



CSE Insurance Group

— Since 1949 —

2013

ANNUAL REPORT



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2013 was a successful year for the CSE Insurance Group, as we achieved our goals of profitable growth. The Gross Written Premium continued to increase by 3.4% to \$157.8 million. The Company's efforts to strengthen its underwriting results over the past three years resulted in a loss and loss adjustment expense ratio of 67.2% compared to 72.6% in 2012, and the underwriting expense ratio excluding acquisition costs continued to decrease to 18.7%. The result is a combined ratio of 102.8%, an improvement compared to 107.5% in 2012. The policyholder surplus increased to \$112.2 million and AM Best again confirmed the strength of CSE with an A- excellent rating.

While we are encouraged by these positive results, we are focusing on the future as we face an evolving market and adapting competition. Despite our overall favorable results, we were not satisfied with our new business production which saw a year-over-year decline of 2.6%.

Coming from CSE's parent company, Covéa, I assumed the role of President and CEO in November of 2013 and worked with my executive team to introduce a new strategic plan for the next three years. The strategy is centered around improving efficiency and focuses on several key goals:

- Improve the efficiency of our processes, tools, and services to better address the needs of our customers
- Improve productivity by simplifying internal processes
- Keep "ease of doing business" as a top priority in our relationship with agents
- Decrease our expenses to enhance our competitiveness
- Decrease the combined ratio by line of business to be under 100%
- Revitalize the brand of CSE in the market

This report features achievements from the past year, but it also highlights our goals and action plans for the coming year as we look forward to the future. While it is an ambitious plan, I believe it will better position CSE as the best insurance company to serve its niche market, a company that strives to best "serve the people who serve the people."

A stylized, handwritten signature in black ink, consisting of a large, looped 'R' followed by a few strokes that suggest the name 'Rey'.

Richard Rey
President & CEO

Welcome to CSE

Richard Rey President and CEO

Mr. Rey brings more than 20 years of experience in the insurance field to CSE, having served in claims management, actuarial, and executive roles.

He began his career in France at MAAF Assurances, a subsidiary of the Covéa Group. In 1991, he became the Director of their auto accident department before being promoted to Senior Vice President of Actuarial Statistics and Reinsurance of Covéa. Most recently, Mr. Rey was the President and CEO of Covéa Re and Covéa Lux Reinsurance subsidiaries of the Covéa Group.

Mr. Rey holds a Masters degree from the University of Poitiers and is a graduate of the Institute of Actuarial Studies. He is a collector of French and Belgian comics and enjoys the outdoors. An avid runner, Mr. Rey has also participated in 20 marathons since 1989.



CSE Leadership

CSE Board of Directors



Patrice Forget
Chairman



Sophie Beuvaden
Treasurer



Richard Rey
President and CEO



Frank Jeusette
Director



Thomas Kelly
Director



Luc Kranzen
Director



Olivier Le Borgne
Director



Bertrand Lefebvre
Director



Richard Miles
Director



Dominique Salvy
Director

Executive Committee

Richard Rey
President & CEO

David Brinker
EVP Products and Support

Stefan Dobrus
SVP and CFO

Jim Williamson
SVP Claims, SCLA, FCLA

David Carmany
VP Product and Pricing, CPCU, ARM

Norman Ramos
SVP Sales and Marketing

David Schlocker
VP Human Resources, SPHR GPHR

Kelli Schulhofer
SVP Field Operations, AINS

Financial Summary

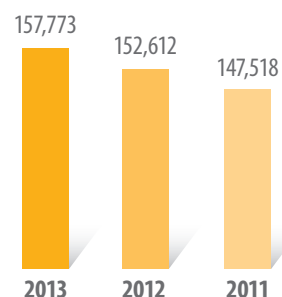
Profitable Growth

This year was successful for CSE Insurance Group as we attained our goals of profitable growth. In 2013, gross written premium was \$157.8 million (a 3.4% increase over 2012) and growth was consistent with our five-year average top line growth of 3.2% per annum. The 2013 net written premium increased by 5.9% to \$137.8 million as we experienced a 10% reduction in reinsurance costs during the year.

