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PURE (PRIVILEGE UNDERWRITERS RECIPROCAL EXCHANGE)

JAN

Ross Buchmueller, President & CEO, was selected to participate in the CEO panel at the 15th Annual Property/Casualty Joint Industry Forum at the Waldorf Astoria in New York City.

PURE opened its doors to members in Illinois.

APR

In April, PURE welcomed its first members in Arizona.

MAY

PURE opened its doors for members in Pennsylvania, Ohio, Michigan, Delaware, and Wisconsin.

AUG

PURE responded to more than 400 claims arising out of Hurricane Irene.

MAR

PURE was featured in Rough Notes, a major industry magazine, and was described as, "a success [story] for the whole approach to providing protection to 'the most responsible owners of the finest built homes.'"

JUL

In July, PURE began writing business in Oklahoma.

FEB

A remarkable bargain for a local Boston-area Super Bowl advertisement helped PURE win big in Massachusetts.

JUN

In June, PURE accepted its first members in Missouri.

PURE launched its new website, pureinsurance.com, with improved resources for members.

MAJOR NATURAL DISASTERS OF 2011

Natural catastrophes caused more than \$100 billion of global insured losses in 2011. The Japan earthquake and tsunami, the earthquake in New Zealand and flooding in Australia and Thailand were among the largest and most tragic events. In the United States, 2011 was marked as the second costliest year on record for catastrophe losses for the insurance industry.

DEC

PURE accepted its first members in Arkansas, Louisiana and Mississippi.



Tornadoes. Deadly tornadoes took hundreds of lives in Joplin, Missouri and Tuscaloosa, Alabama in 2011. In total, there were 1,650 tornadoes reported and estimates of more than \$10 billion of insured losses in the United States in 2011.

OCT

PURE literally opened the doors to a new home office in White Plains, NY.

PURE's Chief Information Officer, Stuart Tainsky, was named one of the "Elite 8" insurance company CIOs for 2011 by Insurance & Technology Magazine.



Hurricane Irene. From her initial landfall in North Carolina to the subsequent flooding from New Jersey to Vermont, Irene was an extremely large storm that caused damage and disruption for millions of Americans up and down the East Coast. Losses from Irene likely exceeded \$5 billion for the insurance industry.



February Blizzard. Winter weather caused billions of dollars in property damage, including one severe snowstorm in the Midwest that left Chicago in a virtual standstill – 100,000 families lost power and more than 1,300 flights were cancelled.

SEP

Ross Buchmueller presented a keynote address at the 2011 Entrepreneurial Insurance Symposium in Dallas, TX and spoke at the 116th Annual Convention of the National Association of Mutual Insurance Companies in Indianapolis, IN.

NOV

PURE continued to support expansion with the opening of a regional office in the iconic Willis Tower in Chicago, IL.

A.M. Best affirmed a Financial Strength Rating of A- (Excellent) for the PURE Group of Insurance Companies, with a Stable Outlook.



Texas Wildfires. Bastrop County, just east of Austin, Texas, experienced the most destructive wildfire in Texas history. 5,000 families were evacuated; nearly 500 homes were destroyed; and estimates of insured losses topped \$500 million.



Spring Flooding. Persistent rainfall combined with melting snowpack resulted in massive damage when the Missouri River flooded parts of every state from Illinois to Mississippi and Louisiana.



Halloween Snowstorm. A stunning early season snowstorm brought as much as 30 inches of snow to some parts of the Northeast. Millions were left without power and insurance claims are estimated to have topped \$1 billion.

REVIEW OF OPERATIONS



PURE FOUNDERS PICTURED IN THE NEW WHITE PLAINS, NY OFFICE. FROM LEFT: JEFFREY A. PARASCHAC, EXECUTIVE VICE PRESIDENT & CHIEF FINANCIAL OFFICER, ROSS J. BUCHMUELLER, PRESIDENT & CHIEF EXECUTIVE OFFICER, AND MARTIN A. HARTLEY, EXECUTIVE VICE PRESIDENT & CHIEF OPERATING OFFICER.

MEMBERS:

In 2011, PURE responded to more claims from the membership than we had in our previous four years combined. The continued steady growth of membership, combined with devastating weather, has led to more claims for fire damage, wind and water damage, and more car accidents, lost jewelry and all other types of claims than ever before. Based on the enthusiastic feedback from members and agents, I am pleased to report continued exceptional claims satisfaction and extraordinary levels of member retention. In this year's Report to Members, we have added more illustration to the measures we monitor when evaluating the performance of PURE. I hope you will find it insightful.

As a member-owned insurer, PURE's objectives are twofold: First, to provide service and support to the membership, especially in the event of a claim; and second, to preserve and grow the insurance company's capital base. While our 2011 loss results in the homeowners class of business significantly outperformed the industry, it did not meet our expectations – in part due to Hurricane Irene and the impact of a number of heartbreaking house fires. Our automobile loss results were excellent in 2010, but declined in 2011. While this is a complicated business with few simple answers, we believe more attention needs to be paid to the impact of young drivers in the household; and we have outlined some suggestions on page 8 to help our membership better manage risks relating to younger drivers. While we were largely successful in preserving the surplus capital of PURE in the face of these challenges, we did not produce the growth in surplus capital that would have allowed an allocation to Subscriber Savings Accounts for 2011.

During the past year, we have made some of our greatest strides in expanding the geographic footprint of PURE. This expansion has created more opportunities for us to serve members with second or third homes. Many of our members in Naples, FL, for example, can now insure their homes and cars in Ohio, Minnesota, or Michigan with PURE. While we can better serve members with locations across the country, a larger and more diversified PURE is in the best interest of all members. We expect even more progress to be made in 2012. We are licensed in 41 states, actively writing in 34 states (including Washington, D.C.) and already serve 14,000 families. It's a terrific start and I appreciate the role that our existing members have played in introducing new members over the past year.

For more than 1,000 PURE members, this year we will be issuing a sixth renewal offering, and they will no longer be required to make contributions to the surplus of PURE. Member surplus contributions are of vital importance and have allowed PURE to maintain, and even increase, its capital base during years when the impact of

insurance accounting usually punishes growing companies (insurers are required to recognize all expenses when a policy is written, but only recognize revenue proportionately throughout the year). As we continue to add to our membership, PURE will benefit from a steady flow of new surplus contributions for years to come. And, to the families who have already made all of their required contributions, we are most grateful for the role that you have played in the formation of this exciting company.

Over the past year, we held events in Massachusetts, Illinois, Georgia, Louisiana, South Carolina, and Florida to enable members to learn more about their company, share PURE with friends who may qualify for membership, and enjoy an evening of

WE HAVE ENJOYED THE CHANCE TO MEET MORE AND MORE MEMBERS AND LEARN FROM THEIR VALUABLE INSIGHTS.

education, entertainment or just socializing. We have enjoyed the chance to meet more and more members and learn from their valuable insights. We will undoubtedly be reaching out to the membership to encourage even greater engagement in 2012.

