

Associated Industries of Massachusetts  
Mutual Insurance Companies

annual report

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Rated A (Excellent) by A.M. Best Company

SPONSORED BY ASSOCIATED INDUSTRIES OF MASSACHUSETTS

To Our Policyholders

*"There is nothing wrong with change,  
if it is in the right direction."*

--Winston Churchill

As we look back on 2015, one theme is evident: change was constant throughout the year for our Company. Effective January 1, 2015, our management transition was completed with Paul Kehoe being elected Chief Financial Officer (CFO) and my election to Chief Executive Officer (CEO). Over the Company's history, we have been fortunate to have had a very stable management team, and it is our goal, as the "new" team, to maintain that stability and take our Company forward while continuing to set the standard for *Excellence in Workers Compensation Service*. The term "new" is relative as Mr. Kehoe has been a member of the finance team at our Company for 11 years and I have been affiliated with our Company for almost 20 years. We understand and appreciate the culture of the Company and are mindful of the need to maintain the culture of collaboration and service as we change to meet the demands of our evolving marketplace. We are also fortunate to have the support and commitment of over 160 colleagues to our mission. Mr. Kehoe and I are also privileged to have dedicated and experienced colleagues working with us on the Senior Leadership Team.

John Gould was the President & CEO of Associated Industries of Massachusetts (AIM) in 1988 and was instrumental in the formation of our Company. Mr. Gould, the former Chairman of the Board of our Company, retired from the Board on December 1, 2015. He served as our Chairman until 2011 when John A. Myers, III, was elected Chairman and Mr. Gould became our Vice Chairman. Mr. Gould had the unique vision and courage to fund the start-up insurance company that would become one of the premier Workers Compensation insurers in Massachusetts. His goal was to provide a service to the members of AIM amid a very turbulent time for workers compensation insurers in Massachusetts. From AIM's initial investment of \$200,000, our Company now has assets in excess of \$550 million, operations in three New England states, serves over 18,000 businesses, and employs more than 160 colleagues. We thank him for his dedication and many years of service and wish him well.

Also in 2015, we celebrated the careers of four valued colleagues and wished them well in their retirement. Dennis Gutride, underwriting in Holyoke, Mary O'Connor, Business Development, Henry Green, Accounts Receivable and Nina Welch, Claims, retired during 2015 following distinguished careers with the Company. The dedication and commitment they exhibited during their time with our Company is one reason we have built such a strong reputation for service to our policyholders.

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**CONSOLIDATED BALANCE SHEETS (CONDENSED)**

<i>December 31 (in thousands)</i>	2015	2014
<b>ASSETS</b>		
Bonds	\$450,973	\$429,053
Common stocks	38,279	35,234
Cash and short-term investments	14,422	8,320
Premiums receivable	39,087	38,261
Deferred federal income taxes	9,630	10,551
Accrued investment income	3,461	3,300
Other assets	6,254	7,916
<b>TOTAL ASSETS</b>	<b>\$562,106</b>	<b>\$532,635</b>
<b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b>		
Reserves for losses and loss adjustment expenses	\$264,059	\$251,612
Unearned premiums	49,820	49,446
Ceded reinsurance balances payable	14,067	12,466
Borrowed money	13,000	13,000
Federal income taxes payable	1,984	404
Other liabilities	25,393	25,060
<b>TOTAL LIABILITIES</b>	<b>368,323</b>	<b>351,988</b>
<b>POLICYHOLDERS' SURPLUS</b>	<b>193,783</b>	<b>180,647</b>
<b>TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS</b>	<b>\$562,106</b>	<b>\$532,635</b>

**CONSOLIDATED STATEMENTS OF INCOME (CONDENSED)**

<i>Year Ended December 31 (in thousands)</i>	2015	2014
Premiums earned	\$133,069	\$127,394
Net investment income	11,268	9,793
Net realized capital gains	268	2,438
Other (expenses)	(520)	(1,066)
<b>TOTAL REVENUES</b>	<b>144,085</b>	<b>138,559</b>
Loss and loss adjustment expenses incurred	95,460	95,066
Underwriting expenses and dividends declared to policyholders	30,267	29,577
<b>TOTAL LOSSES, EXPENSES AND DIVIDENDS</b>	<b>125,727</b>	<b>124,643</b>
<b>INCOME BEFORE FEDERAL INCOME TAXES</b>	<b>18,358</b>	<b>13,916</b>
Federal income taxes	3,641	2,250
<b>NET INCOME</b>	<b>\$14,717</b>	<b>\$11,666</b>

