

INVESTING IN INNOVATION:

OUTSTANDING PEOPLE,
OUTSTANDING RESULTS

2016 Annual Report
CENTRAL INSURANCE COMPANIES



I spend a great deal of my time reading. There are all sorts of topics and subjects; a bunch on business, and some for fun and entertainment or satisfying my curiosity to learn something I didn't know. I long to find a quote or idea that really gets me thinking about my own values and what I believe, and then incorporating what I learn into things I attempt in the future. They say you are never too old to learn something new and I try very hard to do that with the things I read. Which brings me to the point of this Annual Report...

I just finished reading several of the all-time classics of literature: *Green Eggs and Ham*, *If I Ran the Circus*, *The Sneetches* and, a personal favorite, *How The Grinch Stole Christmas*!

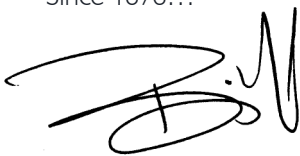
I sincerely hope that you are smiling right now, but it is so true that the writings of Theodor Seuss Geisel are fun, captivating, and full of meaning and moral. There's a tremendous amount of subject matter to ponder and value in whatever we do. The takeaway from this flurry of reading was a quote from Dr. Seuss: "Why fit in when you were born to stand out?"

The property/casualty insurance business is founded in homogeneity. Put a huge number of similar risks together and you can predict what can happen to that pool of insureds; how many will wreck their cars, have a fire, or experience a tornado. That premise forces companies to be very similar in their product offerings, services, and operations. We typically seek out the same types of insureds or businesses, types of vehicles, driving records, etc. We spend billions trying to fit in!

Over the last year and well into 2020, Central is taking Dr. Seuss to heart. We are investing millions in technology, people, services, and products that will differentiate us from the normal market. We believe there is value in building capabilities into our company that our agents and policyholders will recognize as worthwhile and meaningful. We hope, too, that these investments will attract new talent to our company and the industry, and create interest to invest in a career with a company that isn't satisfied with being one of the pack.

As you read this report, I hope you will recognize that it has taken us 141 years to become a partner that has the financial strength to provide security, protection, and peace of mind. You can thank Dr. Seuss for motivating us to make our company even better.

Since 1876...

A stylized, handwritten signature in black ink, appearing to read 'B. Purmort'.

Bill Purmort
Chairman of the Board and President

“Why fit in when you were born to STAND OUT?”

That's a question we have asked ourselves from the beginning. The company that was to form the base of the Central Insurance Companies was born in 1876 during a period of tremendous movement and uncertainty. Insurance was a commodity in the small, remote towns of the Midwest. While many of the mutual insurance associations formed during this time of depression and hardship ended up failing, Central persevered with good management and astute underwriting. Our young company concerned itself not with “fitting in,” but with avoiding the pitfalls which were claiming most of the other small, struggling mutual insurers.

Over 140 years later, we continue to brand ourselves differently through our investments in providing security, protection, and peace of mind.

INVESTMENTS IN Perpetuating our People

One of the reasons Central stands out from the competition is the quality of our employees. We invest in our people through learning and skill development, so our customers can rely on superior performance from a talented, experienced workforce, half of which has been with the company 10 years or longer. With the addition of a new Chief Financial Officer to our visionary leadership team, we will be poised to meet the exciting challenges the insurance industry provides well into the future.

One of those challenges is a rapidly aging workforce. Retiring insurance professionals will create more than 400,000 job opportunities in insurance by 2020. Bringing the younger generation of talent to the industry is imperative to perpetuate the future of the independent agency system, but most high school and college graduates are not interested in pursuing a career in insurance. To combat this challenge, Central is investing in educating millennials on the many career options and ample opportunity for growth and advancement this industry offers. From middle school through college, our employees are engaging with this group by participating in mentoring programs and serving as instructors for the InVEST program. Our annual TechCamp includes interactive, hands-on projects to give students a glimpse into future career possibilities in computer programming and multimedia design. Through shadowing and internship opportunities, we are building relationships with students who want to work in an inspired work environment where they will be given a chance to use their unique talents and skills to make a difference in the lives of others. It's an investment that's paying off in a big way with over 25 young individuals joining our company in the past year.

Perpetuation is also a growing concern for our agency partners, so one of the most important investments we make to ensure their long-term success is our new producer and management training programs. Helping agency personnel become familiar with Central and grow their knowledge and skills gives them a competitive advantage. Ongoing training opportunities, marketing support, and our investment in industry associations like the Independent Insurance Agents and Brokers of America (IIABA) and Professional Insurance Agents (PIA), allow us to provide the tools and resources our partners need to continue expanding their work efficiencies, marketing capabilities, and enhance the value of their agency.

“Before starting at Central, I had no previous insurance experience and very limited insurance knowledge. After just a year working here, I am confident that I made a great decision. Every day is a learning experience and no two days are the same. I enjoy working in the insurance industry because it challenges me to constantly learn and adapt to new trends and ways of society. The culture here is amazing and I could not have picked a better place to work for years to come.”

