

2017

ANNUAL REPORT

A.I.M. Mutual
INSURANCE COMPANIES

SPONSORED BY ASSOCIATED INDUSTRIES OF MASSACHUSETTS

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

To Our Policyholders

The state of our Company continues to be strong, thanks largely to our talented team and to a dynamic partnership with our policyholders and their broker representatives. The overarching mission is serving you and your injured workers, meeting or exceeding expectations, while enhancing the financial strength of our Company. It's the tacit promise we make every time we underwrite a policy.

Our success shows in our A (Excellent) Rating affirmed by A.M. Best for 2017, a retention rate approaching 92% in voluntary business, and a balance sheet that reflects record strength and stability.

Financial Overview

Accept the challenges so that you can feel the exhilaration of victory.

--General George S. Patton

To be sure, we faced a number of industry challenges in 2017, among them, growing competition and rate decreases in several of our jurisdictions. At the same time, health care costs continued to climb nationally, and the uncertainty of federal tax reform was an ongoing concern. The Tax Reform Act, signed in late 2017, resulted in a one-time charge to surplus of over \$3 million.

A.I.M. Mutual accepted these challenges with an outcome General Patton might have predicted. Continued favorable development on prior year loss reserves contributed to another underwriting gain. Strong underwriting results, combined with solid investment gains from opportune sales of certain securities, resulted in net income of \$21.5 million. Policyholders' surplus grew by \$22 million to \$237 million, a 10% increase over the year prior. We also achieved a combined ratio below 100% for the fourth consecutive year.

Above-average financial results allow us to steadily reinvest in our business. This enables us to differentiate A.I.M. Mutual from its competitors and embrace innovation in the services we provide. We must recognize the consistent effort and dedication of our team of finance professionals. They are an integral element of every operation in the Company, addressing the recurring items that are inherent in managing an insurance company while also working on new initiatives each year.

Differentiators

There's no better way to distinguish yourself in a competitive market than with people who truly know this business. We credit our current staff and the individuals who built a career here and have recently retired. The latter group includes Paul Antaya, Paul Kelley, June Lloyd, John MacDougall and Pat Roukes. We thank them for their contributions and wish them well in this next, exciting phase of their lives.

Our Company has a proud tradition of setting standards, and we are pioneers in bringing wellness to workers' comp. In 2017, we "graduated" our

(continued)

CONSOLIDATED BALANCE SHEETS (CONDENSED)

<i>December 31 (in thousands)</i>	2017	2016
ASSETS		
Bonds	\$500,729	\$479,799
Common stocks	58,056	43,311
Cash and short-term investments	4,368	10,715
Premiums receivable	44,168	40,921
Deferred federal income taxes	5,216	9,803
Accrued investment income	4,294	4,071
Other assets	7,470	7,025
TOTAL ASSETS	\$624,301	\$595,645

LIABILITIES AND POLICYHOLDERS' SURPLUS

Reserves for losses and loss adjustment expenses	\$280,602	\$275,382
Unearned premiums	53,044	50,384
Ceded reinsurance balances payable	12,232	13,342
Borrowed money	13,000	13,000
Federal income taxes payable	2,947	2,128
Other liabilities	25,454	26,392
TOTAL LIABILITIES	387,279	380,628
POLICYHOLDERS' SURPLUS	237,022	215,017
TOTAL LIABILITIES AND POLICYHOLDERS' SURPLUS	\$624,301	\$595,645

CONSOLIDATED STATEMENTS OF INCOME (CONDENSED)

<i>Year Ended December 31 (in thousands)</i>	2017	2016
Premiums earned	\$140,279	\$137,393
Net investment income	14,324	13,065
Net realized capital gains	883	2,132
Other (expenses)	(373)	(364)
TOTAL REVENUES	155,113	152,226
Loss and loss adjustment expenses incurred	94,108	98,344
Underwriting expenses and dividends declared to policyholders	31,032	29,384
TOTAL LOSSES, EXPENSES AND DIVIDENDS	125,140	127,728
INCOME BEFORE FEDERAL INCOME TAXES	29,973	24,498
Federal income taxes	8,518	4,796
NET INCOME	\$21,455	\$19,702

Ernst & Young LLP has completed the audit of the 2017 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)

first cohort of policyholders in the A.I.M. Works: The Wellness Advantage program, now an industry model. Results-to-date bear out our hypothesis: If we positively impact the underlying health of our insured employees, then these employees will recover faster following a workplace injury. Going forward our larger objective is to create healthy workplaces where accidents are avoided altogether.

