

TOMORROW. IMAGINE THAT.

Annual Report 2017



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Our Vision, Mission, and Values

Our vision, mission, and values are the guiding ideas and principles upon which we do business. Our vision is our future and represents the spirit of who we are and what we intend to become; while our mission describes the overall purpose of our organization and is a clear depiction of why this company exists. Our values represent our commitment to our members, employees, and community.

Our Vision

To be the leading provider of insurance and risk management solutions within our select markets by building enduring relationships.

Our Mission

To help our customers attain peace of mind through specialized insurance products, risk management solutions, and superior personal service.

Our Values

RELATIONSHIPS

- We are dedicated to being a successful mutual insurance company, accountable to and supported by our policy owners.
- We offer a diverse and rewarding work environment founded on respect, trust, and teamwork.
- We establish mutually beneficial relationships with associations that support the professional well-being of our customers.
- We choose business partners who share our core values.

INTEGRITY

- We are honest in everything we do.
- We are committed to high standards of ethical conduct.

CITIZENSHIP

- We support our communities and professional associations.
- We advocate for the interests we share with our customers.

EXCELLENCE

- Our success depends on the talents, skills, and knowledge of our employees.
- Our products, expertise, and service deliver value to our customers.
- We are committed to continuous improvement.
- We manage the company's resources to ensure its profitability and independence in order to honor the promises we have made.



Message from the CEO, Edward J. Yorty

*Pharmacists Mutual spent the “yesterdays” in the years prior imagining the possibilities of what could go wrong so our members are able to **imagine** a brighter **tomorrow**.*

Three hurricanes, multiple tornados, thyroid medication errors, allegations of sexual and physical abuse, needle sticks, automobile accidents, business and home fires, spoilage from power outages, cyber-attacks, and mechanical equipment failures. Many of our members – your co-members – faced natural and human caused disasters of multiple types in 2017. Pharmacists Mutual spent the “yesterdays” in the years prior imagining the possibilities of what could go wrong so our members are able to **IMAGINE** a brighter **TOMORROW**.

Providing the peace of mind that allows you to ponder the limitless potential of tomorrow is what Pharmacists Mutual does. It drives all of the professional women and men who have the privilege to serve you to do the best we can every day. This mission led us to a redesigned logo and brand message in 2017. Tomorrow. Imagine That. The sun image rising with its warm orange color is intended to invoke hopefulness and anticipation while the blue tones tie to the history of Pharmacists Mutual and its past logo.

Our claims specialists and adjusters have been busy assisting members and their employees recover from a multitude of misfortunes in 2017. We responded to 122 members in the wake of Hurricane Harvey and 103 impacted by Irma. Despite only recently entering Puerto Rico, we are assisting four members on that island. Our team of employee field adjusters spent many nights away from their regular territories including a 42 consecutive day stretch spent in Texas and Florida by Allen Simons, our adjuster who resides in Pennsylvania.



Allen Simons
Claims Adjuster

Overall, we responded to 6,203 claims in 2017, 8% more than in 2016. In addition to the increase in weather-related claims, we are defending members from various liability claims ranging from auto accidents and slip/falls to medication compounding errors. The increase in claims caused the company to record an underwriting

loss of \$1.5 million. Reinsurance protection mitigated this loss, and investment income from operations and the sale of The Pharmacists Life Insurance Company allowed the company to record positive net income for the year. The income added to our capital base to ensure our ability to respond to future disasters.

