



CSE 2016
INSURANCE GROUP Annual Report



INDEX

PAGE 03

Evolution and
Performance

PAGE 04

2014 - 2016
Strategy

PAGE 05

Next Generation
Products

PAGE 06

Organizational
Overview

PAGE 10

Leadership

PAGE 12

Auditor's Letter

PAGE 13

Balance Sheet

PAGE 14

Income
Statement

PAGE 15

Stockholders'
Equity/Financial
Statement

Before looking towards the future, I'd like to take a moment to reflect on 2016's performance with what we've accomplished so far.

With the close of 2016, we completed the first phase of CSE's transformation, which we launched back in 2014. This included the completion of several key milestones:

- Launched our comprehensive new brand strategy
- Revamped teams of new employees with advanced skills
- Created a new claims center in San Dimas, CA for markedly improved service
- Continued development of new technologies with the movement to one policy processing system
- Implemented our new data warehouse, allowing for rapid access to reliable data

Furthermore, our corporate governance is functioning well. We finalized the development of our "Next Generation" range of personal insurance products, most notably:

- Landlord was launched in California in February 2016
- Home was launched in California in May 2016
- Auto will be launched in California in April 2017

These new, innovative products are based on better segmentation using the latest pricing models. This allows us to not only develop in California, but also build on a tested foundation as we launch these products in all our states.

I'm particularly proud to announce that CSE was doubly rewarded by the industry for its new Landlord product. We received the Gold Medal for the "Best New Version of the Year" by Best in Biz, as well as being awarded the winner of Celent Model Insurer's "Innovation and Emerging Technologies."

Beyond this, 2016 was also characterized by two significant facts:

1. CSE reached \$166 million in direct written premium, representing 4% growth over 2015
2. CSE fulfilled its commitment to its policyholders by paying more than \$106 million in claims. The California wildfire season impacted 279 insureds, resulting in CSE providing more than \$3 million in coverage, which was primarily from smoke damage.

The second stage of our strategic plan starting in 2017 is a focus on "controlled growth." This begins with the launch of our Next Generation personal insurance products in all the states where we operate, including Arizona, Nevada, and Utah. This will be followed by the development of our commercial insurance products, which we will continue to develop at the beginning of 2018.

A key part of our controlled growth strategy is the implementation of an annual pricing review across our entire product suite. This allows us to continue our focus of obtaining a 98% combined ratio by product line, while growing our customer base.

In 2017, we will begin our expansion into omni-channel services for customers. This means we'll look to provide access and service digitally, while continuing to rely on our trusted distribution network of independent agents.

I'm extremely proud to present our annual report detailing a plan of action for the CSE team. This plan allows us to start 2017 with optimism born out of a new range of products to better serve our agents and policyholders.

Sincerely,



Richard Rey, President and Chief Executive Officer



Vehicles Insured
66,000



Residences Insured
125,000



Commercial Properties
Insured
6,000



Policyholders
185,000



Employees
130



Agents
393



Claims Paid
\$106.5 million



Earned Premium
\$148 million



Total Revenue
\$157 million





CSE now has the people and technical expertise, combined the tools and industry experience, to develop new innovative products for its customers.

In 2016, CSE successfully launched its award winning Landlord and Homeowners Insurance products and in 2017 will launch its new Automobile product.

These products, with innovative coverages designed to serve the needs of our customers, rely on sophisticated market segmentation allowing us to accurately match the correct premium with the risk, ensuring that each customer is charged the appropriate premium for their coverage.

The California market has responded:

- Our Landlord product has won many industry accolades and, more importantly, is growing with new business, increasing by 80% year-over-year and total production – new and renewal business, increasing by over 25%.
- Since its introduction in May, the Homeowners product has seen similar positive growth; with new business in this highly competitive market growing by 70% over the prior year.
- With its approval by the California Department of Insurance, the new California Automobile product will launch in April 2017 and we are looking for similar success.

Following these successful product launches in 2016, CSE will launch the new next generation Landlord, Homeowners, and Automobile products in Arizona and Nevada in 2017, as well as new Homeowners and Automobile coverages and pricing segmentation in Utah.





Automobile Insurance

Introducing our Next Generation Automobile Insurance package with increased optional enhancements to better protect you and your vehicle, and broadened discounts to save you money!