In addition to the strong revenue growth, the Company's efforts to strengthen its underwriting results over the past three years resulted in a loss and loss adjustment expense ratio of 67.2% compared to 72.6% in 2012 and 75.1% in 2011. The improvement in the loss and loss adjustment expense along with the continued focus on expense controls resulted in the Company improving its year over year underwriting results by \$5.9 million, posting a combined ratio of 102.8% compared to 107.5% in 2012 and 112.3% in 2011. The Risk Based Capital Authorized Control Level Ratio was 10.2.

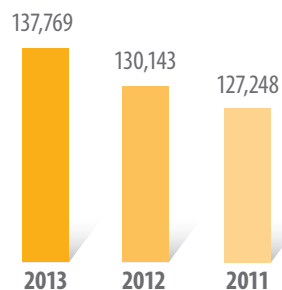
157.8

GROSS WRITTEN PREMIUM



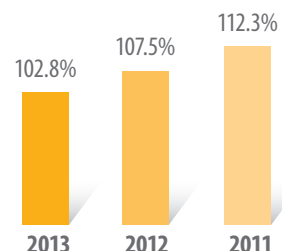
137.8

NET WRITTEN PREMIUM



102.8

COMBINED RATIO



UNDERWRITING EXPENSE RATIO

35.7



PURE LOSS RATIO

54.7



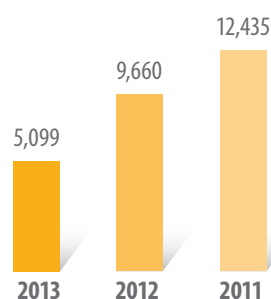
LOSS & LOSS ADJUSTMENT EXPENSE RATIO

67.2



5.1

INVESTMENT INCOME



Financial Results

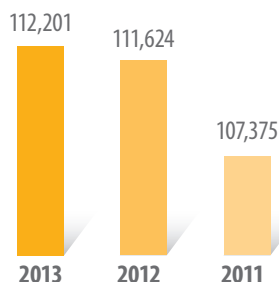
Loss control continued to be a focus this year. In 2013, loss and loss adjustment expense decreased by \$1.3 million from 2012 as net written premium increased. The resulting pure loss ratio improved to 54.7%, an improvement of 4.2% points on the prior year.

Overall, with the favorable operating results, the Company at year-end 2013 ended in a stronger financial position than it began the year. Policyholder surplus, the ultimate measure of security and strength of an insurance company increased to \$112.2 million after paying a \$2.5 million dividend to our parent. Over the past five years, surplus has grown at an annualized rate of 3.3% after dividend payments. At \$112.2 million our surplus is 10.2 times greater than the authorized control level capital as established by risk based capital determination promulgated by the National Association of Insurance Commissioners. Our net written premium to surplus writing ratio is a very robust 1.2 to 1.0.

With our positive underwriting position, strong agency network, and superior surplus strength, CSE is positioned for growth and provides assurance to all stakeholders that we will continue to honor our commitments now and long into the future.

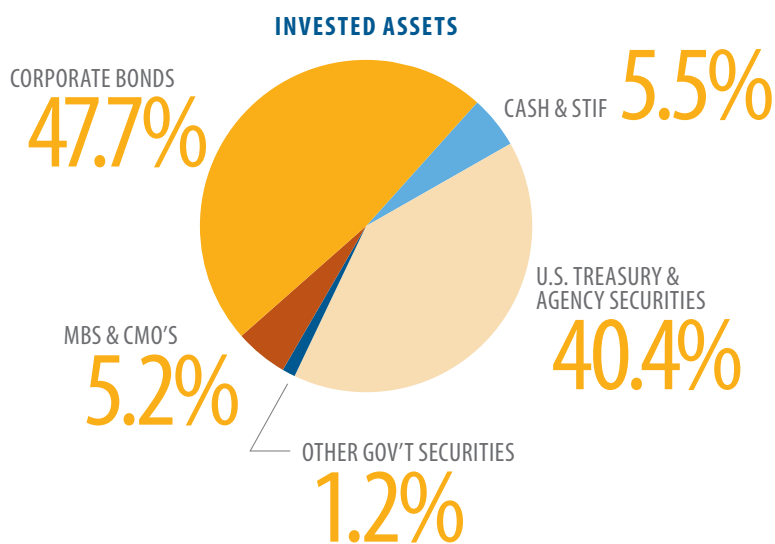
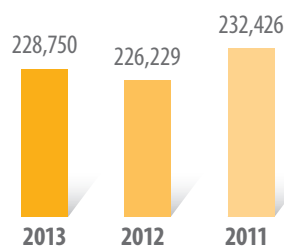
112.2