Cody Schoeff, Claims Service Representative – Central Regional Office





“The Value Stream Mapping method has taken our continuous improvement efforts to the next level, further ensuring a consistent high-quality customer experience each and every time. To date we have identified close to 500 improvements to the major process areas our team has mapped that will directly lead to better service for our customers.”

**Jeanine Forwerck, Project Manager
Policy Systems Transformation – Home Office**

INVESTMENTS IN Processes and Products

Our customers' needs evolve over time and continuous improvements to our products and processes are necessary to meet those needs. We are not a status quo company, and are willing to invest time and capital in research, development, and innovation efforts.

We have a team of dedicated professionals whose primary function is to work with our business units to collectively explore new opportunities and solutions. To find smarter ways to create new products and faster pathways to bring innovation to our customers. To identify cost savings through process improvements, and help make sound decisions based on investing where we get the greatest return. From conception to completion, this innovative group will help us expand into new states, develop new specialty classes of business, integrate analytics into our decision-making processes, and differentiate our claims service from the competition.

Our company's biggest investment this past year has been undertaking the upgrade of our Policy Administration System. From quoting business and issuing policies to servicing those policies and processing endorsements, this system is critical to our ability to provide outstanding service to our customers. But just like a house needs remodeling after several years, our Policy Administration System software was becoming outdated and challenging to support. Moving this system to a modern architecture will allow Central to handle real-time processing and improve our speed to market – all investments that will lead to better service for our customers.

Continuous improvement has always been an unspoken element of Central's culture and employee engagement is critical to building and sustaining that culture. The Policy Administration Team brought together employees from every department in the

company to collaborate on the scope and development of this upgrade. Using a method called Value Stream Mapping, they "mapped" our major business processes and analyzed them for efficiency, looking for opportunities for improvement. This team's efforts have moved continuous improvement to the forefront as we look to the future.

Central chooses to partner with a select group of only the best independent agents, and we truly value their advice and feedback. Through our Inner Circle, Partners in Progress, Vibrant Personal Lines, Blue Streak, and Premier Agency Advisory Councils, agents have the opportunity to share their ideas and suggestions on our products and processes.

INVESTMENTS IN Peace of Mind for our Policyholders

Our customers aren't just a number on a policy – they are people who are following their dreams. Dreams to own a home or start their own business. But every dream comes with risk, and how they choose to manage that risk can be the difference between resting easy or sleepless nights.

The great thing about insurance is that it allows our customers to transfer that risk so they can focus on what's important. When food truck owner Jerry Perez chose to place his risk with Central, it allowed him to invest his time and resources in his "sol" mission of providing fantastic food and attentive service to his customers.

Jerry's background in the food service industry, along with his desire to be his own boss, was the driving force behind his dream of opening his own business. He invested his time in learning about the business and started small with a food cart. Now he not only owns his own food truck, he employs members of his own family and others.

The food truck business is a unique venture that evokes a sense of freedom and fun, but it also requires an amazing amount of time and dedication to succeed. To ensure consumers who patronize his business are protected, Jerry needed to make sure he had the right insurance coverages. He relied on his independent agent for guidance in selecting a company that could provide the types and amounts of coverage needed to protect his investment and his peace of mind.

Whether the risk is professional or personal, Central develops our products with the policyholder in mind, packaging the coverages they need for their unique exposures. For Jerry, our Food Truck Policy offers the property protection he needs to keep his business operational, coverage for lost income if his truck is out of commission, and liability protection – just in case.

We believe every connection with our customers is an opportunity to make a difference so we invest in providing the best service possible. When a policyholder needs the personal attention of a service representative, our bilingual Customer Services staff is available to take claims information, answer coverage and billing questions, and make necessary changes to policies, even outside of standard business hours. In response to agency and customer requests, in 2016 we launched our Central Client Connection. This in-house service center is staffed by licensed agents to provide additional services for select agencies.

For those who prefer the convenience of self-service, 24/7 access to their Central Insurance account is available via the *myCentral*® policyholder website or *myCentral* mobile app. New enhancements like text message notifications of account and payment activity, and premium payment options including automated phone payments, Quick Pay, and, PayPal, are our most recent investments in making it as easy as possible to do business with us. And our dedication to continuous improvement means new features like claims text messaging and electronic claims payments will be available soon.

INVESTMENTS IN Personal and Professional Development

Central has invested in a variety of opportunities for employees to make a difference at work, at home, and in our community.

The Lead. Program is Central's employee-run initiative built around **L**earning, **E**mpowering, **A**ppreciating, and **D**eveloping ourselves and others to become leaders worth following. Over 100 employees have joined the Lead. team to do more together than we ever thought possible!

Industry associations like the International Association of Insurance Professionals (IAIP) and Chartered Property Casualty Underwriters (CPCU) Society provide opportunities for members to build relationships with other insurance professionals through networking, education, and charitable giving.