Next Generation Auto Package
Enhanced options available to policyholders:

- Full glass coverage
- Loan/lease gap coverage
- Equivalent replacement cost coverage
- Original Equipment Manufacturer (OEM)
- Rideshare coverage
- Rental reimbursement coverage
- Roadside Assistance coverage
- Medical parts and accessibility coverage

Introducing the CSE Superior Good Driver Discount

Save up to 36% if you have:

- 5 years of driving experience
- No chargeable violations in the last 3 years
- No at fault accidents or major violations in the last 5 years

Available Discounts:

- GOOD DRIVER**
Save up to 25% if you have 3+ years of good driving experience
- MULTI-VEHICLE**
Save up to 15% when you insure more than one car with CSE
- MULTI-POLICY**
Save up to 22% when you insure your Home and/or Umbrella with CSE
- LOYALTY**
Save up to 3% For being a loyal CSE customer
- MATURE DRIVER**
Save 2% if you are 50+ years of age

Call your CSE Agent to upgrade your Auto policy today!

2121 N. California Blvd, Suite 900, Walnut Creek, CA 94596
cseinsurance.com | facebook.com/cseinsurance | @cseinsurance | (925) 252-6848



Homeowner Insurance

Introducing our upgraded homeowner insurance package with additional enhancements to better protect your property and broadened discounts to save you money!

Homeowners Package

New "à la carte" options available to all policyholders:

- Liability and personal injury coverage up to \$1,000,000
- Functional Replacement Cost coverage for older homes
- Equipment breakdown up to \$100,000
- Deductibles up to \$10,000
- Ordinance or Law - Increased limits coverage
- Loss assessment option
- Service line coverage up to \$10,000
- ... and MORE!

Enhanced Homeowners Plus package:

- 175% dwelling extended replacement cost
- Up to \$7500 for loss caused by back up of sewers and drains
- Increased limits for select items of personal property
- Ordinance of Law 20% of Coverage A
- \$5,000 of loss assessment coverage

Available Discounts:

- LOYALTY**
Save up to 8% if you are an existing CSE Insurance policyholder
- ALARMS**
Save up to 8% for burglar, fire, and water detection devices
- MULTI-POLICY**
Save up to 24% when you insure your Auto, additional Home, Earthquake, or Umbrella

Call your CSE Agent to upgrade your policy today!

2121 N. California Blvd, Suite 900, Walnut Creek, CA 94596
cseinsurance.com | facebook.com/cseinsurance | @cseinsurance | (925) 252-6848



Landlord Insurance

Introducing a new Landlord insurance package with additional enhancements to better protect your property and added discounts to save you money!

New Landlord Premier Package

Premier Highlights

- 175% dwelling extended replacement cost
- Up to \$3,000 for loss caused by back up of sewers and drains
- \$1,000,000 premises liability and personal injury
- Extended fair rental value
- Bed bug or bed bug infestation remediation coverage
- Landlord personal property and theft coverage up to \$2,500
- HOA loss assessment coverage up to \$2,500

New "à la carte" enhancements

- \$1,000,000 premises liability and personal injury
- Eviction Expense Reimbursement coverage *NEW to the market
- Functional Replacement Cost coverage for older homes * CSE exclusive!
- Ordinance or Law - Increased Limits coverage
- Personal Property Replacement Cost coverage * CSE exclusive!
- Highest deductible options in the industry
- Equipment breakdown coverage * CSE exclusive!
- Service line coverage * CSE exclusive!
- Earthquake Insurance Policy
- ...and MORE

*Based on an analysis of 2015 top competitors

New Discounts Added:

- PROPERTY MANAGEMENT**
Save up to 5% if your rental property is managed by a professional
- ALARMS**
Save up to 9% for burglar, fire, and water detection devices
- MULTI-POLICY**
Save up to 10% when you insure your Auto, Home, additional Landlord, Earthquake, or Umbrella
- RENTERS INSURANCE**
Save up to 5% if your tenants have valid renters insurance

Call your CSE Agent to upgrade your policy today!

2121 N. California Blvd, Suite 900, Walnut Creek, CA 94596
cseinsurance.com | facebook.com/cseinsurance | @cseinsurance | (925) 252-6848

Automobile Insurance

- Launches Q1 2017 in CA, UU
- Launches Q4 2017 in AZ, NV
- Competitive rating
- Increased segmentation using multi-variate predictive modeling (except in CA)
- Expanded coverage options
- Roadside assistance
- Additional discounts

Homeowners Insurance

- Launched Q2 in CA, 2016
- Launches Q1 2017 in AZ, Q2 in NV
- Predictive modeling
- ISO Fireline, PPC, and Wildfire rating factors
- Enhanced coverages
- Additional discounts

Landlord Insurance

- Launched Q1 in CA, 2016
- Launches Q4 2017 in AZ, NV
- Best-in-class pricing
- Package pricing (base, plus, premium)
- Exclusive Eviction Expense Reimbursement, Pest Remediation coverages
- "A la carte" options: flexibility to choose between different options based on individual needs
- Additional discounts
- **Best in Biz Award winner for "Best New Version of the Year"**
- **Celent Model Insurer winner for "Innovation & Emerging Technologies"**

In our own words

“I see our company as a boutique insurance company, where we are able to create innovative products, understand the importance of exceptional customer service, and ensure that we are able to provide ease-of-use for all of our customers and agents.”