CAPITAL & SURPLUS



228.8

NET INVESTED ASSETS



About CSE

Looking Back

This year, Richard Rey took the helm as our new CEO. Under the direction of Mr. Rey, the company was reorganized to allow for better communication and collaboration between departments, resulting in greater efficiency. We were also proud to again receive an AM Best Rating of A- (Excellent) this year.

Looking Forward

In 2014, CSE will focus on more analytics and data-driven decision making. We are committed to growth and profitability in our auto and commercial departments. The agent and customer experience is a priority at CSE, and we are actively working on both technological and organizational improvements to encourage a greater ease of doing business. Several new positions are also being added in 2014 including a Senior Vice President of Sales and Marketing, Chief Information Officer, and a Chief Actuary.

Industry Recognition

CSE Rated A- (Excellent) by A.M. Best

A Financial Strength Rating from AM Best is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. AM Best's recognition of CSE's financial strength is a vote of confidence for the company's ability to deliver the promise of protection to all policyholders.



Civil Service Employees Insurance Company and
CSE Safeguard Insurance Company are rated A-
2011-2013

CSE: Quick Facts

110,616

POLICYHOLDERS/CUSTOMERS

21,832

VEHICLES INSURED

50,356

HOMES INSURED

158

EMPLOYEES

593 4

NUMBER OF AGENTS in STATES

10.2

RBC-ACL TO SURPLUS RATIO

COVÉA: Meet the Parent Company

CSE is a subsidiary of Covéa (SGAM)
based in Paris, France.

2013 KEY FIGURES

POLICYHOLDERS AND CUSTOMERS
More than

11 MILLION

EMPLOYEES
More than

26,500 across 6 COUNTRIES

PREMIUMS

15.5 BILLION EUROS

VEHICLES INSURED
More than

10 MILLION

HOMES INSURED

7.4 MILLION

2012 KEY FIGURES

NET INCOME*

628 MILLION EUROS

SOLVENCY RATIO*

392%

*From the Covéa 2012 Annual Report

Business Activities

Claims Achievements

Claims implemented a well-coordinated audit exam strategy with our Quality Assurance Unit and counsel. The preliminary results from the recent 2013 California DOI Field Claims Examination indicate these efforts are paying off. Overall results are favorable with no adverse trends. The findings acknowledge improvement and resolution of issues from the previous examination.

In addition, Claims initiated a “hold the line” strategy on indemnity payments, employing methods that utilized all available defenses and mitigating factors. This was also the case with respect to reducing and managing expenses, addressing leakage through proactive file-handling to reduce advance charges and increase net salvage return, and the utilization of Xactimate.

Similar to 2012, the Company achieved the annual goal of 100% or more, closed to open; realizing a 101.68% year end closed-to-open ratio. This had a favorable impact on our year-over-year net reduction in outstanding pending lines and achieved a pending reduction from prior year end by 246 lines.

Furthermore, CSE coordinated a Legal Summit with defense counsels to discuss strategies for early resolution of cases leveraging the concept of defensible case versus settlement. The Company also implemented revised Litigation Guidelines for tighter controls over the litigation process including reporting and expenses and refined our strategy in the handling of Cumis (independent) counsel to reduce this expense. A new position of Claims Legal Advocate was created with the promotion of Sheryl Maurer, Esq., and will aid in expense reduction through legal coverage research and analysis.