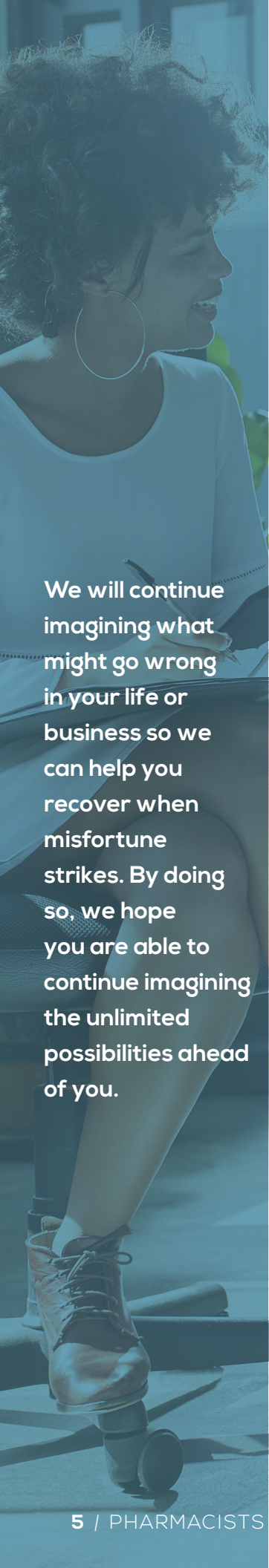
The Company also generated record growth over the past year. Policy count grew by 1%, and since many of the new accounts were quite large, overall direct written premium increased by over 24%. Although the Company is growing, we promise not to lose sight of our primary mission and to continue improving our service to you. Since we do not have shareholders, member satisfaction is our priority. We regularly survey many members each year to understand where we are excelling and where we need to improve. When asked about your overall satisfaction with our policy service you provided us with an average score of 4.7 in 2017, where 4 indicated 'very good' and 5 indicated 'excellent'. Members who had a claim provided an average score of 4.2 in 2017.

During the past year, we invested significantly to improve our service even more. For example:

- In November, we launched SIMPLEPAY, our Workers Compensation pay-as-you-go program, that ties your premium payments to your regular payroll process thereby reducing the premium surprises at the end of the policy term.
- We also introduced our new Risk Management Center that provides a wealth of tools and information to help our members manage their business to prevent and mitigate losses.
- If you don't like paper, we took the first step to provide you options. We opened our secure on-line member portal that allows you to see your policies and other documents, including auto ID cards. The portal also links to our on-line payment center.
- We expanded our product offerings by introducing earthquake coverage in California and commercial auto coverage in New Jersey.
- Our office located in Austin, Texas opened in January of 2017 and has been quite successful. We made this investment for business continuity to ensure we can respond to your needs if our Algona, Iowa office were off-line. We have been fortunate to find a tremendous pool of talent that has allowed us to welcome over 20 co-workers to this new office.



Although the Company is growing, we promise not to lose sight of our primary mission and to continue improving our service to you.



We will continue imagining what might go wrong in your life or business so we can help you recover when misfortune strikes. By doing so, we hope you are able to continue imagining the unlimited possibilities ahead of you.

My coworkers are not a group to relax after a productive year. We have sprinted into 2018 with several goals in front of us and significant opportunities.

- Building on the on-line member portal launch in 2017, we expect to provide you with the option of going paperless where regulations permit. You will be able to elect to receive policy documents, billing notices, and other communication electronically through your on-line account.
- We have entered into a partnership with Medmarc, a subsidiary of ProAssurance Corporation. Medmarc is an insurance company that specializes in providing products liability and manufacturer's errors and omissions coverage for firms specializing in medical devices and life sciences. Through this partnership, Pharmacists Mutual will offer supporting coverage such as workers' compensation, premises liability, commercial property, and commercial auto to Medmarc's customers. We expect this partnership to get underway during the second quarter.
- Pharmacists Mutual also plans to reorganize PMC Quality Commitment, Inc., a dormant subsidiary, as a second operating property and casualty insurance company. This wholly owned insurance company will allow us to offer products in additional markets.
- We also have a number of initiatives planned to continue improving our operating efficiency. Our efficiency is the result of careful planning and hardworking coworkers, all of whom are located right here in the United States, including our entire technology team.

Our attention to details has assured our success on your behalf. Our position as one of the best insurance companies was reaffirmed in several ways over the past year. Pharmacists Mutual was named to Ward's 50, a group representing the top 2% of all insurers in the country, for the second consecutive year. A.M. Best, the nation's oldest rating organization for insurance companies, reaffirmed our "A" (Excellent) rating. We were also recognized as a top Iowa Workplace by the Des Moines Register.

