



Privilege Underwriters Reciprocal Exchange
2007 Report to Members

**INSURANCE FOR
SUCCESSFUL FAMILIES**

High Value Homeowners
Private Fleet Automobile
Jewelry & Art
Personal Excess Liability
Watercraft

PURE AT A GLANCE: 2007

Number of Members: 1,690
Gross Written Premium: \$18.4 million
Average Number of Policies per Member: 1.7
Average Insured Home Rebuilding Cost: \$1.7 million
Reported Losses as % of Gross Earned Premium: 5.9%

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LETTER TO MEMBERS

“Now, there’s a bright idea.”

Throughout 2006, my colleagues and I spent time with respected insurance professionals and successful families in Florida, sharing our vision for the company that would become PURE.

We explained the science behind our conviction that owners of large, well-built homes deserve to pay a lower premium (even in the high-risk environment of Florida). We demonstrated that households with more cars than drivers should pay a lower premium to reflect the relative lack of usage. Most already knew that jewelry insurance was overpriced and that policyholders deserved better. And, observing that policyholders’ premiums had been the source of virtually all of the surplus capital in the insurance industry, we fundamentally believed it made sense to design and manage the company for the benefit of policyholders.

In our inaugural year we accomplished the following:

GROWING POLICYHOLDER SURPLUS. We started 2007 with \$10 million in surplus capital. As our membership grew, our surplus grew as well. Thanks in part to an award from the Florida State Board of Administration, our policyholders’ surplus grew to over \$50 million by the end of the year.

THE ESTABLISHMENT OF THE PURE BRAND. In March, *The New York Times* published a feature story on PURE’s unique approach to the high net worth insurance segment. Since then, nearly three dozen newspapers, magazines and television news programs chose to highlight the PURE story. This independent validation of our business model served as a great launching pad for PURE.

CLAIMS SERVICE. We developed a unique response to hurricanes by storing supplies in a warehouse to be best prepared with people and materials after a storm. We planned and rehearsed, yet the challenge was deferred for at least another year. We did, however, do our very best to show our responsiveness to more personal crises, with excellent claims service for water damage losses and car accidents. In fact, every single claims satisfaction survey that was returned gave us a perfect score in every single category.

ENTERPRISE RISK MANAGEMENT. Like every insurance company, PURE is in the business of managing risk. While the weather was cooperative in 2007, we did the things that we needed to do to manage risk. We selected our membership carefully, we controlled the aggregate amount of exposure in each region of the state and we sacrificed short-term profits for the security of a comprehensive reinsurance program. We passed other risk challenges in 2007, most notably maintaining a healthy investment portfolio with absolutely no direct exposure to “subprime” mortgages.

For 2008, we hope for more of the same (particularly with respect to the weather). Here are a couple of the items on our “to do” list:

DIVERSIFICATION. As we improve the spread of risk within PURE, we continue to reduce the cost of risk for the membership. We will aggressively grow our business in Northern and Central Florida in 2008. Our main focus, however, will be to expand outside of Florida. We have received a license to enter South Carolina and are eager to make a positive impact in another state where the availability and affordability of insurance has created challenges for thousands of homeowners. We expect to enter several more new states before the end of 2008, with many more to follow in subsequent years.

BECOMING MORE IMPORTANT TO OUR MEMBERS. By entering more states, we will be in a position to serve the insurance needs of those Florida members who have property outside of the state. In 2008, we will be introducing a new product to cover watercraft, allowing us to provide a cost-effective solution for many of our members who own boats. Our challenge is even more basic. More than a thousand of our members have not received a quote from PURE to cover their cars, their jewelry or their personal umbrella policies. If you haven't looked into what PURE can do for you with these types of policies, please ask your agent for a quote.

BUILDING SURPLUS TO PROVIDE A SECURE FUTURE FOR THE MEMBERSHIP. Our greatest responsibility is to ensure that PURE can honor its commitments well into the future. Strong underwriting that produces favorable results will allow us to build upon our foundation of financial strength and meet the needs and expectations of our membership in years when the weather is not as cooperative.

