

ANNUAL REPORT 2018



SPONSORED BY ASSOCIATED INDUSTRIES OF MASSACHUSETTS



To Our Policyholders

*“Patience and perseverance have a magical effect
before which difficulties disappear and obstacles vanish.”
--John Quincy Adams*

Each year we reflect on what we did well and what we should strive for to ensure success in the future. In 2018 we enjoyed many successes, paving the way to our 30th year as a regional workers’ compensation insurance carrier. Patience and perseverance—along with a singular focus—can overcome most obstacles, as John Quincy Adams, Massachusetts native and 6th President of the United States, knew well. In this past year, we demonstrated both as we approached and achieved each of our goals.

As we continued to streamline our business operations, we successfully completed two unique transactions: the purchase of our largest wholesale workers’ compensation agency and the sale of our Life, Health and Benefits agency book of business. These transactions were designed to further strengthen our core business of workers’ compensation insurance. At the same time, we worked to expand our coverage territory, and, effective January 1, 2019, began writing coverage in the state of Maine.

We are proud of the financial results we delivered during 2018 as we increased net income for the fifth consecutive year. While industry results have also been profitable over this period, we believe our performance reflects positively on our strategies to pursue growth while maintaining the strongest possible balance sheet.

Despite absorbing double digit rate decreases in several of the states in which we do business, our voluntary premiums increased 2.5% for the year as we were successful in attracting new business. We also benefited from incremental growth in Vermont, approaching \$2 million of premium in our first full year of licensure in the state. We recognized favorable development on prior year loss reserves for the 25th consecutive year, helping to maintain our combined ratio at 90%. Profitable underwriting results, coupled with increased investment income and realized gains from our high quality investment portfolio, contributed to net income of \$27 million.

(continued)

CONSOLIDATED BALANCE SHEETS (CONDENSED)

<i>December 31 (in thousands)</i>	2018	2017
ASSETS		
Bonds	\$518,631	\$500,729
Common stocks	58,229	58,056
Cash and short-term investments	5,364	4,368
Premiums receivable	42,981	44,168
Deferred federal income taxes	7,813	5,216
Accrued investment income	4,306	4,294
Other assets	7,530	7,470
TOTAL ASSETS	\$644,854	\$624,301
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Reserves for losses and loss adjustment expenses	\$284,150	\$280,602
Unearned premiums	52,586	53,044
Ceded reinsurance balances payable	11,303	12,232
Borrowed money	13,000	13,000
Federal income taxes payable	342	2,947
Other liabilities	25,653	25,454
TOTAL LIABILITIES	387,034	387,279
POLICYHOLDERS' SURPLUS	257,820	237,022
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	\$644,854	\$624,301

CONSOLIDATED STATEMENTS OF INCOME (CONDENSED)

<i>Year Ended December 31 (in thousands)</i>	2018	2017
Premiums earned	\$137,454	\$140,279
Net investment income	17,222	14,324
Net realized capital gains	3,000	883
Other (expenses)	(500)	(373)
TOTAL REVENUES	157,176	155,113
Loss and loss adjustment expenses incurred	93,554	94,108
Underwriting expenses and dividends declared to policyholders	29,968	31,032
TOTAL LOSSES, EXPENSES AND DIVIDENDS	123,522	125,140
INCOME BEFORE FEDERAL INCOME TAXES	33,654	29,973
Federal income taxes	6,190	8,518
NET INCOME	\$27,464	21,455

Ernst & Young LLP has completed the audit of the 2018 financial statements of the Companies. A copy of the audited financial statements can be obtained by contacting A.I.M. Mutual.

To Our Policyholders (continued)

Policyholders' surplus of \$257 million represented a 9% increase over prior year. In reaffirming our rating of A (Excellent), A.M. Best assessed our balance sheet at the strongest level based on their evaluation criteria.

We understand these results reflect the hard work and dedication of our staff. We are fortunate to have colleagues who are dedicated to our mission, understand our vision and live our values each day. In 2018 we bid farewell to four long-serving colleagues who contributed so much to our collective success. As we mentioned last year, Bob Cella, Vice President of Field Operations, retired after 24 years with us. He joined our Company in 1994, first leading the marketing and underwriting effort in our central Massachusetts region and later responsible for all Field Operations. Bob worked diligently to impart his vast workers' compensation knowledge to his colleagues and successors as he approached retirement. We thank Bob for his many contributions. Adelaide Lincoln, "employee number 1," led our efforts in the Life, Health and Benefits business, and we thank her for her contributions and dedication to our Company. Judi Barry and Seak Huot were stalwarts in our Rating and Policy Administration areas; they kept the engine running each day. Their contributions to our success were numerous, immeasurable and sometimes unnoticed as they went about their work with skill and dedication.

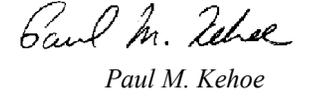
In the lead-up to our 30th anniversary, we refreshed both our brand and message. A new logo highlights the three parties essential to a successful insurance relationship: the insured employer, their broker and A.I.M. Mutual. This approach is evidence of our commitment to a collaborative working relationship and how we believe working together can bring superior outcomes to injured workers and reduce costs for their employers. Our updated website is 21st century ready, containing useful information structured in a more user-friendly and intuitive style.

We've also adopted the tagline "**First we listen,**" capturing our history as a thoughtful, underwriting-driven insurer. Our Company has been fortunate to deploy experienced professionals who, with the right tools, assess risk and design individualized solutions to workers' compensation problems. "**First we listen**" captures how we have approached our business for thirty years; we don't have manuals and prohibitive classes, so we are able to assess each offering and find a way to a solution whenever possible.

With the acquisition of The Fairway Agency, our largest wholesale workers' compensation agency, we welcomed principal Lawrence Laing and his colleagues to the A.I.M. Mutual family of companies. We have been doing business with The Fairway since 2007 and worked closely with Larry on this transaction, which was effective October 1, 2018. To these new colleagues and to our existing and retired staff, we send our thanks for accomplishments marked by excellence and, in no small part, by patience and perseverance. As always, we thank our brokers and insured employers for placing their business and trust with us.


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