We will continue imagining what might go wrong in your life or business so we can help you recover when misfortune strikes. By doing so, we hope you are able to continue imagining the unlimited possibilities ahead of you. I offer you my personal gratitude for allowing my Pharmacists Mutual coworkers and me to serve you. Tomorrow. Imagine That.



Member Survey Results (As of 12/31/2017)

Pharmacists Mutual values our members' opinion. Each year we survey our members to receive a Members Satisfaction rating. Please see the chart below for a member satisfaction rating comparison for 2014, 2015, 2016, and 2017.

OVERALL PHMIC POLICY SERVICE

2017	4.7 out of 5
2016	4.7
2015	4.6
2014	4.5

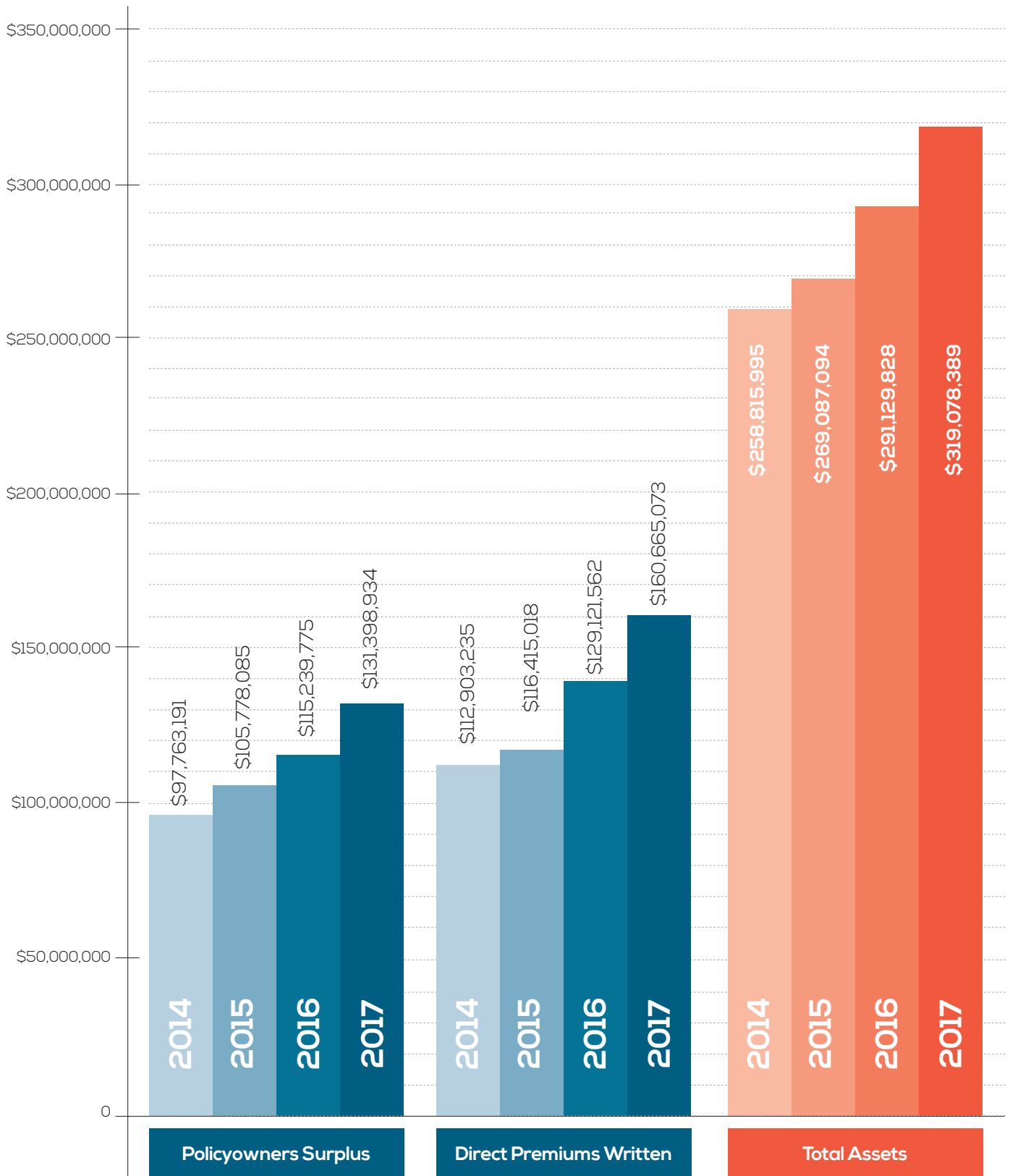
OVERALL PHMIC CLAIMS SERVICE

2017	4.2 out of 5
2016	4.4
2015	4.3
2014	4.5

Financial Highlights

ASSETS	2016	2017
Cash & Short Term Investments	\$5,492,276	\$6,098,888
Bonds	189,052,543	206,029,406
Stocks	22,799,830	28,746,628
Subsidiaries	10,145,980	2,892,104
Real Estate	5,824,190	5,859,488
Other Investments	2,172,044	2,348,705
Premiums Receivable	41,846,592	54,618,892
Deferred Taxes	6,032,000	3,543,000
Other Resources	7,764,373	8,941,278
Total Assets	\$291,129,828	\$319,078,389
LIABILITIES & POLICYOWNERS SURPLUS		
Estimate for Losses & Adjusting	100,067,065	97,756,276
Unearned Premiums	59,307,265	60,962,774
Accrued Expenses & Taxes	16,515,723	28,960,405
Total Liabilities	\$175,890,053	\$187,679,455
Policyowners Surplus	115,239,775	131,398,934
Total Liabilities & Policyowners Surplus	\$291,129,828	\$319,078,389
INCOME STATEMENT & CHANGE IN SURPLUS		
Net Premiums Earned	\$99,347,290	\$99,606,669
Loss & Adjusting Incurred	60,250,664	65,794,947
Underwriting Expenses	34,563,574	35,271,242