I would be remiss if I did not say a word about the role of a small group of insurance agents and brokers who have demonstrated an extraordinary commitment to both their clients and to PURE. We have assembled the most exclusive network of agents and brokers in our industry. Our team is often heard discussing what action would be in the best interest of the PURE membership. It is most certainly in the best interest of the PURE membership that we maintain excellent relations with the finest insurance agents and brokers in the high-net-worth insurance niche. In 2012, we will continue our focus and investments to develop even stronger connections with these great firms.

I am hopeful that 2012 will bring all of you good fortune and good weather. Either way, we'll be there for you.

Sincerely,



ROSS J. BUCHMUELLER
PRESIDENT & CEO

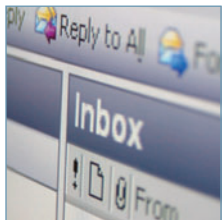
HURRICANE IRENE

BEFORE

Under the leadership of Gary Stephen, Senior Vice President of Claims & Risk Management, PURE's claims team built a comprehensive plan to prepare and respond to Hurricane Irene.

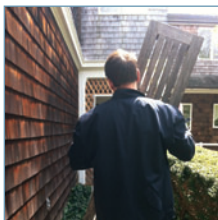
We secured the services of restoration experts, teams of arborists and remediation crews along the storm's projected path, and staffed additional licensed claims professionals so that all calls would be received without delay. We ensured that emergency supplies – including generators, dehumidifiers, air movers, tarps, and other provisions – were accessible and ready for deployment. We also secured an additional back-up water remediation firm and negotiated priority service for PURE members.

We issued multiple pre-event e-mails to members and agents along the storm's path and launched an online Hurricane Help Center. Our staff proactively phoned many members along the coast, from North Carolina to New York, to offer help in preparing their family, home and property for the storm. We also secured a disaster recovery space for our White Plains, NY office to avoid potential disruption of service to all members. We are pleased that our preparation helped many members take the necessary precautions to stay one step ahead of the storm.



COMMUNICATION "I would like to thank you for this [e-mail]. No insurance company has ever done this before. I am very pleased that I changed to your company. Good job." BARBARA POLISH, NJ

► To receive e-mail communications from PURE, notify your agent or call us at 888-813-PURE.



PREPARATION "I appreciate the heads up regarding Irene. I will take all the precautions I can in advance of the storm — clearing patios, securing things that might get blown around, etc. Thanks for your cautions. I had been a Chubb customer for more than 40 years and don't recall a heads up like this. I thank you." CHUCK GOLDBERG, MA



SUPPORT Walter Patrick was at his second home in Naples, FL when the storm's path shifted, heading straight for his East Hampton, NY home. With a phone call to his Member Advocate, a team was sent to Mr. Patrick's home in East Hampton to secure patio furniture and other external objects that could potentially cause damage.

DURING HURRICANE IRENE PURE MEMBERS NEEDED US MORE THAN EVER AND WE WERE THERE TO HELP AND SUPPORT THEM.





AFTER

With a strong plan in place, our team was able to focus on serving members with claims in a timely manner and with the highest level of professionalism.

Our preparations allowed us to conduct business as usual and to respond to members with claims unrelated to the storm - including several auto claims and a house fire that occurred at a member's home in New Jersey.

Many members, like Jon and Alison Lampert of Westfield, NJ, experienced larger claims resulting from Irene and have invested in long-term solutions to protect their home against recurring losses. We are delighted that many members who qualified to receive \$2,500 towards loss prevention solutions relied on the advice and guidance of their Member Advocate to assist them in purchasing a back-up generator, installing drainage systems, and replacing or upgrading sump pumps.



RESPONSE "By the time our neighbors were seeing adjusters for the first time, our work was well under way, the basement was dried out, and they were installing new drywall. Most important, because we could start [working on repairs] immediately, we locked in contractors long before everyone else," recalled Mr. Lampert.

PREVENTION The Lamperts installed a second sump pump and an improved drainage system. Their loss qualified them to receive \$2,500 for loss prevention measures to avoid similar losses from recurring.

LEARN MORE To hear the whole story and see an interview with Mr. Lampert, watch our Irene Response video by clicking on the image above.

KNOWLEDGE SHARING

GENERATORS

A Valuable Investment for Your Home

Whether you have experienced the hassle of a failed sump pump or you simply want to prevent the complications that result from power outages, a permanent backup generator is a worthy investment. In 2011, many members relied on their Member Advocate to help guide them through the process of purchasing and installing a generator.

To learn more about finding the right generator for your home, e-mail your **Member Advocate**.

5 STEPS TO OWNING A GENERATOR:

1. CONSIDER SIZE. Whether you plan to power a few basic appliances (starting at 7 kW) or your entire home, consider selecting a model that will afford you flexibility should your power needs increase over time.

2. FIND A LOCATION. By code, generators should be positioned at least 5 feet from doors and windows. Generators are typically installed atop a crushed gravel base, or a prefabricated plastic or concrete pad (depending on size, weight, and location).

3. WHEN YOU ARE READY TO PURCHASE. Your Member Advocate can help you find the right generator and possibly expedite the ordering and installation process. For several PURE members, the wait time was shortened from several weeks to a few days.

4. THE INSTALLATION PROCESS. If positioned near your home's fuel and electric supply, installation can usually be completed in one day. Installing a generator without a licensed contractor is dangerous and may void the unit's warranty. PURE has access to the best professionals in your area and you may consult your Member Advocate for guidance.

5. POST-INSTALLATION. Most generators are programmed to perform seamless automatic testing, which generally occurs weekly. If properly maintained, your generator will keep running as long as its fuel supply remains uninterrupted. All generators require periodic oil and filter changes, however, many installation contractors provide annual maintenance contracts to assist with upkeep.



WE ARE COMMITTED TO HELPING THE PURE MEMBERSHIP MAKE SMARTER, MORE INFORMED DECISIONS TO REDUCE THE LONG-TERM COST OF RISK.



GENERATORS: CALCULATING THE COST

The price of a generator varies depending on your needs and home size; and the price of installation will depend on the proximity of your home's power supply to your fuel supply.

PURE members may be eligible to receive a discount on their homeowners premium by having a permanently installed backup generator. Contact your agent, Member Advocate, or visit the Advice section of the [Member Advice Center](#) to learn more.

The following estimates reflect the price for three size categories and include the base price for installation services.

► A small-size generator will power a few basic appliances. Estimated price starts around \$5,000.

► A medium-size generator will power the essentials of the entire home (up to 4,000 ft). Estimated price ranges up to \$10,000.

► A large-size generator will power all electrical needs. Estimated price starts at \$10,000.



JEWELRY: THE RISK OF THEFT

Not all losses are avoidable. In the unfortunate event of a theft or burglary, for example, your agent and PURE's claims professionals will be there to assist you. PURE member, James Busby and his family

experienced a substantial loss when their home in Wrightsville Beach, NC was burglarized in January of 2011.