I look forward to working closely with our membership, their agents and our team to allow even more bright ideas to shine in the years ahead.

Sincerely,



Ross Buchmueller

April 8, 2008

SETTING A NEW STANDARD FOR CLAIMS SERVICE

While there are only a few insurance companies that serve the high value homeowners market, those that do have earned good reputations for claims service. These specialist companies respond quickly to losses and typically pay claims with minimal hassle and delay. Our daily goal is simple: exceed the service level offered by all other companies.

There are three areas where we can provide superior service. First, we communicate thoroughly and consistently throughout the claims process. It is not enough to respond well in the beginning and the end of the process, we keep our membership in the loop throughout.

Second, we recognize that this is your

company and we have a fiduciary duty to control costs. The good news is that delivering great claims service and controlling expenses are not mutually exclusive. We work hard to recover stolen items, we hold contractors accountable when they cause damage and we seek reasonable ways to control costs without sacrificing the quality of service you demand. This effort allows us to offer high quality insurance at lower prices.

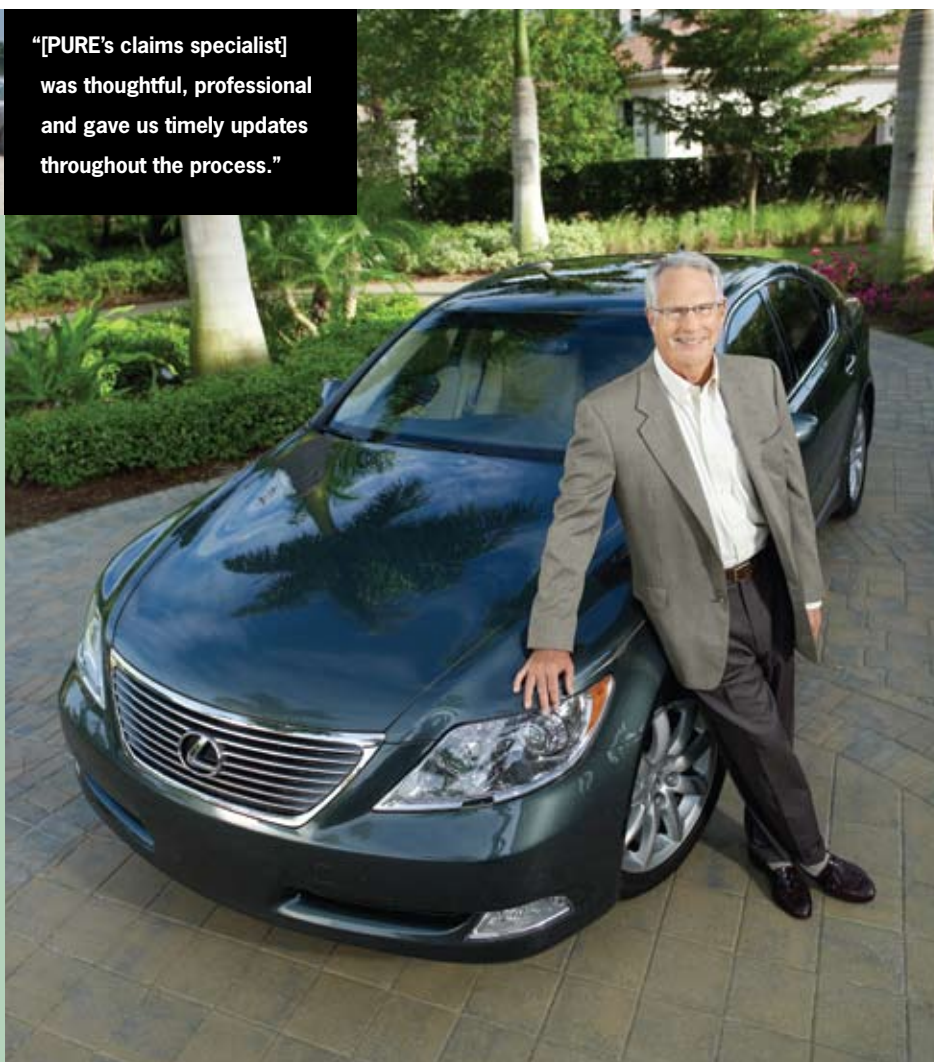
Perhaps most important is the role of our Member Advocate, who is available to help you deal with the administrative hassles of a claim.

