



CENTRAL INSURANCE COMPANIES



ANNUAL REPORT 2014

Annual Report 2014



Welcome to Central's 2014 Annual Report. This is an excellent opportunity to inform you about how your company has been doing, the issues we have dealt with successfully, and what we still need to give our attention.

Overall, 2014 was an incredibly interesting year for us. Our financial results continued to improve, especially in our Policyholders' Surplus account – the “rainy day” fund from which comes the means to pay obligated losses. This was a bright year for our top line revenues as well, buoyed by both small rate increases and a growing number of total policyholders to our book. In between the top line and the bottom line, we are most proud of our general expense budget and total commissions paid. These are significant dollar amounts that flow through our statements and have an effect on both our growth and profitability. While they are both expense items, the commissions are a function of our premium writings and as they increase, so does the benefit to our agency partners. They earn a fair rate of return for gaining and servicing each policyholder. Our internal expenses are sizable also, over \$55 million in 2014 with the biggest percentage being salaries for our employees. In total, we try to keep these controllable expenses in the 10 to 10.5 percent range for operational cost. You can review these specific financial results in the latter half of this report.

The most financially rewarding aspect of 2014 was earning an underwriting profit. We took in more than we paid out in losses and, as you well know from previous years' reports, this doesn't always happen so when it does we are very proud of our efforts. While the profits are meaningful, another source of pride has been our transition of officers within the organization due to retirements. It is difficult to fill the shoes of people who have contributed so much to our company. People like Edd Buhl and Paul Woirol who each had over 40 years with Central. I don't care what you say, you're going to miss people like that going forward. The challenge then is to find people who will pick up where they left off and take us to the next level. In Edd's and Paul's cases, we did so with internal people – people we've developed and invested in so they would be ready to step in and cover the next phase of Marketing and Claims in our company. I'm very excited about these moves and what it will mean to our future.

We have also included comments from several partners, policyholders, and vendors about what Central means to them, either from an operational or services standpoint. They are a peek into what goes on behind the obligation of our contracts, a glimpse at what was meaningful or of value. We could certainly fill 15 pages with what we would like you to know about Central and what we do, but thought it would be more interesting coming from our customers. I believe in hearing from our customers what matters to you rather than push an agenda of what we believe is important. The world is forever changing and the best way to stay ahead is to have those that we value help us define our priorities.

2014 was our 138th year of operation. You don't achieve that by being lucky. You have a plan, work it as hard as you can to meet those goals, and deal with the transitions as they come along. Our focus is that we are always making positive progress, however small it may be. Frankly, we made huge progress in 2014 so we'll take a moment to share it with you, but we'll do so with a fair amount of gratitude for your faith in us. We greatly appreciate having you as part of our company.

Since 1876...

F. W. Purmort
Chairman of the Board and President



Protecting your priorities through...

“I’ve been a Central policyholder for 10 years and this is the first large claim we had to file. We had a significant amount of property damage following a severe windstorm. Over 22 large trees had fallen on our 2-acre property. My agent, John Lukens at Forrest Sherer, put me in contact with Central and the claims representative immediately instructed me on what to do to remedy some of the problem right away. My communication with them was top notch and my claims experience was excellent. I was very satisfied with not only the personal contact, prompt service, and timely responses to my questions, but also the level of coverage my Central policy provided. My neighbor also had 22 trees fall on his property, but his coverage wasn’t nearly what we received from our Central policy. It’s truly a quality product. I trusted my agent to place my insurance with a company I could count on when I needed them and John did just that.”

– John Ragle, Central Policyholder

Quality Products

Protecting what’s important to you starts with our products. Central offers something for every policyholder, from the recent college graduate to the large business owner, with a wide range of choices from basic protection to broad, comprehensive coverage.

At Central, we pride ourselves on continually enhancing our existing coverages as well as developing new, innovative products so we can offer our customers distinctive protection tailored to their unique needs. Products like Equipment Breakdown Coverage, Identity Fraud Protection, and CyberOne™ were developed to fulfill specific needs of our policyholders.



“APT Manufacturing Solutions continues to grow at a rapid pace and Central Insurance has been a key player in this growth. Their ability to craft programs specific to our diverse company’s needs allows us to manage our risk and protect what we’ve built over the last twenty years. They truly listen to us, keep open communication, and offer a quick response to address our needs. We value the relationship we have with Central Insurance.”

