.0%)	10.9%	

CHARITABLE GIVING

WE ARE EXTREMELY PROUD OF THE CULTURE OF GIVING WE HAVE ESTABLISHED WITHIN THE ORGANIZATION AND OF THE GENEROSITY OF ALL OUR EMPLOYEES IN SUPPORT OF OUR EFFORTS IN THIS AREA. THIS PAST YEAR WAS ESPECIALLY AN EXCEPTIONAL YEAR IN GIVING!

Our yearly United Way Campaign, the cornerstone of our giving program at PLM, was a huge success with 98.7 percent of employees participating! PLM partners with the United Way of Greater Philadelphia and Southern New Jersey with a month-long campaign where employees are encouraged to donate to either a charity of his or her choosing, or directly to United Way to help the organization continue to make a difference in the community. Further, our remote employees are encouraged to give to their local United Way expanding our reach of support to communities throughout the country.

During the campaign, PLM hosted different teambuilding activities, volunteer opportunities, as well as events to raise additional dollars outside of employee pledges. Our employees enthusiastically stepped up, resulting in record level numbers. Employees donated to over 160 different organizations under the United Way member agency network. Our average pledge amount was $416 per employee, and nineteen employees gave at a Leadership Level of $1,000 or more. In the end, PLM employees raised $61,141 in personal pledges alone. PLM matched those contributions in addition to a corporate gift bringing the total to over $146,000, a new PLM record. This is $18,664 above last year's total!

The generosity and commitment of our employees did not stop there. Many also participated in different volunteer activities throughout the year in Philadelphia and in Indianapolis. Employees donated their time working at various charitable organizations such as Starfinder Foundation, ASPCA, Ronald McDonald House, MANNA, Cradles to Crayons, Outley House Shelter and Riley Hospital for Children. Whether it was cleaning cages at an animal shelter, cooking meals, making care packages or painting walls, everyone was engaged and eager to learn more about the organization's mission, and grateful to give back to their community.

Employees were also able to support some of their favorite organizations by collecting items or money towards groups like Toys for Tots, Gleaners, and PAWS.

PLM furthered its commitment to the community by expanding our work study program with Cristo Rey Philadelphia High School. We also entered into a commitment with Temple University's Risk Management & Insurance program which has been a valuable source of new talent in our organization.

This past year also gave us the unique opportunity to support a cause near and dear to the core mission of this 124-year-old mutual insurance company: fire prevention and safety.

Each year, the Philadelphia insurance community gathers at the Independence Gala to recognize one of their peers in the insurance industry with the Distinguished Leadership Award and to raise money for the Philadelphia Fire Department Foundation. This year, the Insurance Society of Philadelphia (ISOP) honored our CEO and President, John K. Smith, with the Distinguished Leadership Award. We saw this as an opportunity to appeal to our community of employees, customers, brokers and partners to donate in support of the Philadelphia Fire Department Foundation's smoke detector campaign, which promotes fire safety, and distributes smoke detectors to Philadelphia communities in need.

We worked with our partners within the insurance and wood industries and beyond to raise the funds ahead of the event. Due to the generosity of our supporters, PLM was able to proudly present a check to the Philadelphia Fire Department Foundation on the evening of the gala for more than $44,820, ultimately raising a total of around $75,000 that evening towards purchasing smoke detectors

BY THE NUMBERS

98.7% TOTAL EMPLOYEE PARTICIPATION

147 EMPLOYEES WHO PLEDGED

$61,141 TOTAL EMPLOYEE PLEDGE

$146,082 TOTAL EMPLOYEE PLEDGE PLUS CORPORATE MATCH

$416 AVERAGE EMPLOYEE PLEDGE AMOUNT

19 LEADERSHIP GIVERS ($1,000 OR MORE)

160 NUMBER OF DESIGNATED DONOR CHOICE AGENCIES AND ORGANIZATIONS

$3,800+ TOTAL AMOUNT RAISED FROM CAMPAIGN ACTIVITIES (JEANS DAYS, LUMBERGRAMS, RAFFLES, ETC.)

for the Philadelphia area.

We want to thank all of our supporters for their generous donations. It was an amazing opportunity to connect with our network and work together towards raising money for such an important cause.

In addition to the funds raised for the Philadelphia Fire Department Foundation, PLM was able to help raise money for ISOP and its scholarship fund. Through the proceeds of the gala, $100,000 in scholarships will be distributed by ISOP to aspiring insurance students to help promote the next generation of insurance leaders.
We at PLM recognize that when we give back to our communities we make them stronger places to work, live and thrive. We are incredibly proud of our people and their commitment to giving. We hope that in 2019 we can do even more to support the causes most important to us and to our loved ones.