54.7% year end pure loss ratio was the best in four years.

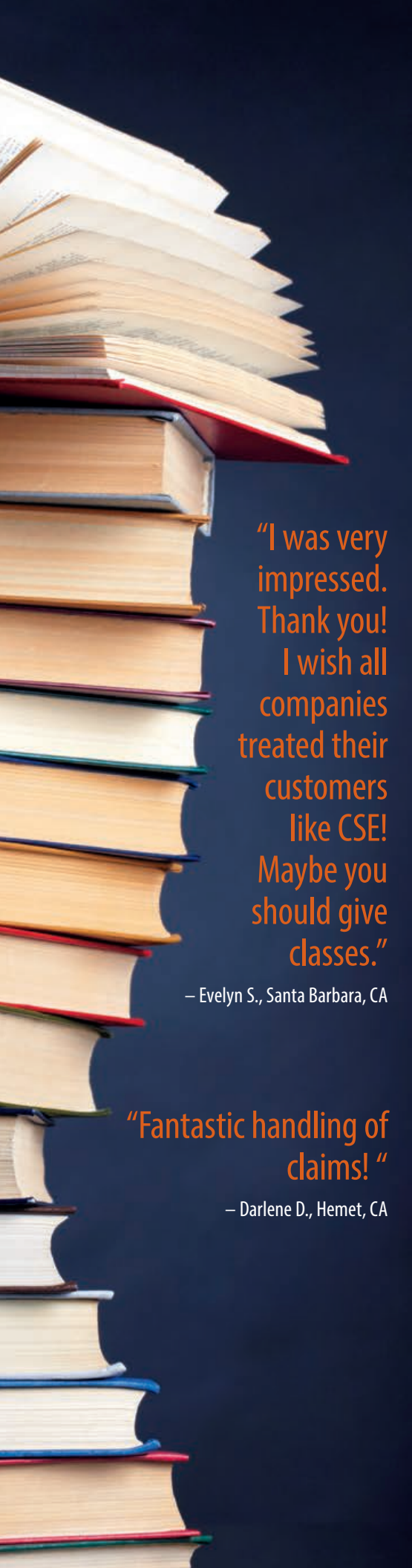
On the first-party property-side, CSE implemented an Independent Adjuster (IA) Agreement with a standardized fee schedule, handling guidelines and time frames to ensure quality service, performance, and costs controls. This allowed us to reduce average IA costs by more than 10%.

Enhancement of our Quality Assurance Unit was achieved with the realignment of staff resources to focus on property expertise for regulatory compliance, leakage, and Independent Adjuster (IA) vendor control.

Outsourcing of the First Notice of Loss (FNOL) process, had an immediate and positive effect on customer service, making the department available to customers and the agency force 365/24/7, enhancing the ‘ease of doing business.’

Paid losses were down by \$831,860 (15%) from December 2012. The pure loss ratio at year end was 54.7%, the lowest in four years.

Providing high quality service is always a first priority for CSE, and we are proud of the feedback we receive from our insureds...



"I was very impressed. Thank you! I wish all companies treated their customers like CSE! Maybe you should give classes."

— Evelyn S., Santa Barbara, CA

"Fantastic handling of claims!"

— Darlene D., Hemet, CA

What Our Insureds are Saying

"As everyone knows being violated by any intruder as a victim of stolen property is very traumatizing. I still have somewhat of an uneasy feeling when I'm at home alone. With all of the anxiety that our robbery initiated, I am so pleased to report that CSE insurance really gave us comfort by handling our claim in a timely manner. We are pleased with our coverage and will highly recommend CSE to friends and family looking for insurance."

— Denise W., Tarzana, CA

"CSE is a great insurance company. I have been insured with them for a number of years and I never experienced any accident except in the month of July 2012. [They] took my case seriously and made sure that my car was taken care of properly. I give this insurance company an A grade because they handled my case extremely well. CSE is a great company and I would recommend it to other people. Long live CSE."