Click on the image below to watch an interview and hear Mr. Busby tell his story.



JAMES BUSBY PICTURED AT HIS HOME IN WRIGHTSVILLE BEACH, NC.

JEWELRY

Big Losses Can Come in Small Packages

We believe that a few simple tips and reminders can go a long way in helping members reduce the risk of losing or damaging some of their most valuable, irreplaceable possessions. Your **Member Advocate** is available to help you learn more about protecting your jewelry, as well as to assist you in locating a trusted jeweler or appraiser.

COVERAGE & MAINTENANCE TIPS

ANNUAL APPRAISAL. An appraisal will provide the current value for your jewelry, up-to-date documentation, and qualify you for a premium discount (often substantial enough to cover the cost of the appraisal). PURE's High Value Homeowners policy provides an added level of protection for unscheduled items (up to \$50,000). However, we encourage you to protect your most expensive valuables under a separate collections policy and keep current with the value of your jewelry, as certain precious metals like gold can fluctuate in value from year to year.

UPKEEP AND INSPECTIONS. Your jeweler or appraiser can inspect your jewelry annually to look for loose settings, faulty links, worn prongs, etc. Earrings with screw-backs, for example, are often neglected because they are commonly regarded as the best protection against losing an earring; but it's important to remember that screws can wear down over time.

STORING YOUR JEWELRY. A built-in home safe can provide an added level of protection and also qualify you for premium discounts. Items stored in a safety deposit box are covered at substantial premium discounts. Remember to notify your agent or call us at (888) 813-PURE if you plan to remove any item stored in a safety deposit box so it is fully covered 'out of the vault.'

SPECIFIC PIECES MAY REQUIRE UNIQUE CARE. Your jeweler can provide tips on how to clean various pieces of your personal jewelry, as different types of jewelry are sensitive to different things. Colored gemstones, for example, can be damaged if exposed to chemicals, solvents or ultrasonics, which are often found in household cleaning products.

KNOWLEDGE SHARING

TEEN DRIVING

The Road to Safety

It is important for parents to help the new or inexperienced driver in their family understand the risk and responsibility associated with being behind the wheel. Car crashes continue to be the number one killer of teenagers in the U.S. Sadly, one in four fatalities in the U.S. involves a 16-24 year-old-driver – that amounts to nearly 5,000 teenage deaths a year.

We aim to help PURE members by giving them the knowledge and resources to help all household members form good driving habits.

TIPS FOR BETTER TEEN DRIVERS

TEXTING AND PHONE CALLS ARE OFF-LIMITS. Teen driving statistics have become worse over the years due to increased use of cell phones. According to the Virginia Tech Transportation Institute, teens are 23 times more likely to crash when texting.

EXPERIENCE IS KEY. Spend time with your teen behind the wheel and expose them to a variety of different driving situations before you determine they are able to drive well independently.

ESTABLISH GROUND RULES. If you have not had a discussion about safe driving practices or everyday rules for the road, now is a great time.

NO DISTRACTIONS. In addition to the distraction of cell phones, teens have a higher risk of being involved in a crash with each additional passenger in the car and when they are driving at night.

SET A GOOD EXAMPLE. Studies show that teens whose parents set guidelines and oversee their education in a helpful and supportive manner are half as likely to be involved in a crash.

We have provided even more tips and information online to help you get the conversation started with your teen about safe driving. Visit the [driver safety](#) page to learn more and watch a short video about teen driving by the Insurance Institute for Highway Safety.

ENGAGING THE MEMBERSHIP

We are more committed than ever to enhancing the PURE membership experience. We have created a Membership Engagement program to engage more effectively with the membership and provide meaningful events and opportunities for members through PURE.

One such opportunity, scheduled for the fall of 2012, is a parent teen driver safety event. Together, members and their teens will spend a weekend learning critical skills and tips for safe driving at the BMW Performance Driving School in Greer, SC.

If you have suggestions on how we can better serve the PURE membership, we encourage you to contact Bobby Collins, Senior Vice President, Member Engagement.

SHEDDING LIGHT ON HIDDEN DRIVERS

In 2011, we had several costly auto accidents where a member's teen or employee was involved in, or responsible for, an accident but was not listed as a driver on the auto policy. We have increased our capabilities to perform greater underwriting due-diligence to help

ensure all household members are properly protected.

Our aim is to help our members eliminate the coverage gaps that can be associated with unlisted drivers and to ensure that each member pays a premium that reflects the risk they bring to PURE.



Ensuring You Never Miss a Beat

The fire that broke out in the Jensens’ living room left their New York City condo in complete disarray. “There’s nothing quite like standing in your living room in front of a raging fire and realizing that you don’t have a fireplace,” recalled Mr. Joseph Jensen and his wife Claudia.



The fire caused significant damage to a portion of the ceiling and adjacent wall in their living room, and destroyed their sofa and a valuable painting. It was the water used to extinguish the fire, however, that caused even further damage, leaving their beautiful oriental rugs, paintings, antique furniture, lamps and grand piano soaking wet.

While many of the damaged items could easily be repaired or replaced, the grand piano – an antique Steinway & Sons Circassian Walnut – was nearly destroyed. PURE’s High Value Homeowners coverage afforded Mr. Jensen the flexibility of options – receiving a cash settlement, repairing or replacing his property. He chose to have his beloved piano repaired.

“After the fire we were able to leave, go on vacation for a couple weeks, and [the contractors] were able to come in and completely re-do the place. When we came back it was just as it had been [before the fire].”

The interior of the Jensens’ home was back to normal in a matter of weeks, and not long after, their furniture was replaced and repaired. The piano, on the other hand, took nine months to fully restore. During that time, their Member Advocate provided a rental piano for the Jensens while theirs was being repaired and regularly followed-up with them to relay progress

A MESSAGE FOR THE MEMBERSHIP

The electrical fire in the Jensens’ condo resulted from an extension cord shorting. Mr. Jensen provided some feedback for the rest of the membership:

“I think that whenever anything like this happens there are probably some positive things that come out of it. We now have fire extinguishers in critical points in the apartment and

have no extension cords. All multiple [electronics] are plugged into power strips or surge protectors. Particularly in today’s world, when we have so many things plugged in - I counted in my den that I have 27 different things plugged into walls or power cords. There are things we tend to not take seriously, but it really can be very serious.”

updates from the restoration company. “In large part, things turned out the way they did because of the support we had from PURE,” said Mr. Jensen.

PURE’s claims professionals take pride in helping members get back on their feet after any type of covered loss, but we believe that it is the level of communication, personal attention and care we provide that makes all the difference to our members. “I am so grateful for [PURE], so grateful for the service we received,” added Mr. Jensen’s wife, Claudia.

Click on the image above to watch a video and listen to Mr. Jensen tell their story.