CHARITABLE CONTRIBUTIONS

Airborne & Special Operations Museum Foundation
Alzheimer's Association
American Heart Association
American Red Cross
Amyotrophic Lateral Sclerosis (ALS) Association
Augustinian Defenders of the Rights of the Poor (A.D.R.O.P.)
Barnes Foundation
Bethel Volunteer Fire Department
Boy Scouts of America
Bryn Mawr Presbyterian Church
Cape Fear Botanical Garden
Center City District Foundation
Center for Economic Empowerment & Development
Cheltenham Township Emergency Medical Service
Children's Hospital of Philadelphia (CHOP)
Clemson University
Colby College
Colon Cancer Coalition
Cornelia de Lange Syndrome (CdLS) Foundation, The
Cradles to Crayons
Crescent Springs Presbyterian Church
Danville Christian Church
Dawn's Place
Daylesford Abbey
E.A. "Eddie" Robbins Memorial Fund
Eastern University
Elkins Park Fire Company
Fayetteville Urban Ministry
Fireman's Hall Museum
First United Methodist Church
Foundation for Economic Education
Friends of the Elkins Park Free Library
Gamma Iota Sigma
George Washington's Mount Vernon
Germantown Friends School
Girl Scouts of Central & Southern New Jersey
Hampden-Sydney College
Heart of Camden
Institutes, The
Insurance Society of Philadelphia
Jamaica Relief Fund
Jewish Federation of Greater Philadelphia
Jewish National Fund
Log A Load for Kids
MANNA
Melmark School
Melrose B'nai Israel Emanu-El
Metropolitan Golf Association
Middlebury College
Mount Holyoke College
Museum of the American Revolution
New York Law School
Pennsylvania Horticultural Society
Pennsylvania Society for the Prevention of Cruelty to Animals
Philabundance
Philadelphia Children's Alliance
Philadelphia Fire Department Foundation
Philadelphia Orchard Project
Philadelphia Ronald McDonald House
Project HOME
Property and Environment Research Center (PERC)
Prostate Cancer Foundation
Riley Hospital for Children
Run The Day
St. Ambrose Housing Aid Center
St. Andrew United Methodist Church
St. Baldrick's Foundation
St. Francis in the Fields Episcopal Church
St. Thomas of Villanova
Salem Museum & Historical Society
Salem Presbyterian Church
Salvation Army
Sexual Assault/Spouse Abuse Resource Center (SARC)
Shipley School
Smile Train
Special Olympics Pennsylvania
Starfinder Foundation
Sunset Hills United Presbyterian Church
Sweet Briar College
Toys for Tots
Trinity Lutheran Church
Trustees of the University of Pennsylvania
Union Presbyterian Seminary
United Way of Greater Philadelphia and Southern New Jersey
University of Georgia
University of Scranton
West Trenton Presbyterian Church
Wittenberg University

PLM STAFF LIST

Alex Acosta
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Nancy Alexander
Traci Barber
Jesse Benner
Alex Beyer
Jill Blocker
Bill Blom
Robert Boyd
Lisa Bragg
Daniel Braiman
Sean Briscoe
Thomas Britland
Frank Brown
Garrett Brown
Veronika Buck
Tonya Burroughs
Joseph Burrows
Rasheed Byrd
Julian Carroll
Art Chapa
Sandra Cheney
Sharon Childers
Susan Cho
Louis Chow
Elizabeth Confair

Kelly Conlan
Carla Corrado
Richard Costello
Alexandria Craig
Christopher Crucitt
Michael Culbreth
Melanie Culp
Eleanor Curry
Kathleen Dalton
Diane Della Pia
Sally Delp
Christine Derby
Lindsey DiGangi
Joseph Donnelly
Zack Donovan
Seema Duggal
Darr Dugo
Kat Dunn
Christopher Erb
Theresa Escott
Jeffrey Evans
Ralph Falcone
Stephan Firko
Bridget Fisher
Janice Fisher
Robert Florio Jr.