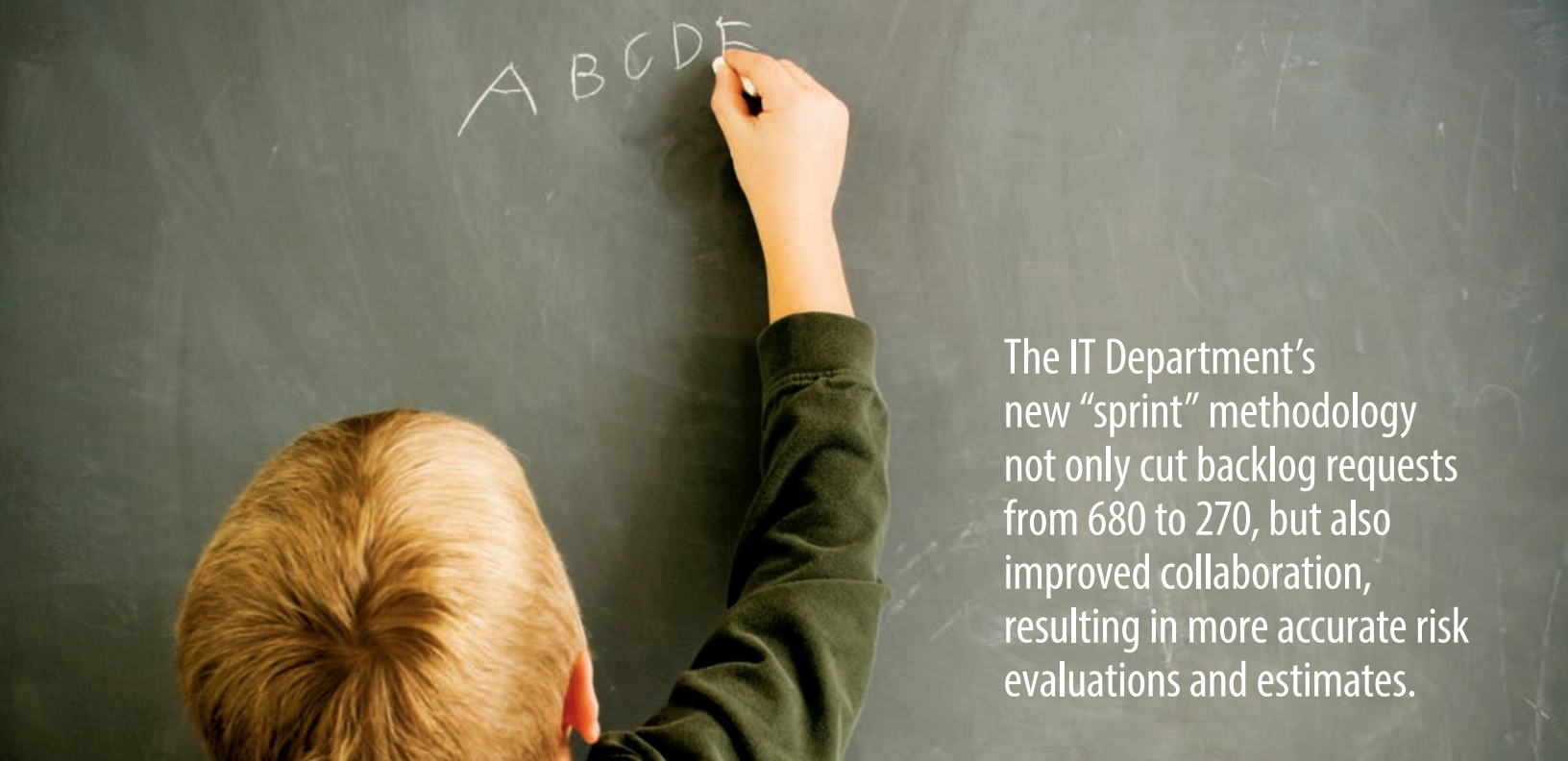
— James M., Moreno Valley, CA

"This is a note of thanks for your quick and professional handling of my claim. Your efficient handling of the claim resulted in my mother having her car repaired in a very timely manner. Our frustration was taken away by your professional work. The car is back from the repair shop and working well. Thank you again."