Underwriting Income (Loss)	\$4,533,052	(\$1,459,520)
Investment Income	6,393,535	6,561,209
Realized Capital Gains (Losses)	139,989	10,939,025
Other Income (Expense)	(39,876)	246,221
Dividends to Policyowners	20	-
Federal Income Tax	2,565,797	1,178,408
Net Income (Loss)	\$8,460,883	\$15,108,527
Unrealized Capital Gains (Losses)	1,216,603	4,658,667
Other Changes to Surplus	(215,796)	(3,608,035)
Change in Surplus	\$9,461,690	\$16,159,159

Financial Chart Comparison



Board of Directors



Donnie R. Calhoun

R.Ph.



Jonathan C. Grether

MSIM, CPCU, CIC, CRM,
ARe, AAM



Kirk M. Hayes

CPCU



Holly Whitcomb Henry

R.Ph.



F. Michael James

R.Ph.



Richard B. Moon

R.Ph., PharmD



Randall S. Myers

R.Ph.



Kelly S. Selby

R.Ph.



Steven T. Simenson

R.Ph.



William A. Stuart

R.Ph.



Susan L. Sutter

R.Ph.



Edward J. Yorty

MSFin, FCAS, FSA, MAAA

Executive Team (As of 12/31/2017)



Edward J. Yorty

MSFin, FCAS, FSA, MAAA
President
Chief Executive Officer



Jonathan C. Grether

MSIM, CPCU, CIC,
CRM, ARe
Chief Operating Officer



Kevin C. Banwart

CPA, AIAF
Chief Financial Officer
Treasurer



Don R. McGuire, Jr.

R. Ph., J.D.
General Counsel
Secretary
Sr. Vice President
Compliance & Risk Management



Richard M. Berke

PMP, FLMI, CMA
Sr. Vice President
Member & Corporate Services



Victor C. Garman

MSM, SCLA
Sr. Vice President, Claims



Steven M. Hoskins

CLU
Sr. Vice President
Agency Operations



Paul T. Luckman

JD, MBA, CPCU
Sr. Vice President
Sales & Marketing



Shirley A. Pierson

CISR, AU
Sr. Vice President
Underwriting



Derrick D. Shannon

FCAS, FSA, MAAA, CPCU
Chief Actuary
Sr. Vice President
Product Development



William H. Wiebelhaus

Chief Information Officer



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