*Ernst & Young LLP has completed the audit of the 2015 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)

Early in 2013, we made the decision to pursue a Wellness Initiative for our insured employees. After years of piloting many wellness-focused initiatives with our colleagues, we came to the realization that this same approach to the health and wellbeing of our employees would benefit our insureds and their employees. Martha Gagnon joined us in May of 2013 and set out to establish our Company as the preeminent provider of wellness services in the Workers Compensation market. With Ms. Gagnon at the helm, we launched *A.I.M. Works: the Wellness Advantage* on January 1, 2015 with 10 long standing policyholders participating in a program focused on smoking cessation, nutrition and exercise. The early results were encouraging and, in 2016, we launched the second cohort of 10 policyholders for *A.I.M. Works: the Wellness Advantage*. Our Company was recognized for this groundbreaking effort, receiving an award from the Massachusetts Worksite Wellness Council, and Ms. Gagnon was elected to the Board of that organization.

To meet the demands of our market, we launched our Automated Underwriting Platform in 2015. We have built a profitable book of business in the small-to-medium-sized employer segment and, to capitalize on that portfolio, we decided to take on a project to make the submission and underwriting process simpler and more efficient for our brokers. Our colleagues in IT, working with colleagues in Underwriting and Marketing, designed an automated platform to do just that. Now, a select group of brokers can access Associated Employers Insurance Company (AEIC) from our web portal to submit, bind and issue a Workers Compensation policy from their desktop computer. We believe, as our world becomes even more digitized, this will be the way many of our producers choose to transact business with us.

From a financial standpoint, 2015 was an excellent year. For the second consecutive year, we reported an underwriting profit despite a challenging workers compensation rate environment in Massachusetts and New Hampshire. Net income was \$14.7 million, and premiums increased \$5.0 million to \$168.7 million. Our balance sheet, already strong, was further strengthened as total assets increased 5.5% to \$562.1 million. The investment portfolio, which comprises 90% of total assets, features \$450.9 million of bonds with an overall average quality rating of AA. To protect against large losses, we maintain a reinsurance program with a diverse group of highly-rated reinsurers. There has been no change in management's conservative approach to loss reserves, which A.M. Best cited as a positive factor in its affirmation of the Company's financial strength rating of A Stable (Excellent). For the year, policyholders' surplus increased \$13.1 million to \$193.8 million.

I chose a quote about change from a very distinguished leader which embodies our view of the need for change. Sir Winston Churchill's quote,

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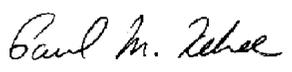
"There is nothing wrong with change, as long as it is in the right direction," guides our effort, as change for change sake serves no one.

I think you'd agree that change was evident throughout our Company in 2015. While I have mentioned a number of colleagues specifically in this letter, successful change is only possible if all of our colleagues are committed and working toward the same goal. Our commitment to excellence has never wavered and remains strong as we navigate our ever-evolving market.

I also want to thank all of you for your commitment to our Company and look forward to the opportunity to continue to serve your Workers Compensation needs far into the future.

  
John A. Myers  
Chairman

  
Michael E. Standing  
President & CEO

  
Paul M. Kehoe  
Vice President & CFO

## Board of Directors

**John A. Myers**  
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Turners Falls

**Richard C. Lord**  
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Associated Industries  
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Chase Corporation  
Bridgewater

**Wells A. Sampson**  
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Communications, Arlington

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Superior Cake  
Products, Inc., Southbridge

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## Officers

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**Paul M. Kehoe**  
Vice President & CFO

**Robert R. Cella**  
Vice President

**Glenn S. MacDonald**  
Corporate Secretary