– Tony Nighswander
APT Manufacturing Solutions

Preventive Measures

Assisting our customers with developing and maintaining an effective loss control program is another value-added service of Central. We work closely with our policyholders to minimize possible accident situations and fire and explosion hazards, while improving efficiency and safety, leading to increased production and reduced insurance costs. We also offer an extensive selection of guides, tools, and training materials on the Risk Management section of our *myCentral*® website so our customers can not only prevent loss, but also learn how to effectively manage a loss situation should one occur.



“We have been Central Insurance customers for several years. Thankfully, we’ve only had a few claims, but each time we’ve encountered nothing but the best possible customer service from Webb Insurance Agency and our Central Insurance claim representatives. The communication was great and the claims were processed quickly. We have recommended Central Insurance to several of our friends and family members.”

– Shaun & Jen Fraley,
Central Policyholders



Personal and Professional Service

We pride ourselves on the level of service we offer our customers and agents. From a simple payment over the phone to assisting a policyholder through each and every step of the claims process, we are here to provide prompt, efficient, and personal service. Our service standards are among the best in the industry, so whether you choose to talk to us in person or utilize one of our many online options, you can rest assured you’ll be treated with courtesy and care from a knowledgeable professional.



“We initially wrote a large contractor account in 2000. In 2002, the client was named in a substantial lawsuit which Central successfully defended and ultimately won. Despite the expense cost of the suit (which was not recoverable), Central continued to insure the client and this account has grown to be one of our largest accounts today, 15 years later. The premiums for this account grew to be substantial until 2008 when the construction slowdown in our area caused the premiums to drop to a much smaller level due to decreased activity. During this time, there were also other small claims issues that were successfully resolved on behalf of this client. Throughout all this, we have had no trouble keeping the business of this client because of the professional handling of the account by Central. Now that construction is rebounding, we have a great relationship with a substantial, growing, long-term customer!”

– Steve Greer, Webber & Associates

Dependable and Convenient Technology

Our hectic lifestyles make self-service options a necessity. Central is consistently on the leading-edge of developing technologies and secure, user-friendly online solutions that meet your needs. Our policyholder website *myCentral*[®] provides access to convenient, personalized services so you can pay your bill, view your policy, print auto ID cards, report a claim, access risk management and loss prevention information, and much more. Always on the go? *myCentral*[®] Mobile allows you to access essential *myCentral*[®] features from your Android or Apple device anytime, anywhere.

Our online solutions save you time and money by allowing you to view your billing statement or policy electronically and pay your premium via Electronic Funds Transfer (EFT)! And with so many online options for communicating with Central, from our website to our Facebook page and the Central blog, it's easy to stay informed, educated, and entertained!

“This is the best website I have ever seen for entering a claim. Clear directions and fast response. Crisp, uncluttered graphics. Excellent job.”

– A Central Policyholder

“Just want to tell you that your website is the easiest, clearest, most user friendly of any site that I've used. Thanks!”

– A Central Policyholder

“I think the web site is excellent. Has everything I want and need to do what I have to do.”

– A Central Policyholder



Stability and Security

Central is owned by you, our policyholders, which allows us to manage the company for long-term stability. Our Policyholder Security Fund is at its highest level since being established in 1884 and our combined assets of over \$1 billion are a true testament to the security we provide. By staying ever vigilant in decreasing our expenses while increasing profitability, we assure that we will be here today, tomorrow, and another 130 years from now with the financial resources to protect you.

“Central is a fine company. We know Central will provide a stable market and, if there’s a loss, our client will be notified ‘lightning fast’ and treated the way we’d want to be treated if it were our own loss. This is another reason that of all the markets we represent, I have chosen Central for my own coverage.”

– Ron Assise, The Horton Group
and Central Policyholder



Our Culture

From our team of visionary leaders to a workforce with an average 16 years’ experience in the industry, we embrace a culture based on our core values of integrity, relationships, and excellence. These values define who we are and what we do, as individuals and as a company.

The talented, motivated individuals that comprise our team are our most important resources for protecting your priorities. We hire only the best employees and emphasize personal and professional development in a safe and pleasant work environment to assure they have the tools at their disposal to provide you security, protection, and peace of mind.





Our Independent Agents

As we have since our beginning in 1876, Central operates exclusively through the independent agency channel. We choose to work with only the most professional agents because we truly believe they add value to the insurance transaction that cannot be replicated by any service center or website.

No one knows our policyholders better than their local independent agent. Their expert advice and counseling, personalized attention and interaction, ability to offer comprehensive protection to meet your unique needs, and excellent customer service are just a few of the ways independent agents bring value to the insurance transaction. Through close relationships and communication with our agency partners, we stay informed of your needs and concerns which allows us to fulfill our commitment to providing the best customer experience in the industry.