MARKET RESEARCH

INSIGHTS

In our fifth year serving the PURE membership, we committed to a comprehensive research project to further understand the needs of affluent families and to become an even better company.

We carried out a variety of research initiatives, including an online member survey, which was sent to members whose e-mail address we had on record as of December 2011. We also conducted in-depth

interviews and focus groups, moderated by a third party market research group, with dozens of affluent families – both PURE members and non-members – in three different cities.

Below we have provided some of the initial insights from our research to date. We value the feedback from all members who participated and contributed. As we issue this Report to Members, we continue to shape a more comprehensive analysis of our research.

MEMBERS ARE HIGHLY SATISFIED WITH PURE

Members are willing to actively promote PURE in a variety of ways – from recommending friends and family to participating in video testimonials. If you have friends or family who you think would be a good fit for PURE, we hope you will refer them.

MEMBERS RELY ON THEIR PERSONAL NETWORK

When it comes to sharing information about insurance products and services, members' friends and family play an important role. Members tend to have more trust in the first-hand experiences and opinions of people in their personal network than in blogs or consumers' online opinions.

PURE'S MEMBER-OWNED MODEL RESONATES

While competitive pricing and financial strength are very important factors cited for selecting an insurance company, members understand and value PURE's reciprocal model and selective risk pool.

MEMBERS HAVE A STRONG RELATIONSHIP WITH THEIR PURE AGENT

While non-members seem to value their agent less, both members and non-members were clear about how their agent can add value. Assistance with understanding policy language, providing a periodic review of coverage, and good communication were cited as very important.

GROWTH AND DIVERSIFICATION

MASSACHUSETTS

PURE opened its doors to more members in more states than ever before in 2011 – adding over 4,000 new members and 17 new states.

Since our initial launch more than five years ago, no state has been more attractive to us than Massachusetts. An affluent population, a profitable home insurance market and coastal risk issues, which may have been overblown in the aftermath of Hurricane Katrina, created a tremendous opportunity for PURE to provide value. Massachusetts is also a market with a long history of supporting specialized policyholder-owned insurance companies. 2011 was our first full year in the Bay State, and it served up everything we expected.

The enthusiastic support from some of our national insurance broker partners, along with a robust advertising campaign, created a strong initial demand for PURE

in Massachusetts. As the word began to spread, we reached agreement to work with 12 of the largest and finest insurance agencies.

This year we developed strong business relationships, improved our capabilities to serve agents and members in other states, and even responded to a few claims from the remnants of Irene. In fact, nearly 10% of new PURE members in 2011 came from Massachusetts.

We will add a few new agents to our Massachusetts network and introduce a car insurance offering in 2012. We expect the state to contribute significantly to the profit and growth of PURE.

SOME OF PURE'S MASSACHUSETTS AGENTS REPRESENTING ALL CORNERS OF THE STATE GATHERED FOR A PICTURE AT FENWAY PARK IN BOSTON. BACK FROM LEFT: JACK KEEFE (CORCORAN & HAVLIN INSURANCE), SUSAN OGRODNIK-SMITH AND JOHN ZAWILINSKI (HUB INTERNATIONAL), CHUCK ROBINSON AND MIKE ROBINSON (ROGERS & GRAY). FRONT FROM LEFT: DAVE ROBINSON (ROGERS & GRAY) AND LINDSAY HOLDEN (PURE SALES & MARKETING).

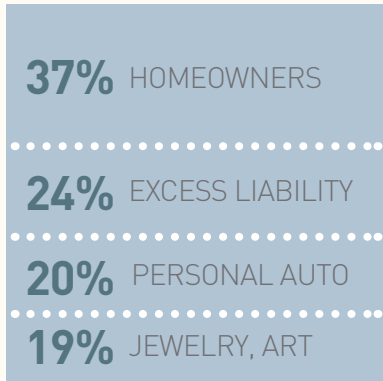


POLICIES & PREMIUMS

In 2011, we successfully continued the pursuit of our goal for national expansion. As we go to print, PURE is accepting members in 34 states (including Washington, D.C.).

We continue to be better positioned to serve existing members with multiple homes, while adding new members from new states to create a larger and more diversified membership. We are delighted that each year more members rely on PURE for all of their personal insurance needs, as shown by the steady increase in the coverages we provide to each member (home, auto, excess, watercraft, and collections). We are also pleased that so many members choose to renew their coverage year after year, as shown by our high member retention rate.

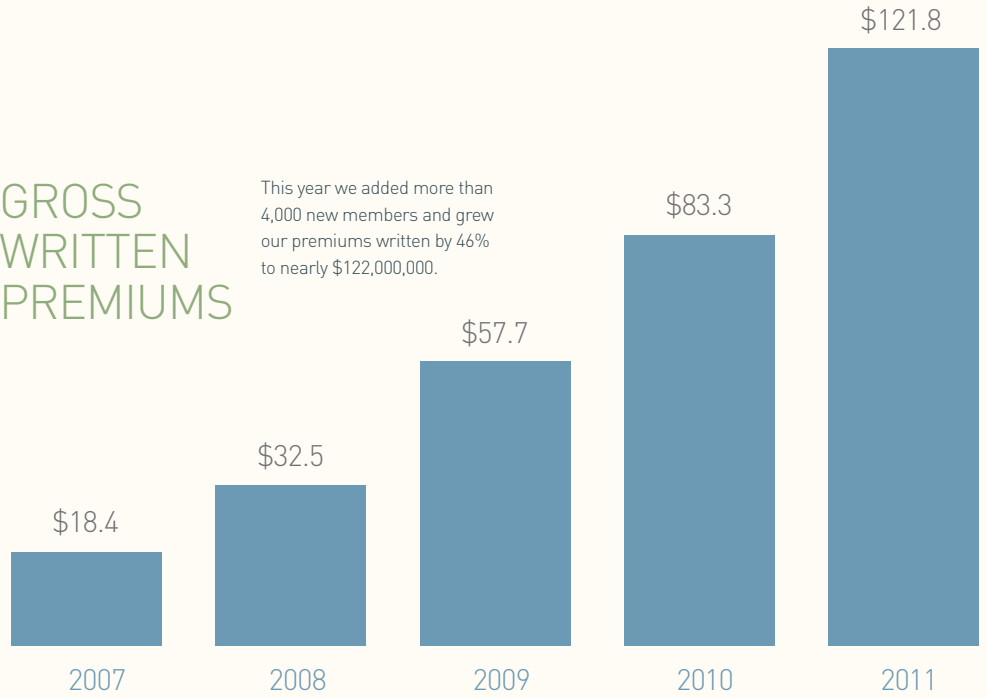
DISTRIBUTION OF POLICIES



We are serving more of our members' needs, with nearly three policy lines written per member, up from 1.7 lines five years ago. Our competitive prices and exceptional claims service has led to member retention rates nearing 95%.