We aim to add value beyond simply paying claims in a fast and fair manner.



"[PURE's claims specialist] was thoughtful, professional and gave us timely updates throughout the process."

Ernie Roessler became a PURE member through the advice of Lutgert Insurance. He was looking forward to a vacation in North Carolina when he sensed a problem with his brand new Lexus. He took it to a nearby dealership. That night, heavy winds blew down one tree that fell on one car — Mr. Roessler's. We quickly declared the car a total loss and paid him the Agreed Value (a benefit of PURE's policy). We then went to work to maximize the salvage value of the car. We discovered a global online auction and sold the damaged car to a buyer in Budapest, Hungary, for \$9,000 more than the best domestic offer. The result is a delighted PURE member and lower claims costs for the entire membership.



THE PROFESSIONALS' CHOICE

We are committed to serving our membership professionally and through the channels they prefer. In our experience, there is a select group of independent insurance agents and brokers who have demonstrated a specialist expertise in serving successful families and for whom we have the utmost respect. In Florida, we are proud to partner with some of the absolute finest insurance agents in the business. These experts combine access to a wide range of companies and products (including PURE)

with deep technical knowledge. That's why we are particularly honored that 17 of the owners and executives of our partner insurance agencies cast their vote of confidence by becoming members of PURE in 2007. "We have access to many of the best insurers in the Florida market," said Raymond Jones of Weinstein, Jones & Associates of Delray Beach. "PURE's coverage is among the broadest in the industry and I am thrilled to be able to place all my personal insurance with one carrier."

"I have been in this business for a long time and I am not sure I have ever worked with a company that made so much sense for my clients, my friends and my family."

Doug Fields is a Senior Vice President of Oswald Trippe and Company, one of Florida's largest and most successful independent insurance agents. Doug and his colleagues at Oswald Trippe introduced nearly 200 individuals and families for membership to PURE in 2007. Doug, a longtime resident of Weston, Florida, is also a member of PURE. "I am delighted to be both a partner and a member of PURE. Not everybody qualifies. But if you do, the flexibility, the broad coverage, the claims service and the premium savings make this an obvious choice."



CREATING VALUE THROUGH CAREFUL SELECTION

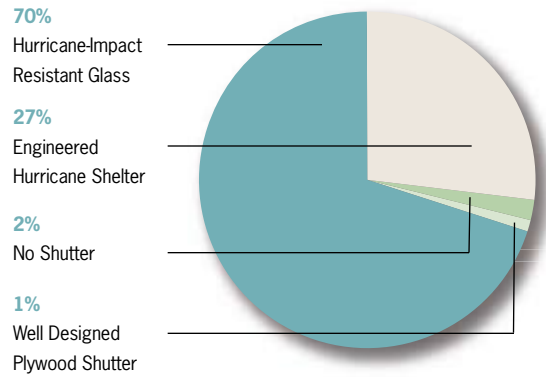
Members reported saving an average of \$4,700 on their homeowners' premiums by switching to PURE. PURE enjoys the freedom of selecting a membership without the burden of a legacy portfolio. Careful selection not only helps us control cost, but contributes to PURE's long term financial stability.

Our members' homes are...

...well-protected...

We understand the loss mitigation benefit that comes from securely protecting all openings of a home. 98% of all homes we insure have either hurricane-impact glass or shutters protecting the homes' perimeter. In the southernmost coastal counties, where more of our membership lives, 100% of the homes have opening protection.