We also have long-standing relationships with several independent agency associations on a state and national level to make sure we are at the forefront of identifying our customers' needs and anticipating industry changes in order to more effectively meet those needs.

Central has always been and will remain wholly committed to our independent agents in the best interest of our policyholders.

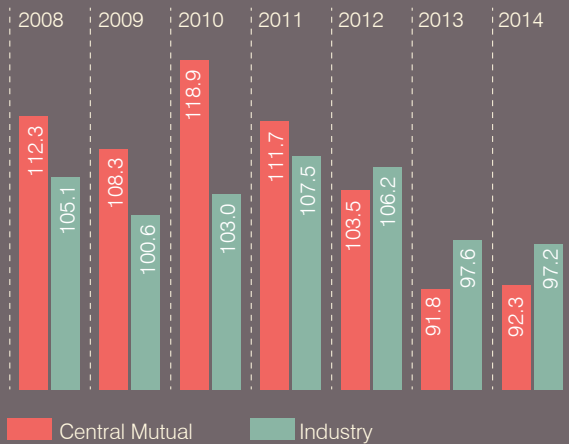
“My church in East Syracuse held a surprise celebration for my ordination to the ministry. Both my wife and I had been (and still are) very active in the community, particularly in the areas of child abuse, domestic violence and youth gangs. Many of those who attended the celebration were members of the community who worked in those areas, including law enforcement. After the program my brother, who is an independent insurance agent and whom I admire more than I could ever say, said ‘So what am I? Just an insurance agent.’ He said it half-jokingly but what hit me was he considered what he did of little significance to peoples’ lives. I was stunned. I had church members for whom he was their agent. I had sat in his office listening to him on the phone working like crazy to get them things they needed on their policies. Folks told me about how when they were in a serious situation he helped them when they were most vulnerable. We had a tornado go through Syracuse and it did a lot of damage. A neighbor of my brother’s, one of his customers, lost the roof on his house. It was a weekend. My brother dropped everything he was doing to go over there and get the wheels moving to provide him much needed protection so no further damage could be done to his home. He also helped to expedite the claim process so he could get his home repaired in a timely manner.

When people have losses – especially after a car accident when their only means of transportation is lost – they count on people whom they may not know to bring them help and comfort. I wanted my brother to know how much what he did every day made a significant difference – a REAL difference – in peoples’ lives. After an accident they know confusion, grief at loss, panic and a considerable sense of helplessness. To have people like you and my brother reach out to them with kindness, effectiveness, and compassion means the world to them. I wanted him to know that in so many ways he too contributes to the well-being of a community and to people. Because he does! And I would like you to know how incredibly effective and helpful you have been in your care for us. Thank you!”

– The Rev. G. Douglas Eddy, Central Policyholder

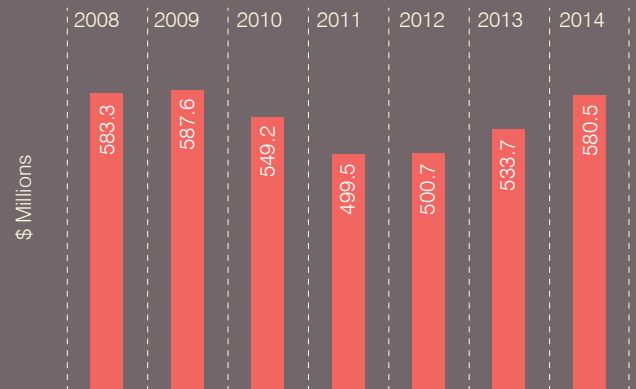
2014 Financial Report

Combined Ratio



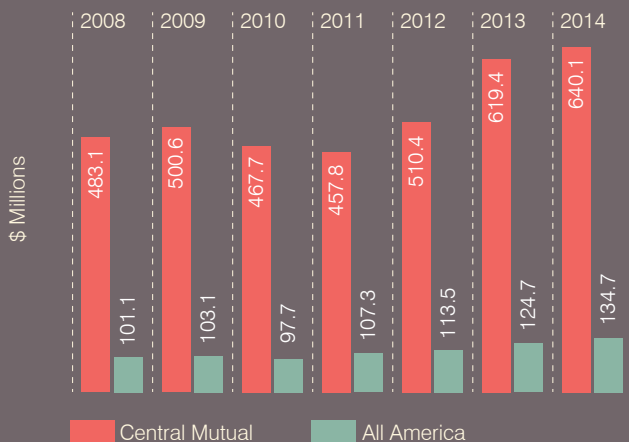
The lower the **Combined Ratio** the more successful a company has been in managing its operation profitably. While Central had consistently bettered the industry in this area prior to 2008, several catastrophic weather events and a struggling economy contributed to atypical results between 2008 and 2011. Over the past three years, Central has returned to our customary results of bettering the industry.