— Marilyn G., Fort Mahave, AZ

"My agent was very prompt with his responses to my claim, pleasant and easy to work with. The job has been completed to everyone's satisfaction."

— Willa M., Mill Valley, CA



The IT Department's new "sprint" methodology not only cut backlog requests from 680 to 270, but also improved collaboration, resulting in more accurate risk evaluations and estimates.

Advancing Technology

The CSE Information and Technology department is unique in that its members have a broad knowledge of insurance functions from underwriting to claims. This industry-specific lens allows for a more in-depth analysis of technological challenges and needs. This year, IT implemented a new project management methodology that involves dividing projects into shorter "sprints." At the end of each sprint, all stakeholders meet to assess the progress and plan next steps. This new method greatly improved efficiency in the department, whittling the backlog from 680 requests to roughly 270. Additionally, the new approach puts an emphasis on collaboration, resulting in better communication. Programming upgrades were also employed this year in an effort to make risk evaluations and estimates more accurate. In the coming year, IT will continue to improve efficiencies by building the foundation for a private cloud and upgrading equipment to more powerful yet efficient systems and hardware.

Underwriting Made Easier

This year, CSE expanded the insurance to value (ITV) project by including our Select book of business and policies which were not reviewed in 2012. The ITV project has been instrumental in increasing the average dwelling coverage and written premium. The Company will continue to utilize a predictive analytic model to identify business to be inspected and will integrate the model into SPLnn for new business.

Ease of Doing Business

In 2013, we identified a need to streamline many of our processes. An Ease of Doing Business committee was formed, and this group is in review of programs that would pre-fill underwriting and rating information in order to reduce the amount of time needed to complete quotes and endorsement requests. In 2014, we will continue to improve efficiencies with regard to policy processing.

Product Updates

CSE successfully implemented five rate changes in California and Nevada this year, including significant class plan improvements in the Arizona and California Safeguard Auto book. Additionally, the product team developed a situation analysis that took a detailed look at the state of our company in relation to competitors, customers, vendors, regulators, and the socio-economic environment. An actuarial pricing team was formed, and they will lead the rate change process in the future to enable profitable growth. They will also provide guidance to Portfolio Management, while the Product department manages and coordinates coverages, rates, eligibility, rules, and process.

Portfolio Management

CSE's Portfolio Management department was recently formed to better monitor and manage our book of business. Portfolio Management will add value to our business groups by analyzing the information and intelligence to ultimately provide service reflective of our customers' needs while maintaining business profitability.

PALA
CONVENTION

63

PARTICIPATING AGENCIES

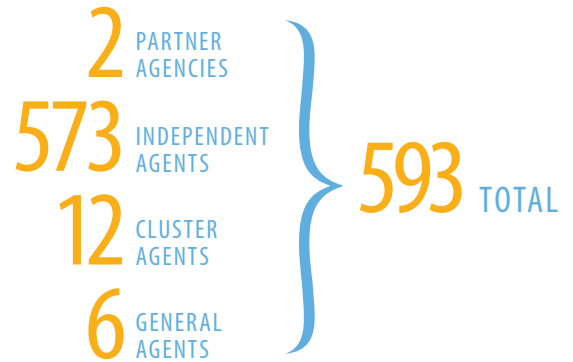
In the Field

The Field Operations team saw continued growth amongst partner agencies and maintained its efforts to diversify through expansion of distribution channels by adding general and cluster agents. Our independent agencies continue to be our catalyst for profitable growth. In 2013, Field Operations facilitated two Agents' Advisory meetings to generate feedback on company service and products directly to the CSE executive team. Our Agency Advisory Council consists of the CSEAA Board members and two non-board members chosen by CSE's executive team. We gained great insight from our council members and have made several changes and improvements based on their input.