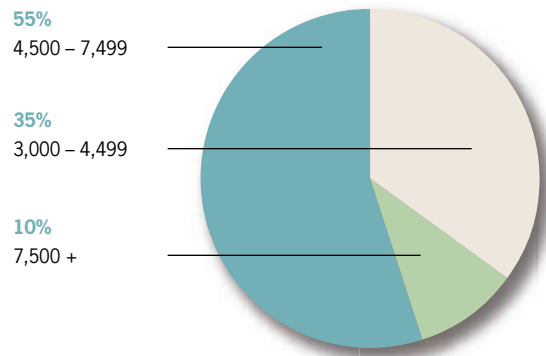
Homeowners Risks by Opening Protection



...large...

In the historic 2004 and 2005 hurricane seasons, millions of Florida residents suffered damage to their homes and the losses to the insurance industry were enormous. A footnote to those results showed that the underwriters of high value homes significantly outperformed the industry. The leading catastrophe modeling firm studied the actual losses and adapted its model to reflect that large homes are less vulnerable to hurricane damage.

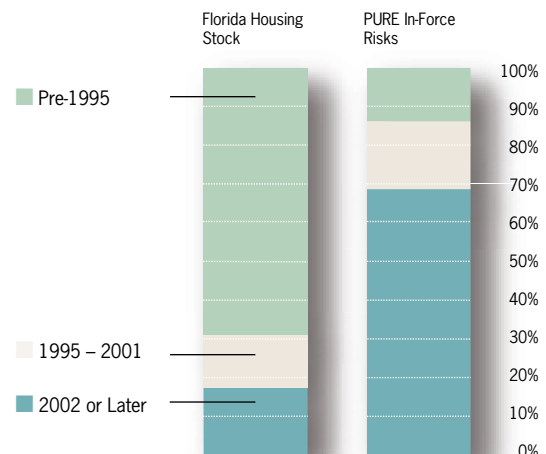
Insured Homes by Square Footage



...and new.

Florida has set the standard for the implementation of hurricane mitigation building codes. The challenge for most insurers is that the vast majority of the housing stock in Florida was built before the enforcement of today's codes. 22% of all homes insured by PURE were built within the last year. Each and every home that was built prior to the establishment of the most current building codes was required to have a mitigation inspection completed to ensure it had been hardened to meet today's standards.

Age of PURE's Insured Homes vs. Average



Note: All PURE data as of 12/31/2007. Savings based on all members who reported prior carrier premium.

FINANCIAL REPORT

ACCOUNTING PRINCIPLES

Insurance companies are required to report results based upon Statutory-Basis Accounting Principles (“STAT”). In many other businesses, it is common to use Generally Accepted Accounting Principles or “GAAP” accounting. For a fast growing business (like PURE), this can make an enormous difference. While we have illustrated our results and financial condition using both methods, it is the STAT numbers that the regulators, rating agencies and other authorities count. Here are some things to consider as you review the numbers:

WRITTEN PREMIUM VERSUS EARNED PREMIUM. On the day that a policy is issued, 100% of the premium is considered “written,” but premiums are only “earned” over the term of the policy. In other words, each month, we “earn” 1/12 of your annual premium. When an insurance company examines revenue, it considers earned premium. However, expenses such as commissions, premium taxes and other acquisition expenses are typically derived from the written premium and realized on the effective date of the policy. For a mature, slow-growth company, written premium and earned premium are fairly close. However, if you have a fast growing business where earned premium (revenue) naturally trails written premium (the driver of expenses), profit will be hard to achieve. The “GAAP” illustration shows how our results would look if we realized certain acquisition expenses on a pro rata basis during the full policy period.