Our early focus on opioids in the workers' compensation space has been nationally recognized. We have been working with our pharmacy benefit management partners since 2005, making tremendous strides in injury management and cost containment. With our policyholders, the number of injured workers currently on large doses of opioids has dropped well below the industry average.

Operational Highlights

In 2017 A.I.M. Mutual added Vermont as its fourth state. This expansion is intended to accommodate existing policyholders with Vermont exposures and provide us with new business opportunities. We also introduced our new Broker-Centric service model, designed to simplify our business platform and the way in which we do business with brokers in general. Dan Landers, Director Field Operations, Kevin Snyder, Senior Manager of Underwriting and Dan Ilnicky, Senior Manager of Injury Prevention & Worksite Wellness, worked together to deliver this model which benefits policyholders as well.

Year 23 of our annual claim seminars was a great success, thanks to Director of Claim Laurie Parsons. These seminars give us a unique opportunity to interact with employers and co-present with defense counsel and judges. Education and networking are the chief objectives, and feedback is resoundingly positive.

Looking internally, we launched a new training program geared to employees from a cross-section of departments and backgrounds. Teri Bowman, Director of HR, worked with her team to develop the first iteration of our P.R.I.M.E. program, which gives 12 individuals time-sensitive assignments to work on and present to senior leadership. This management development program is uniquely designed to build skills, teamwork and interest in future leadership roles.

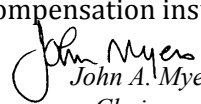
Our Burlington office underwent a significant facelift in early 2017, and we would be remiss if we did not recognize the various departments that worked together to make this a reality. Under the direction of Abi Troy, Director of IT and Insurance Operations, teams from IT and Facilities planned and executed the renovation on time. Our resilient colleagues worked through the disruption that comes with a project of this size and scope, and we appreciate their efforts.

For the second year in a row, we were named one of the Business Insurance Best Places to Work for 2017. This recognition, earned via employee
(continued)

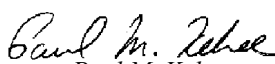
survey, complements the *Boston Globe* Top Places to Work award we held for seven years.

We tipped our hat to our 2017 retirees earlier, and, just last month, our VP Bob Cella joined their ranks. Bob managed underwriting and field operations for us over the course of 24 years. Highly-respected for his industry knowledge and comp expertise, Bob was instrumental in guiding A.I.M. Mutual field operations through key periods of growth. We extend our deep thanks and well wishes to Bob and his family.

Finally, as we prepare for our 30th anniversary, our service priorities remain clear. We believe we have the systems, procedures and, most importantly, the colleagues to meet market demands. As always, we value your business and appreciate the trust you have placed in us as your workers' compensation insurance carrier.


John A. Myers
Chairman


Michael E. Standing
President & CEO


Paul M. Kehoe
Vice President & CFO

Board of Directors

John A. Myers

Chairman
A.I.M. Mutual Insurance Cos.
Burlington

Leslie E. Greis

Owner & Manager
Perennial Capital Advisors, LLC
Boston

William C. Blanker

Chairman, *retired*
Esleek Manufacturing Co., Inc.
Turners Falls

Richard C. Lord

President & CEO
Associated Industries
of Massachusetts, Inc., Boston

Peter R. Chase

Executive Chairman
Chase Corporation
Westwood

Wells A. Sampson

President
American Alarm and
Communications, Arlington

Michael G. Faucher

Kaffimandu, LLC
Danvers

Ralph P. Schlenker

President
R.P. Schlenker, Inc., Plainville

Officers

Michael E. Standing

President & CEO

Paul M. Kehoe

Vice President & CFO

Robert R. Cella*

Vice President

Glenn S. MacDonald

Corporate Secretary

**retired April 2, 2018*