- **My Ta, Underwriting Manager**



“I love the willingness to adapt to what makes sense. If we propose to do something and then new information comes out that shows a need to change direction, the team and the leadership has the willingness to change direction towards the task and path that make the most sense.”

- **Tenzin Tsering, Product Manager**



“What gets me excited to come to work every day is the fact that it’s different every day. I have different agents that I meet, so I may be in Sacramento one day, I may be in Modesto tomorrow, I might be in Bakersfield or Fresno the next day. All of those folks have different backdrops and company cultures. What creates such a strong bond between me and each of them is that the carrier, which I work for, is our common ground.”

- Lisa Kelley, Territory Manager



“CSE is really a story of change right now. We have respect for our heritage and our history, but we’re also expanding in a way that is allowing us to grow profitably, and we’re delivering a really, really simple message to our clients. We’re taking out a lot of the insurance fluff that’s really common throughout the industry, and delivering a really simple mission in a way that’s bigger and on a larger scale.”

- Keyan Keihani, Marketing Manager



Organizational Overview

In 2016, CSE again fulfilled its commitment to customers by being “Good Policy People.” Our goal is to ensure that we protect our customers with well-made insurance and exceptional service.

In continuing our focus on customer service, CSE opened its new and technologically advanced Claims center in Southern California. We initiated a new First Notice of Loss to speed response to insureds in their time of need. We have accelerated response times dramatically and are achieving extraordinary claims response and settlement times, restoring our insureds’ lives with as little disruption as possible.



[In 2016, CSE insurance Group introduced a new claims office in San Dimas, CA]



[The CSE claims group aided in relief efforts during the 2016 Sand Fire which ultimately saw more than 41,000 acres burned in Los Angeles County]



Throughout 2016, CSE responded to the needs of its customers by covering more than 28,000 reported claims and paying more than \$106 million in losses, doing its best to restore the homes, properties, and lives of insureds when the unexpected occurs.

2016 saw one of the worst California wildfire seasons, starting earlier than usual in late May and continuing into the fall. 279 CSE insureds were impacted and CSE responded with payments of over \$3 million to cover loss, evacuation and fire damage remediation.

CSE rolled out its Roadside Assistance program, covering all vehicles insured and providing an industry-leading 100 mile radius of coverage.

With our continued focus on controlling expenses, CSE reduced its operating expense by \$1.5 million, reducing this key measure of selling and administrative expense from 34.5% in 2015 to 33.3% in 2016.

CSE along with its trusted network of Independent Agents is there to serve its customers in California, Arizona, Nevada and Utah, providing excellent insurance and delighting with exceptional customer service.



EXECUTIVE TEAM

CSE Insurance Group has assembled an impressive team of executives, each with a wealth of experience in their respective department. Each member brings unique insight to the industry and plays a key role as we carry the evolution forward towards reaching both our short and long term goals.



Richard Rey
CEO & President



Pam Burrows
VP of Human
Resources



Patrick Wong
AVP, General Council,
Corporate Secretary



Mark Chequer
VP, Chief Information
Officer



Stefan Dobrus
EVP, Chief Financial
Officer



David Carmany
SVP of Products &
Underwriting



Ryan McAllister
AVP, Chief Actuary --
Analytics



Jim Van Farowe
VP of Claims



Randy Farless
SVP of Sales &
Marketing



Mike Suzuki
VP of Quality and
Customer Experience



BOARD OF DIRECTORS

CSE Insurance Group is a subsidiary of Covéa Coopérations, a mutual insurance group headquartered in France. Covéa is the 13th largest insurer in Europe. The association with Covéa not only provides the financial backing of a \$20 billion global insurer, but also access to expertise and leadership to assist us in our decision and governance processes. In leveraging this relationship, CSE Insurance Group will be developing sophisticated products, adding new coverages, increasing our operational efficiency.