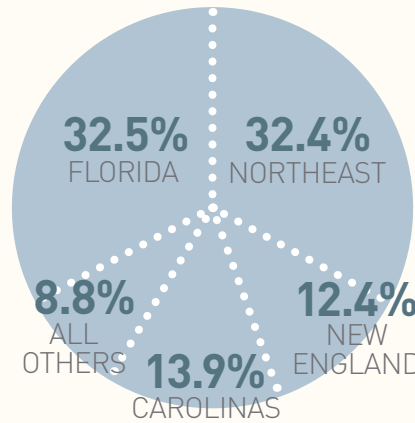
GROSS WRITTEN PREMIUMS

This year we added more than 4,000 new members and grew our premiums written by 46% to nearly \$122,000,000.

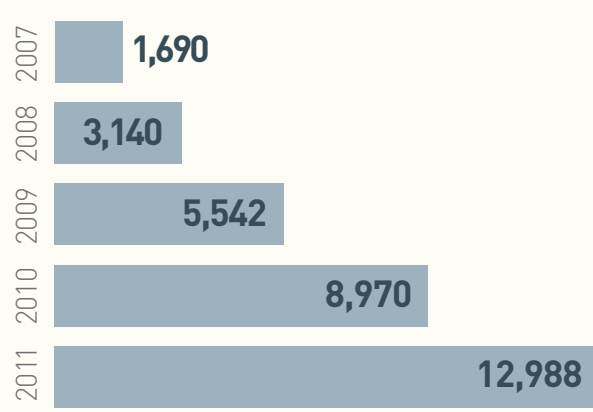


We continued our diversification; and we now have as many members in the Northeast as we do in Florida.

DIVERSIFICATION OF MEMBERSHIP



MEMBERSHIP GROWTH



2.96
LINES PER MEMBER

94.7%
RETENTION RATE

CLAIMS & EXPENSES

In 2011, PURE members needed us more than ever before; and PURE's claims professionals were there to help and support them.

We responded to more than 3,000 claims, which is more than our total number of claims from the prior four years combined. We also experienced an increase in large-scale losses this year, including four house fires with damages in excess of \$1 million. We continue to receive positive feedback from members that experience our claims service or utilize the service of their Member Advocate to assist in loss prevention measures before and after a claim.

PURE'S STRONG GROSS UNDERWRITING RESULTS IN 2011 WERE OFFSET BY THE COST OF REINSURANCE, THE RE-PAYMENT OF \$1,250,000 OF SURPLUS NOTE PRINCIPLE AND THE "GROWTH PENALTY" ASSOCIATED WITH STATUTORY ACCOUNTING. IN ALL, CONSIDERING SURPLUS CONTRIBUTIONS FROM MEMBERS AND MODEST INVESTMENT RETURNS, PURE SAW A REDUCTION OF \$393,000 IN POLICYHOLDER SURPLUS IN 2011.

Our gross combined ratio in 2011 was
96.8%
 The increase from prior years was due to catastrophes and individual large losses.

Our net combined ratio, which reflects the cost of reinsurance was
120.2%

If we were to reflect both the impact of surplus contributions and reinsurance, the PURE Group's combined ratio would be
100.8%

In 2011, we responded to
75
 claims with a cost of \$100,000 or greater. This compares to 65 large losses from 2007-2010 combined.

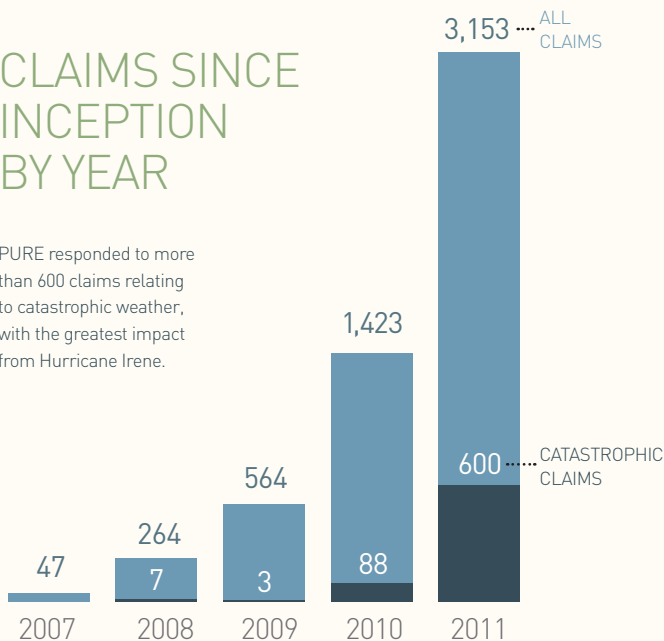
On **33** occasions PURE invested alongside our members in loss prevention measures, using our \$2,500 coverage benefit for future mitigation measures.

PURE strengthened its direct reserves for unpaid claims by
72%
 in 2011, from \$17.1M to \$29.4M.

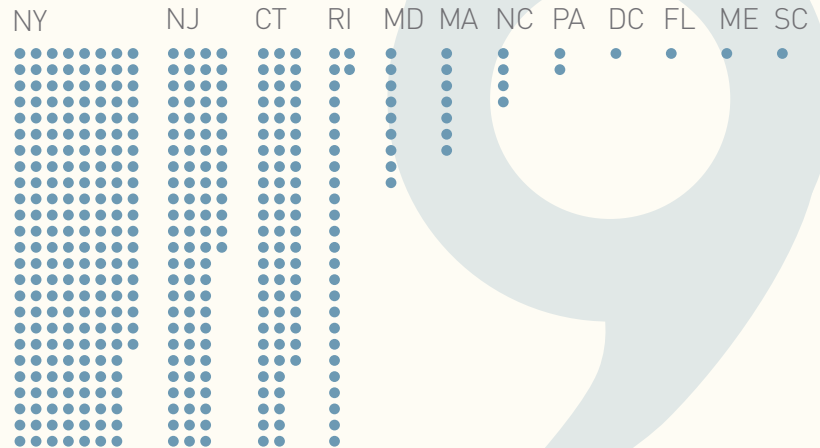
When surveyed for feedback on our claims service,
98%
 of claimants would recommend PURE to a friend or family member.

CLAIMS SINCE INCEPTION BY YEAR

PURE responded to more than 600 claims relating to catastrophic weather, with the greatest impact from Hurricane Irene.



HURRICANE IRENE CLAIMS BY STATE



CAPITAL MANAGEMENT

Despite an unprecedented level of claims payments in 2011 combined with a difficult investment environment, the capital position of PURE remains strong.