GROSS PREMIUM VERSUS NET PREMIUM. The total premium seen on each member’s policy is the “gross” premium. When an insurer shares risk on a policy with other insurance companies, the premiums paid to those reinsurers are deducted from gross premium and the balance is presented as “net” premium. In our first year, we made an easy decision to cede a very large proportion of homeowners’ risk to reinsurers – this came at a cost. When the wind doesn’t blow, it might be easy to have reinsurance buyer’s remorse. However, we are building a company for the long run and will continue to partner with world-class reinsurers to strengthen PURE. As the book becomes larger and more diversified, it becomes easier to consider taking a much larger share of the risk. When we do cede risk to reinsurers, we often receive “ceding commissions” back from them. These commissions typically do not cover all of our expenses, but they do somewhat soften the impact of giving away revenue while keeping expenses.

Please note that all results presented in STAT form represent final audited figures. GAAP results are presented for illustrative purposes only.

STATEMENT OF INCOME

	STAT ¹	GAAP ²
Earned Premium		
Gross Written Premium	\$ 18,359,276	\$ 18,359,276
Reinsurance Ceded	\$ (12,722,181)	\$ (12,722,181)
Net Written Premium	\$ 5,637,095	\$ 5,637,095
Change in Ending Unearned Premium	\$ (3,647,796)	\$ (3,647,796)
Net Earned Premium	\$ 1,989,299	\$ 1,989,299
Expenses		
Net Commission, Underwriting & Management Fees	\$ 1,981,306	\$ 799,198
Advertising, Marketing & Communications	\$ 945,157	\$ 376,277
Premium Taxes	\$ 502,848	\$ 200,189
Other Expenses	\$ 583,208	\$ 471,801
Total Operating Expense	\$ 4,012,519	\$ 1,847,465
Losses & Loss Expense Incurred (net of reinsurance)	\$ 933,324	\$ 933,324
Net Underwriting Gain (Loss)	\$ (2,956,544)	\$ (791,490)
Investment Income		
Gross Investment Income	\$ 1,648,755	\$ 2,310,361
Interest on Surplus Notes	\$ (2,102,802)	\$ (2,102,802)
Net Investment Income	\$ (454,047)	\$ 207,559
Income from Operations (pre-tax)	\$ (3,410,591)	\$ (583,931)
Income Tax	\$ —	\$ —
Net Income	\$ (3,410,591)	\$ (583,931)

¹ Audited and filed with NAIC and FL OIR

² Unaudited and presented for illustrative purposes only

FINANCIAL REPORT

BALANCE SHEET

	STAT ¹	GAAP ²
ASSETS		
Short-Term Assets		
Bonds	\$ 46,183,334	\$ 46,844,940
Cash and Short-Term Investments	\$ 6,380,341	\$ 6,380,341
Premium Receivable – in the Course of Collection	\$ 989,970	\$ 989,970
Premium Receivable – not yet due	\$ 4,680,242	\$ 4,680,242
Other Short-Term Assets	\$ 1,159,547	\$ 1,159,547
Short-Term Assets	\$ 59,393,434	\$ 60,055,040
Other Assets	\$ —	\$ 2,181,054
Total Assets	\$ 59,393,434	\$ 62,236,094
LIABILITIES & POLICYHOLDER SURPLUS		
Liabilities		
Loss & LAE Reserves (net of reinsurance)	\$ 657,861	\$ 657,861
Accounts Payable	\$ 904,215	\$ 904,215
Unearned Premium (net of reinsurance)	\$ 3,647,796	\$ 3,647,796
Reinsurance Premium Payable (net of commissions)	\$ 3,716,909	\$ 3,716,909
Other Current Liabilities	\$ 1,342,989	\$ 1,342,989
Total Liabilities	\$ 10,269,770	\$ 10,269,770
Policyholder Surplus and Other Funds		
Surplus Notes	\$ 51,000,000	\$ 51,000,000
Policyholder Surplus Contributions	\$ 1,657,450	\$ 1,657,450
Retained Earnings (Losses)	\$ (3,410,591)	\$ (583,931)
Change in Nonadmitted Assets	\$ (123,195)	\$ (107,195)
Total Policyholder Surplus	\$ 49,123,664	\$ 51,966,324
Total Liabilities and Policyholder Surplus	\$ 59,393,434	\$ 62,236,094