Patrice Forget
Chairman



Sophie Beuvaden
Director



Richard Rey
President and CEO



Philippe Narzul
Director



Thomas Kelly
Director



Bertrand Lefebvre
Director



David Brinker
Director



Dominique Salvy
Director



Board of Directors
GMF Financial Services Corporation
Walnut Creek, California

We have audited the accompanying consolidated financial statements of GMF Financial Services Corporation and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GMF Financial Services Corporation and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Ramon, California

March 31, 2017

ASSETS

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$1,390	\$2,098
Fixed maturity securities, at fair value (amortized cost of \$219,597 in 2016; \$229,151 in 2015)	217,745	229,127
Premiums receivable (less allowance for doubtful accounts of \$171 in 2016; \$210 in 2015)	18,425	19,280
Reinsurance recoverable, net	13,406	8,245
Prepaid reinsurance premiums	134	24
Property and equipment (net of accumulated depreciation of \$20,556 in 2016; \$18,994 in 2015)	6,215	5,013
Deferred taxes, net	15,972	13,090
Accrued investment income	2,005	2,130
Deferred policy acquisition costs	14,919	17,057
Other assets	6,456	2,740
Total assets	<u>\$296,667</u>	<u>\$298,804</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Unpaid losses and loss adjustment expenses	\$73,312	\$78,796
Unearned premiums	74,147	70,509
Funds held under reinsurance treaties	4,166	168
Accrued expenses and other liabilities	8,079	9,407
Accrued compensation and benefits payable	1,275	1,430
Total liabilities	<u>\$160,979</u>	<u>\$160,310</u>
Stockholders' equity		
Capital stock, common, par value \$0.10 per share, authorized 2,000 shares, issued and outstanding 1,132 shares	-	-
Additional paid-in capital	332,202	332,202
Accumulated other comprehensive income	(1,591)	(851)
Accumulated deficit	(194,923)	(192,857)
Total stockholders' equity	<u>\$135,688</u>	<u>\$138,494</u>
Total liabilities and stockholders' equity	<u>\$296,667</u>	<u>\$298,804</u>

	<u>2016</u>	<u>2015</u>
Premiums and other revenue		
Net premiums earned	\$148,375	\$147,550
Net investment income earned	4,546	4,651
Net realized capital gains	2,622	459
Other income, net	997	1,620
Total revenue	<u>\$156,540</u>	<u>\$154,280</u>
Expenses		
Losses and loss adjustment expenses incurred	106,528	102,118
Allowance for premium deficiency	3,464	564
Other underwriting expenses	49,444	50,957
Total expenses	<u>159,436</u>	<u>153,639</u>
Income before taxes	(2,896)	641
Income tax expense	(1,174)	506
Net income (loss)	<u>(1,722)</u>	<u>135</u>
Net unrealized loss on securities	(740)	(2,640)
Comprehensive income (loss)	<u>\$(2,462)</u>	<u>\$(2,505)</u>



	Capital Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balances, January 1, 2015	\$	\$332,202	\$1,789	\$(190,092)	\$143,899
Net income	-	-	-	135	135
Other comprehensive income, net of tax					
Net unrealized holding loss arising during the period (net of income tax of \$569)	-	-	(2640)	-	(2640)
Stockholder dividend declared/paid	-	-	-	(2900)	(2900)
Balances, December 31, 2015	-	\$332,202	\$(851)	\$(192,857)	\$138,494
Net loss	-	-	-	(1,722)	(1,722)
Other comprehensive income, net of tax					
Net unrealized holding loss arising during the period (net of income tax of \$21)	-	-	(740)	-	(740)
Stockholder dividend declared/paid	-	-	-	(344)	(344)
Balances, December 31, 2016	\$	\$332,202	\$(1,591)	\$(194,923)	\$135,688

Financial Statement (\$000)

Financial Strength (\$000)	2016	2015
Cash and investments	\$219,135	\$231,225
Net loss & LAE reserves	\$60,433	\$70,910
Total assets	\$296,667	\$298,804
Total liabilities	\$160,979	\$160,310
Stockholders' equity	\$135,688	\$138,494
Annual Operations (\$000)	2016	2015
Net premium earned	\$148,375	\$147,550
Investments and other income	\$8,165	\$6,730
Net loss and LAE incurred	\$106,528	\$102,118
Commissions & other acquisition costs	\$27,556	\$26,249
Other underwriting expense	\$25,352	\$25,272
Net income (loss) after tax	\$(1,722)	\$135
Loss & LAE ratio	71.8%	69.2%
Commission ratio	18.6%	17.8%
Other underwriting expense ratio	17.1%	17.1%



CSE Insurance Group

2121 North California Boulevard, Suite 900
Walnut Creek, CA 94596

(800) 282 - 6848 | cseinsurance.com

2016 Civil Service Employees Insurance
Company / CSE Safeguard Insurance Company