Direct Written Premium



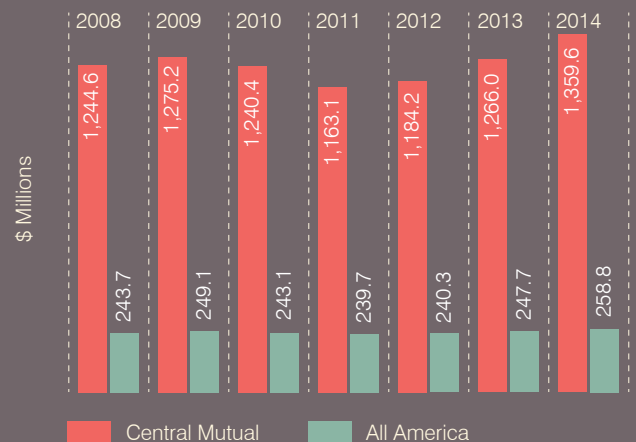
Consistent growth in **Direct Written Premium** indicates customer and agent confidence in Central. Central's disciplined approach to planned, controlled growth is an important aspect of our future success. With an emphasis on a return to profitability and its associated pricing increases and heightened emphasis on risk selection, planned premium decreases were realized in 2010 and 2011. However, direct written premiums achieved a small level of growth in 2012 followed by healthy growth in 2013 and 2014.

Policyholders' Security Fund



Policyholders' Security Fund is an important measure of our ability to remain a consistent provider of insurance. Strengthening our Policyholders' Security Fund assures we can fulfill our obligations and financially support future growth. Central's Policyholders' Security Fund grew to a record level of \$640 million in 2014 and the company's financial strength remains very secure with a premium-to-surplus ratio of .83:1.

Assets



Strong and growing **Assets** help assure our ability to pay our obligations to policyholders and agents. Central's assets grew \$93 million in 2014 and remain conservatively invested producing consistent investment income each year.

CENTRAL MUTUAL and ALL AMERICA INSURANCE COMPANIES

December 31, 2014

Assets	Central Mutual	All America
Bonds	\$695,609,916	\$213,037,604
Stocks – Affiliates	134,697,813	0
Stocks – Nonaffiliated	256,999,708	1,979
Real Estate	45,848,327	0
Cash & Short-Term Investments	35,039,404	8,594,814
Agents' Balances & Uncollected Premiums	140,758,427	26,783,499
Accounts Receivable – Reinsurance	5,550,084	1,057,159
Interest & Dividends Due and Accrued	15,733,318	2,367,448
Federal Income Taxes Recoverable	0	0
Other Assets	29,320,438	6,991,050
TOTAL ADMITTED ASSETS	\$1,359,557,435	\$258,833,553

Liabilities and Policyholders' Security Fund	Central Mutual	All America
Losses & Loss Adjusting Expenses	\$361,060,433	\$68,773,416
Unearned Premiums	243,008,615	46,287,358
Commissions Payable & Contingent Commissions	14,208,023	2,706,290
Ceded Reinsurance Premiums Payable	4,799,188	914,131
Taxes and Other Expenses	38,939,064	3,959,589
Dividends to Policyholders	257,688	49,083
Other Liabilities	57,188,416	1,445,873
Capital Stock and Contributed Surplus	0	14,552,000
Unassigned Funds (Policyholders' Security Fund)	<u>640,096,008</u>	<u>120,145,813</u>
Policyholders' Security Fund	640,096,008	134,697,813
TOTAL LIABILITIES & POLICYHOLDERS' SECURITY FUND	\$1,359,557,435	\$258,833,553

Tangible Assets

Central Mutual Insurance Company	\$1,359,557,435
All America Insurance Company	\$258,833,553
Direct Premium Written	\$580,531,545
Net Premiums Written / Policyholders' Surplus Ratio	0.83
Combined Ratio – Central Companies92.3%
Combined Ratio – P&C Industry97.2%

This information is not intended to supercede, or be as comprehensive as, the statutory annual statement filed for each company with the appropriate state insurance departments. The statutory financial statements of Central Mutual Insurance Company and Consolidated Subsidiaries have been audited by Plante & Moran, PLLC. Complete copies of the statutory financial statements have been filed with the appropriate state insurance departments and are also on file at the Home Office of the Central Insurance Companies in Van Wert, Ohio.

Integrity Relationships Excellence

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Fulfilling the Promise Since 1876



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