Carissa Franklin
Terry Fricker
Charlotte Friend
Rachel Gamblin
William Gardineer
BJ Gardner
David Gartland
Gerrylynn Gibson
Janice Gilbert
Sheila Gjevre
Matthew Goodwin
Cindi Graat
Lisa Griffith
Antonio Grosso
Marco Gulino
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Pamela Holliday
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Harold Jamison
Paul Johnson

Scott Johnson
William Johnson
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Grace Joy
John Kennealy
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Matthew Kienholz
Tricia Kilrain
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Gary Waggoner
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Veronica Wilkins
Kristin Wilson
Sue Winstel
Christine Woodward
Michael Zdrojewski
David Zeigenfuss
Cheryl Zoog
Richard Zorman

2018 MILESTONE ANNIVERSARIES

FIVE YEARS

Joseph Burrows
Lindsey DiGangi
Alden Swan

TEN YEARS

Tricia Kilrain
Gerrylynn Gibson
George Hawkins
Alexandria Craig
Christine Woodward

FIFTEEN YEARS

Stephen Spica
Jill Blocker
Stephan Firko
Robert Lemieux
Kathleen Dalton

TWENTY YEARS

John Smith

THIRTY YEARS

Nancy Alexander
Robert McSorley

FORTY YEARS

Melanie Culp

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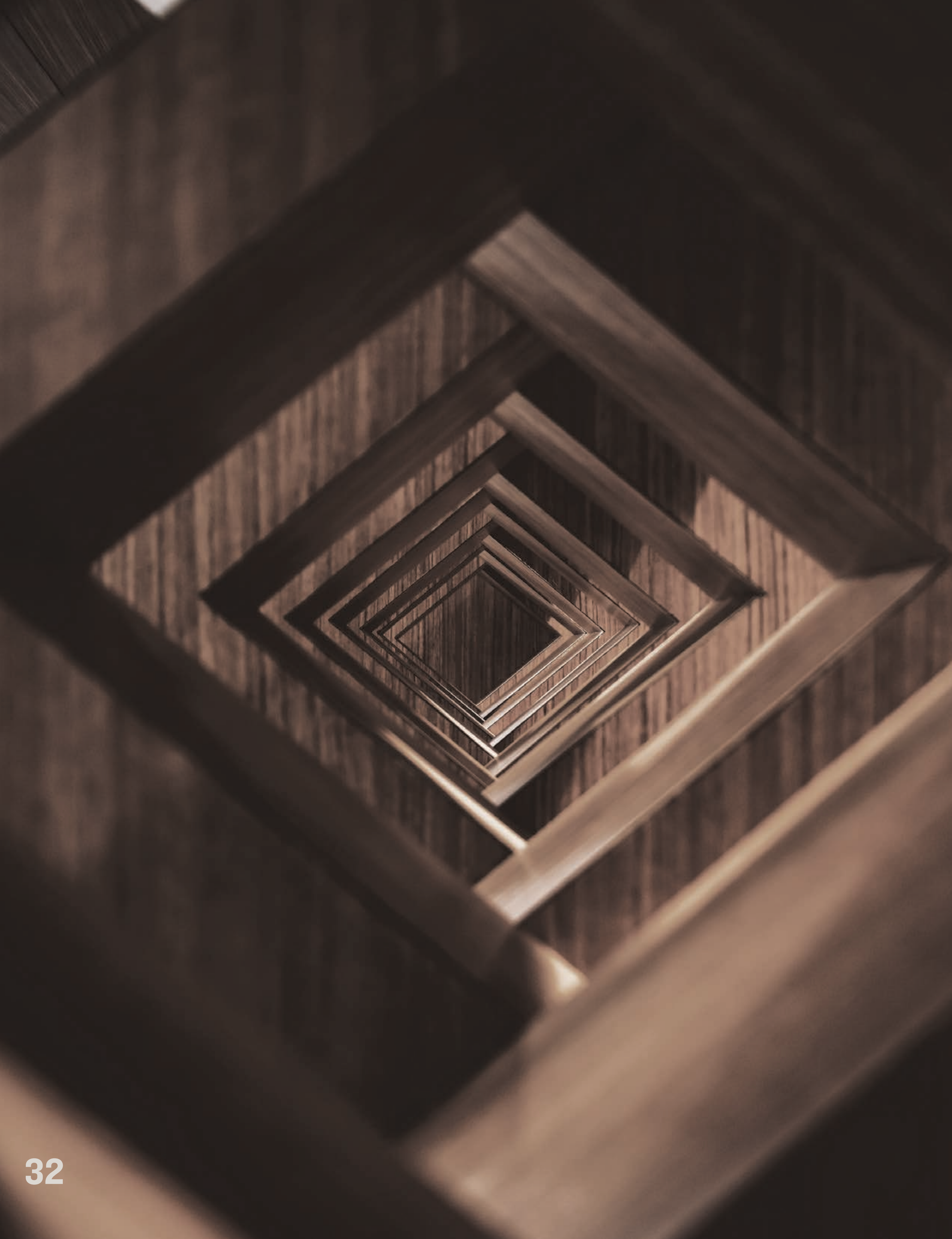

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