¹ Audited and filed with NAIC and FL OIR² Unaudited and presented for illustrative purposes only

REVIEW OF INVESTMENTS

PURE INVESTMENT PORTFOLIO. With the help of our investment manager, New England Asset Management, PURE has built a very high-quality investment portfolio. It has exceptional credit quality and is short in duration. PURE has avoided any direct “subprime” investments and all of its mortgage-backed securities are AAA rated. The portfolio also showed an unrealized gain of \$661,606.¹

SECTOR	BOOK VALUE	MARKET VALUE	BOOK YIELD	AVG. DURATION	AVG. CREDIT QUALITY	% OF PORTFOLIO
Short-Term Bonds	\$ 6,038,715	\$ 6,038,715	4.44	0.08	N/A	11.4%
Government Agencies	\$ 6,542,985	\$ 6,702,230	5.10	1.68	AAA	12.7%
Mortgage-Backed Securities	\$ 8,303,556	\$ 8,624,041	6.15	4.40	AAA	16.3%
Collateralized Mortgage Obligations	\$ 6,785,699	\$ 6,909,867	5.69	2.37	AAA	13.1%
Asset-Backed Securities	\$ 9,982,798	\$ 10,097,680	5.55	1.73	AAA	19.1%
Corporate Bonds	\$ 10,897,015	\$ 10,769,534	5.26	0.11	A+	20.4%
Municipal Bonds	\$ 3,671,282	\$ 3,741,589	5.36	6.51	AAA	7.1%
Total	\$ 52,222,050	\$ 52,883,656	5.41	2.06	AAA	100.0%

¹ Investment statistics provided by General Re - New England Asset Management, Inc.

SUBSCRIBER'S ADVISORY COMMITTEE

PURE members are represented by a Subscribers' Advisory Committee that serves to advise the attorney-in-fact on the direction and operations of PURE, and to ensure that the voice of the membership is heard on important matters. In 2007, the Committee was influential in the decision to spread

surplus contributions over five years, has offered specific ideas for additional risk management services for members and provided valuable advice on the expansion of PURE into additional states. The members of the Committee also play an important role in raising awareness of PURE in their communities.



From left, Javier Holtz, William Wilson III (Secretary), Ross Buchmueller (Chairman)



George Bullen (1946–2008) was the Chairman of the Bullen Insurance Group and the first member of PURE's Subscribers' Advisory Committee.

As the third generation head of his family's firm, he molded the property and casualty insurance business into the successful and thriving practice it is today, serving the unique insurance needs of America's wealthiest families. Mr. Bullen was known as a man of great wisdom and integrity. He was influential in the formation of PURE and will be remembered fondly as a friend and business partner.

**Subscribers Advisory
Committee**

Ross Buchmueller
Chairman
William Wilson III
Secretary
Javier Holtz

Attorney-in-Fact

PURE Risk Management, LLC
(wholly-owned subsidiary of
Privilege Underwriters, Inc.)

Directors

James Carey
Nicolas Zerbib
Ross Buchmueller

Corporate Officers

Ross Buchmueller
President & CEO
Martin Hartley
*Executive Vice President
& COO*
Jeffrey Paraschac
Senior Vice President, CFO

Executives

Mark Hill
*Senior Vice President,
Technology*
W. Keith Self
*Senior Vice President
Florida General Manager*
Dennis Kirwin
*Senior Vice President
South Carolina*
Phillip Figueiredo
Vice President, Controller
Babak Khosropur
Vice President, Claims
William Johnson
Vice President, Underwriting
Dale Tomlinson
*Vice President,
Risk Management*
Karen Riemer
Director, Member Services

Legal Representation

Carlton Fields, LP
Tallahassee, FL

Actuarial Service

Perr & Knight
Boca Raton, FL

Auditor

Amper, Politziner, Mattia, P.C.
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