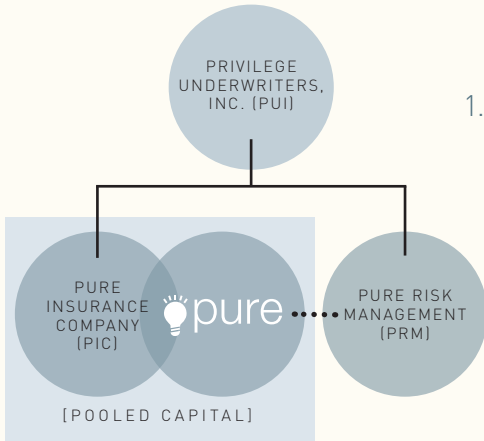
PURE and the PURE Group (the combined assets of PURE and PIC), have experienced a steady growth in admitted assets each year since inception.

Policyholder surplus, which grew in each of the past three years, declined by \$393,000 in PURE (\$4.6M at the PURE Group) in 2011. This includes the repayment of \$1.25M of principal on its surplus notes in 2011, which has the benefit of reducing PURE's long-

term cost of capital.

PURE's relative surplus leverage, as measured by net written premium to policyholder surplus, remains highly conservative when compared to industry peers.

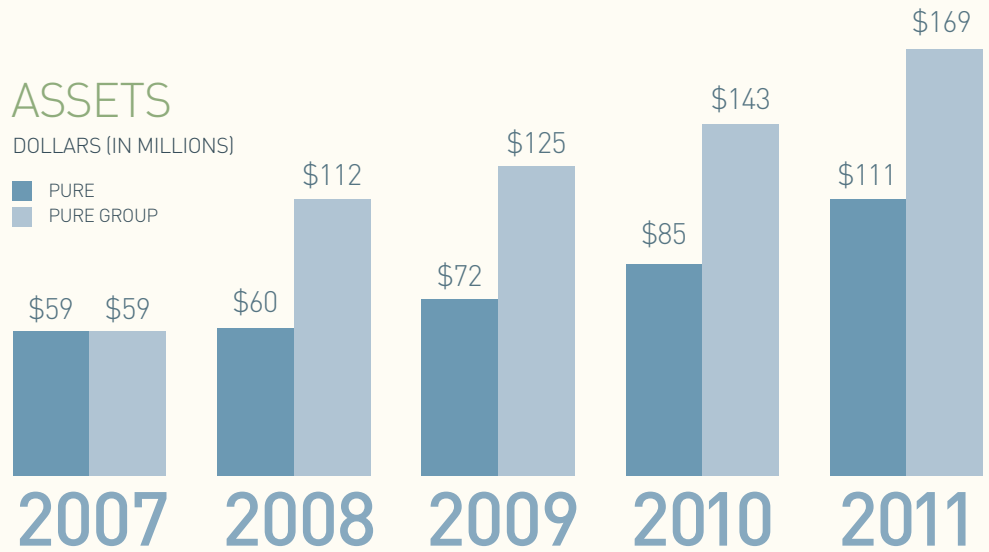
THE PURE GROUP STRUCTURE



ASSETS

DOLLARS (IN MILLIONS)

■ PURE
■ PURE GROUP



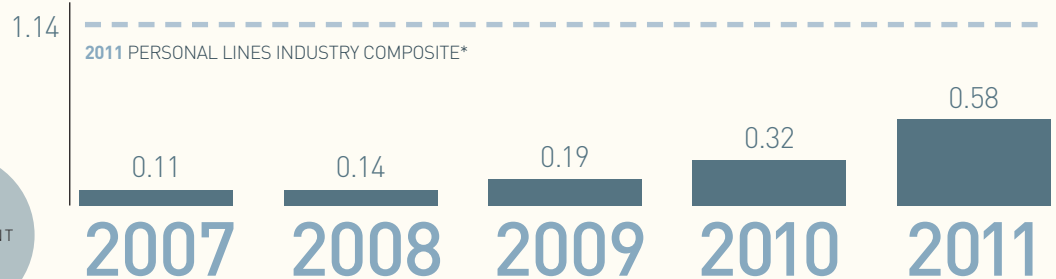
POLICYHOLDER SURPLUS

DOLLARS (IN MILLIONS)



Note: Under Statutory Accounting, an insurer's expenses are recognized when a policy is written, but revenue is only recognized as premiums are "earned" throughout the year. This timing issue is often referred to as a "growth penalty" for growing insurers. In fact, if we were to match the timing of expenses and premiums based on PURE's growth (using a GAAP treatment of deferred acquisition costs), there would be an increase of approximately \$7M of PURE's surplus and \$14M for the entire PURE Group (as of 12/31/2011).

NET WRITTEN PREMIUM TO SURPLUS RATIO



*2010 Aggregated NWP to Ending Surplus ratio for State Farm, Allstate, Progressive, Liberty Mutual, Nationwide, Farmers and USAA as reported by the companies (source SNL Financial).

REINSURANCE

At the expense of short-term profits, PURE has preserved its capital and managed its risk by purchasing reinsurance from some of the largest, most highly rated, and respected reinsurance companies in the industry.

These reinsurance arrangements protect against large losses suffered by individual members, as well as catastrophic events impacting several members at once.

This page provides an overview of our major programs and a partial list of some of our valued reinsurance partners.

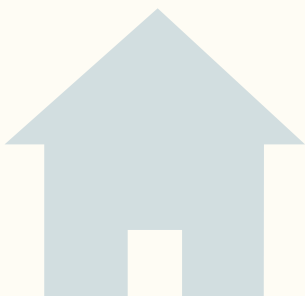
REINSURERS

We work with and value the relationships we have with over 30 different reinsurers. Below is a partial list (alphabetical) of companies that make up our reinsurance program.

	HOME	CATASTROPHE	ALL OTHER
BERKLEY RE AMERICA	●		
CATLIN INSURANCE COMPANY LTD.		●	●
EVEREST REINSURANCE COMPANY	●		
FLAGSTONE REASSURANCE SUISSE SA	●		
GENERAL RE (A BERKSHIRE HATHAWAY CO)	●	●	●
HANNOVER AG			●
LLOYD'S SYNDICATES	●	●	●
ODYSSEY REINSURANCE COMPANY			●
SWISS RE	●	●	●
TRANSATLANTIC REINSURANCE COMPANY			●

HOMEOWNERS REINSURANCE

The PURE Group is protected by two comprehensive treaties relating to our Homeowners writings. Our *Quota Share* treaty creates a partnership with seven large reinsurers to share premiums and losses for each property risk. This treaty also provides a valuable response to events like Hurricane Irene that affect hundreds of PURE members. An *Excess of Loss* treaty is in place with General Re. In return for a premium, General Re will afford coverage relating to very large losses to individual properties.