From "lunch-and-learns" to major city events, the Field Operations and Marketing teams continued to support growth among our partner agencies and civic awareness. Members of our team attended agent-sponsored events throughout the year to endorse causes focused on civil servants.

28

LE CLUB LEVEL AGENTS



CSE's independent agencies continue to be catalysts for profitable growth.

Commercial Strategy

A temporary property capacity restriction of \$2.5 million per location was placed to address the concentration issue in the Los Angeles and San Francisco area. This restriction, placed in May 2013, may be lifted once the upcoming pricing change is filed and approved.

A commercial road map has been developed to stage our improvements to the product. This ten-step action plan includes coverage form changes, process automation in our SPLnn policy administration system, rate changes, and underwriting eligibility changes. The plan also involves an increased focus on our niche market while diversifying geographically.

New HR Tools

In 2013, Human Resources focused on the outreach of social media to invigorate our recruiting and branding presence. Focus was on utilizing and implementing strategies involving social media platforms to help increase CSE's online presence and to develop a Human Resources brand for CSE. Particular attention was placed on better utilization of LinkedIn and Facebook as recruiting sources.

Cloud technology was introduced for storing collaborative data for CSE's Business Continuity plan and IBM Connections was utilized as a resource for employee communications and real time interactions.

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41%
FACEBOOK GROWTH
Agent page

90%
FACEBOOK GROWTH
Insureds page

14%
TWITTER GROWTH

14,000
BLOG HITS



The Marketing Department initiated the process of revitalizing the CSE brand to improve brand awareness and reach new markets. The multi-phase process will extend into 2014.

Brand Revitalization Project

The marketing department embarked on a new project to revitalize the CSE brand. The process consists of several phases and will extend into 2014. Our goal is to examine and improve our brand by focusing on our vision, objectives, attributes, experience, and organizational culture.

Growing Social Media

CSE continued its strategy of consistent communication through social media and blogs. Blogs were targeted at external customers, prospects and internal audiences. The blog ended the year with more than 14,000 hits.

Facebook pages for both insureds and agents saw growth in page likes and engagement. The agents' page grew 41% from the time it launched, and the insureds' page saw an increase of 90%. Engagement also increased by 14% on the company's Twitter account. CSE continues to increase and strengthen relationships with insureds, agents, prospects, communities in which they operate. All efforts were to promote the CSE brand and build a long lasting presence for CSE on social sites. In 2014, the marketing department will help agents develop their own social strategies through a series of Social Media Road Shows.



Giving Back

CSE Teachers' Appreciation Events

The Company was proud to again sponsor the annual Teacher Appreciation Events in partnership with the Sheriffs and You Foundation. The events took place at Target stores in both Northern and Southern California and are exclusively for teachers. This year, 1,000 California teachers were nominated to receive a \$200 tax-free gift card to buy supplies for their students, and 225 were selected. Event promotions for nominations were distributed via television, radio, social media and web advertising. Both events were well covered by the press with live broadcasts by KGO Radio, on-site news coverage by CBS and KTVU News, and live mentions on local networks.

A teacher picks out school supplies at the 2013 Teacher Appreciation Event



CSE Blazing Hot Chef Competition Benefiting Firefighter Charities

Celebrity chefs faced off against one another with the help of California firefighters as their sous chefs. The winning team was crowned by a panel of judges and City of Vallejo Fire Chief Paige Meyer. The event challenged three teams of celebrity chefs and firefighters to see whose cuisine reigned supreme. Team Starbelly featured Chef Adam Timney and Frank Roldan of the San Francisco Fire Department, Team Scala's paired Chef Jen Biesty with Robert Hudson of the Kern County Fire Department, and Team Beretta was comprised of Chef Franco Ruggerro and James Brunson of the Vallejo Fire Department. Proceeds from the event totaling \$13,063 were donated to The Fire Family Foundation, an organization that assists firefighters, their families, fire victims, and fire departments. Liam Mayclem, host of KPIX-TV's Eye on the Bay and KCBS Radio's Foodie Chap emceed the event.