CATASTROPHE REINSURANCE

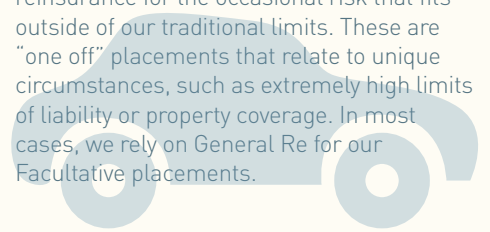
The PURE Group purchases comprehensive reinsurance to protect against natural catastrophe events. Our philosophy is to evaluate our potential exposures to extreme events and to purchase coverage that will expose no more than 20% of the prior year capital (surplus) to any event modeled with a 1 in 100 year probability. We also purchase coverage to ensure that we could respond to multiple events of this magnitude in the same year. As our business grows and diversifies, we anticipate that the cost of these covers (as a percentage of total writings) will continue to come down.



ALL OTHER REINSURANCE

We purchase three other important *Quota Share* treaties. First, we share premiums and losses on all Excess Liability policies with a panel of excellent insurers. This allows us to afford important limits to our membership, while protecting us against the impact of an individual large loss. Second, we have organized a quota share treaty for our Jewelry, Art & Collections writings, enabling us to compete effectively for some important collections of art. Similar to our program for Jewelry, Art & Collections, our third quota share treaty is for Watercraft policies – a line we look to grow in 2012 and beyond.

We also purchase *Facultative* reinsurance for the occasional risk that fits outside of our traditional limits. These are “one off” placements that relate to unique circumstances, such as extremely high limits of liability or property coverage. In most cases, we rely on General Re for our Facultative placements.

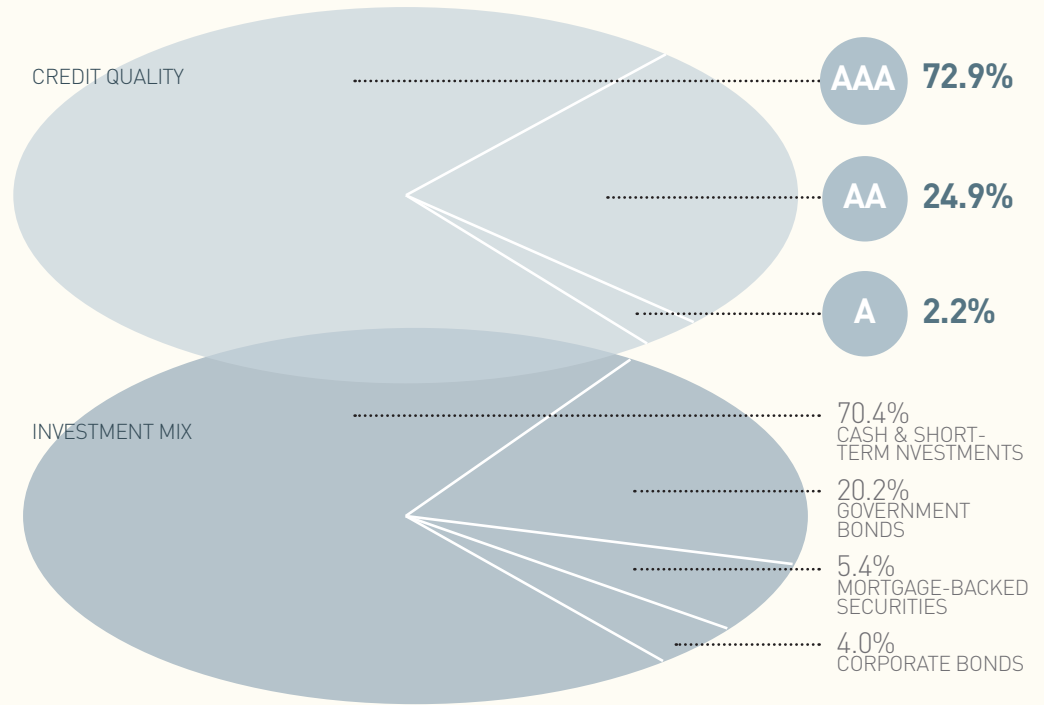


INVESTMENTS

PURE maintained a highly conservative investment strategy in the challenging fixed income investment climate of 2011.

In fact, PURE ended the year with a majority cash position due to a combination of opportunistic gains taking and a pending change in investment managers. In January 2012, PURE moved its investment management relationship to Wellington Management, a leading global institutional asset manager. As of the end of Q1 2012, Wellington had fully invested PURE's assets in keeping with our long-standing principles of diversification, high-credit quality, and short duration.

2011 INVESTMENTS AT A GLANCE



BALANCE SHEET: PURE (Privilege Underwriters Reciprocal Exchange)

	2011	2010	CHANGE	PERCENT
TOTAL CASH & INVESTED ASSETS	\$ 64,872,027	\$ 62,649,212	\$ 2,222,815	4%
NET ACCOUNTS RECEIVABLE	\$ 45,988,367	\$ 22,586,737	\$ 23,401,630	104%
NET FIXED ASSETS	\$ 95,714	\$ 171,620	\$ (75,906)	-44%
TOTAL ASSETS	\$ 110,956,108	\$ 85,407,569	\$ 25,548,539	30%
UNPAID LOSSES & LAE	\$ 7,760,999	\$ 4,721,835	\$ 3,039,164	64%
ACCOUNTS PAYABLE & ACCRUED EXPENSES	\$ 6,488,424	\$ 4,902,277	\$ 1,586,147	32%
UNEARNED PREMIUMS	\$ 14,870,107	\$ 9,662,745	\$ 5,207,362	54%
REINSURANCE PAYABLE	\$ 24,919,354	\$ 12,692,701	\$ 12,226,653	96%
OTHER CURRENT LIABILITIES	\$ 5,473,076	\$ 1,590,718	\$ 3,882,358	244%
TOTAL LIABILITIES	\$ 59,511,960	\$ 33,570,276	\$ 25,941,684	77%
SURPLUS NOTES	\$ 49,017,442	\$ 50,250,000	\$ (1,232,558)	-2%
SURPLUS CONTRIBUTIONS	\$ 24,494,027	\$ 15,675,344	\$ 8,818,683	56%
SUBSCRIBER SAVINGS ACCOUNTS	\$ 975,098	—	\$ 975,098	N/A
UNASSIGNED SURPLUS	\$ (23,042,419)	\$ (14,088,051)	\$ (8,954,368)	64%
SURPLUS AS REGARDS TO POLICYHOLDERS	\$ 51,444,148	\$ 51,837,293	\$ (393,145)	-1%

THE PURE GROUP OF INSURANCE COMPANIES

**PRIVILEGE UNDERWRITERS
RECIPROCAL EXCHANGE**

SUBSCRIBERS ADVISORY COMMITTEE

ROSS J. BUCHMUELLER
*President & CEO, Privilege
Underwriters, Inc.*

DOUGLAS G. FIELDS (Secretary)
*Senior Vice President, BB&T-Oswald
Trippe and Co.*

RICHARD A. JACOBS
Managing Director, CGA Capital

JAMES H. MCLAUGHLIN
CEO, James H. McLaughlin & Co., LLC

WILLIAM W. WILSON III (Chairman)
CEO, RefocuX Inc.