CSE presents a check to the Fire Family Foundation at the Blazing Hot Chef Competition

Vests for the Best

CSE Insurance Group recognizes that law enforcement personnel dedicate their lives to protecting their communities and the citizens that live there. We planned the Vest for the Best event to give something back to these individuals who put their lives on the line every time they go to work. Together in partnership with the Sheriffs and You Foundation and Bichlmeier Insurance Services, we presented 18 new upgraded vests to the City Departments of Redondo Beach and Hermosa Beach.

The Hermosa and Redondo Beach police departments receive 18 new bullet-proof vests from CSE





Shop With a Sheriff

CSE again supported and volunteered at the SAY Foundation's "Shop with a Deputy Sheriff Holiday Toy and Clothes Shopping Spree." Disadvantaged children are invited to shop for clothing and toys of the Foundation's tab. This touching event brings holiday joy to children who may not otherwise receive gifts.

CSE Employees Donate to Typhoon Haiyan Relief Fund

Employees of CSE presented a check for \$12,228 to the American Red Cross to assist with their relief efforts after the exceptionally powerful Typhoon Haiyan devastated Southeast Asia in early November.

Youth Scholarship Program

CSE held its Annual CSE Youth Scholarship program in the form of an essay competition designed to promote awareness of young driver safety. The program has been in existence for nearly two decades and is open to eligible high school seniors in Arizona, California, Nevada and Utah who are children of public employees.

A total of \$9,750 in scholarships was awarded to winning entrants based on their essays discussing ways in which the teenage automobile accident rate could be reduced. Essays were evaluated on creativity, practicality, and written skill. Eight winners were chosen from Northern and Southern California, and four more were selected from Arizona, Nevada, and Utah. The awards included a \$1,500 scholarship for first place, one \$1,000 scholarship for second place, \$500 for third place, and \$250 for fourth place. The scholarship awards were to be applied toward the students' school-related expenses for the 2013–2014 academic year.

Nearly 150 applications were submitted for consideration, making the selection process very challenging. The overall quality of entries this year exceeded expectations. The 2013 winners demonstrated a high level of innovation, impressive academic achievement and a solid understanding and appreciation for driver safety.

The CSE Youth Scholarship Program awarded academic scholarships to the winning students of an essay contest on automobile safety.

Financials

Three Year Highlights (\$000's Omitted)

	2013	2012	2011
Total Assets	263,634	258,788	263,052
Total Liabilities	151,433	147,164	155,677
Total Capital and Surplus	112,201	111,624	107,375
Net Written Premium	137,769	130,143	127,248
Net Underwriting Profit (loss)	-4,607	-10,487	-16,596
Net Investment Income	5,099	9,660	12,435
Other Income	987	1,179	1,605

Calendar Year Results			
Loss Ratio	54.7%	58.9%	62.7%
Loss Adjustment Expense Ratio	12.5%	13.7%	12.3%
Underwriting Ratio	35.7%	34.9%	37.2%
Combined Ratio	102.8%	107.5%	112.3%
Net Written Premium to Surplus Ratio	1.23	1.17	1.19
Gross Written Premium	157,773	152,612	147,518
Net Invested Assets	228,750	226,229	232,426
Loss & LAE Reserves	77,496	75,363	71,586
Loss & LAE Ratio	67.2%	72.6%	75.1%
Acquisition Expense	23,924	20,038	21,067
Total Underwriting Expense	49,162	46,308	48,207
Commission Ratio	17.4%	15.4%	16.6%
Other Underwriting Expense Ratio (Stat)	18.7%	20.3%	21.8%
Invested Assets to Reserves	295.2%	300.2%	324.7%
RBC-ACL to Surplus Ratio	10.2	8.9	8.2

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CSE Insurance Group

— Since 1949 —

CSE Insurance Group

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