ATTORNEY-IN-FACT

PURE RISK MANAGEMENT, LLC
*(wholly-owned subsidiary of
Privilege Underwriters, Inc.)*

ACTUARIAL SERVICES

PERR & KNIGHT
Boca Raton, FL

AUDITOR

EISNERAMPER LLP
Edison, NJ

LEGAL REPRESENTATION

CARLTON FIELDS, P.A.
Tallahassee, FL

INVESTMENT MANAGEMENT

WELLINGTON MANAGEMENT
Boston, MA

PURE INSURANCE COMPANY

DIRECTORS

J. STEPHEN BAINE
*General Partner, Starboard
Specialty Funds, LLC*

ROSS J. BUCHMUELLER
*President & CEO, Privilege
Underwriters, Inc.*

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Senior Principal, Stone Point Capital

DAVID LAPAUL
*Senior Vice President & Treasure, Nationwide
Mutual Insurance Company*

PETER M. MUNDHEIM
Principal, Stone Point Capital

NICOLAS D. ZERBIB
Senior Principal, Stone Point Capital

ACTUARIAL SERVICES

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AUDITOR

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LEGAL REPRESENTATION

CARLTON FIELDS, P.A.
Tallahassee, FL

INVESTMENT MANAGEMENT

AAM – ASSET ALLOCATION
AND MANAGEMENT
Chicago, IL

PRIVILEGE UNDERWRITERS INC.

DIRECTORS

J. STEPHEN BAINE
ROSS J. BUCHMUELLER
JAMES D. CAREY
DAVID LAPAUL
PETER M. MUNDHEIM
NICOLAS D. ZERBIB

Corporate Officers

ROSS J. BUCHMUELLER
President & CEO
MARTIN A. HARTLEY
Executive Vice President, COO
JEFFREY A. PARASCHAC
Executive Vice President, CFO

EXECUTIVES

W. KEITH SELF
Executive Vice President, Sales & Marketing
ROBERT O. COLLINS
Senior Vice President, Member Engagement
PHIL M. FIGUEIREDO
Senior Vice President, Controller
MARK C. GALANTE
*Senior Vice President, Marketing &
Business Development*
VIVIAN S. GEE
Senior Vice President, Underwriting
DENNIS P. KIRWIN
Senior Vice President, Sales & Marketing
GARY D. STEPHEN
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STUART G. TAINSKY
Senior Vice President, Chief Information Officer
NICKI COLOSI TRILLING
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Vice President, Risk Management
WILLIAM J. JOHNSON
Vice President, Underwriting
SUSAN B. KOWALSKI
Vice President, Underwriting
JASON M. LICHTENTHAL
Vice President, Information Systems
MARLOT R. MCMICHAEL
Vice President, PURE Services
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MICHAEL R. TRCHALA
Vice President, Sales & Marketing
JOHN J. WILLIS JR.
Vice President, Product Management



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NEW YORK

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SUITE 301
WHITE PLAINS, NY 10601

SOUTH CAROLINA

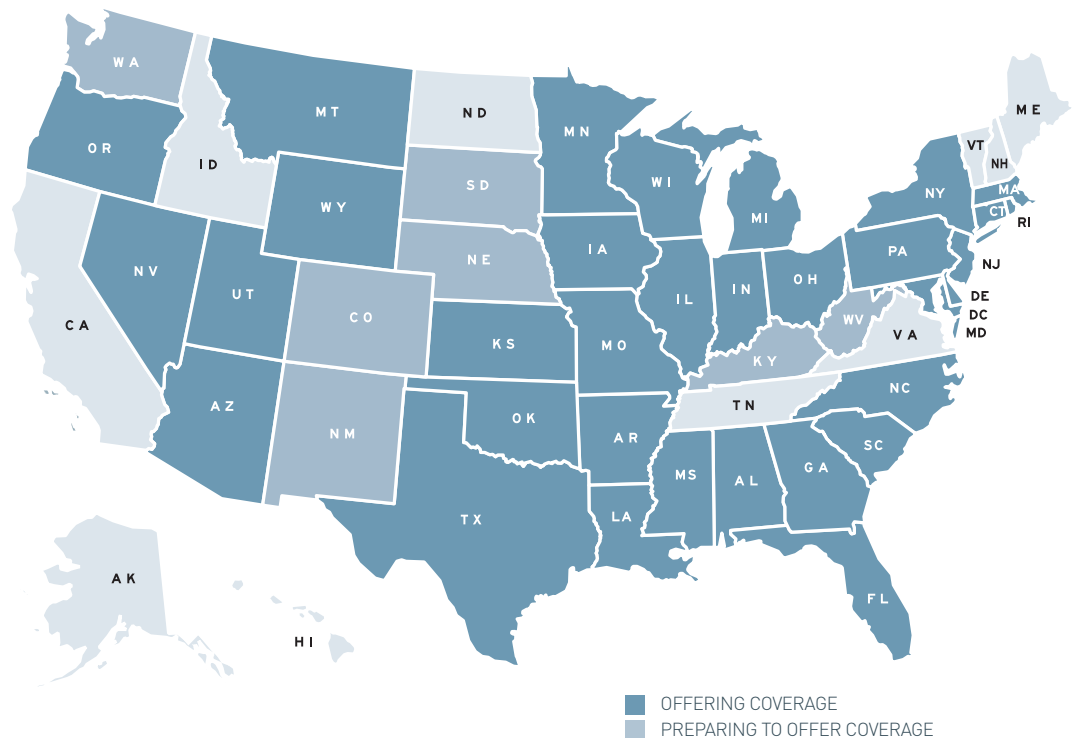
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SUITE 2020
CHARLESTON, SC 29407

888-813-PURE (7873)

service@pureinsurance.com

PURE FOOTPRINT AS OF APRIL, 2012

CLICK ON THE MAP BELOW TO SEE THE MOST UP-TO-DATE VIEW OF OUR EXPANSION



For promotional purposes, PURE refers to Privilege Underwriters Reciprocal Exchange, a Florida domiciled reciprocal insurer. This material is descriptive only. The precise coverage offered is subject to the terms and conditions of the policies issued. The rights and responsibilities of members are subject to the Subscriber's Agreement and Power of Attorney. Coverage may not be available in all jurisdictions. Certain sections of PURE's 2011 Report to Members contain forward-looking statements based on outlooks, estimates, projections and assumptions. Words referring to expectations, anticipations, planning, beliefs, schedules, estimations and variations of these words and similar expressions are intended to recognize forward-looking statements, which include but are not limited to projections of revenues, earnings, cash flows, and SSA allocations. Statements are subject to certain risks and uncertainties. Many important factors could affect PURE in the future which could cause its results to differ materially from those expressed in the forward-looking statement. Please consider such risk factors. All content refers only as of the date of this report. The PURE Group of Insurance Companies does not assume any obligation to amend or publicly release any changes to forward-looking statements to reflect events, circumstances or modifications in expectations of this report.