Last fall, Central invited renowned author and keynote speaker Jon Gordon to speak at Central. Jon's powerful message of positivity, culture, and teamwork resonated with employees and inspired us to continue our pursuit of excellence. Central helped share his message with the community by also sponsoring an appearance at Niswonger Performing Arts Center in Van Wert.

Our employees are also dedicated to maintaining excellence in the communities in which we live and work through charitable giving. Employees donate their time and resources to our annual United Way fundraising campaign, food and clothing drives, local non-profit organizations, and community service projects.

Whether it's investments in our people, our products, or our policyholders' peace of mind, we believe our innovative approach to fulfilling the promise will produce outstanding results!



“Our insurance agent at First Insurance Group of Defiance recommended Central Insurance and told us of their comprehensive Food Truck Policy. My wife grew up in Van Wert and knew of Central’s long history and solid reputation. We were confident it was a great choice!”

Jerry Perez, food truck owner and Central policyholder

2016 FINANCIAL REPORT

CENTRAL MUTUAL AND ALL AMERICA INSURANCE COMPANIES

DECEMBER 31, 2016

Assets	Central Mutual	All America
Bonds	\$766,332,071	\$232,111,160
Stocks – Affiliates	152,615,225	0
Stocks – Nonaffiliated	308,389,063	1,979
Real Estate	42,624,328	0
Cash & Short-Term Investments	36,619,135	10,276,788
Agents' Balances & Uncollected Premiums	162,852,493	31,061,280
Accounts Receivable – Reinsurance	6,331,449	1,205,990
Interest & Dividends Due and Accrued	8,200,385	2,354,971
Federal Income Taxes Recoverable	0	0
Other Assets	30,544,034	6,880,203
Total Admitted Assets	\$1,514,508,183	\$283,892,371

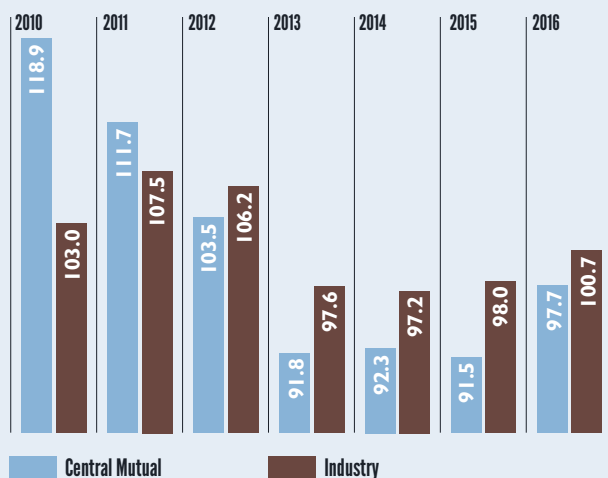
Liabilities and Policyholders' Security Fund	Central Mutual	All America
Losses & Loss Adjusting Expenses	\$356,130,819	\$67,834,441
Unearned Premiums	279,269,173	53,194,131
Commissions Payable & Contingent Commissions	17,778,405	3,386,363
Ceded Reinsurance Premiums Payable	3,663,768	697,861
Taxes and Other Expenses	53,001,693	4,309,297
Dividends to Policyholders	355,042	67,627
Other Liabilities	61,261,667	1,787,426
Capital Stock and Contributed Surplus	0	14,552,000
Unassigned Funds (Policyholders' Security Fund)	<u>743,047,617</u>	<u>138,063,225</u>
Policyholders' Security Fund	<u>743,047,617</u>	<u>152,615,225</u>
Total Liabilities & Policyholders' Security Fund	\$1,514,508,183	\$283,892,371

Tangible Assets

Central Mutual Insurance Company	\$1,514,508,183
All America Insurance Company	\$283,892,371
Direct Premium Written	\$667,337,337
Combined Ratio – Central Companies	97.7%
Combined Ratio – P&C Industry	100.7%
Net Premiums Written / Policyholders' Surplus Ratio	0.83

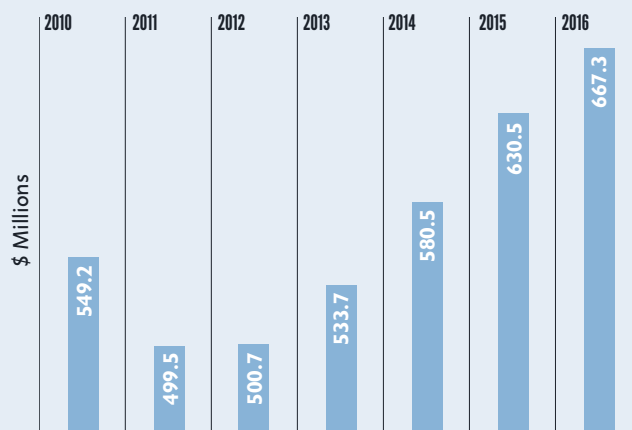
Central is rated A (Excellent) by A.M. Best

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.



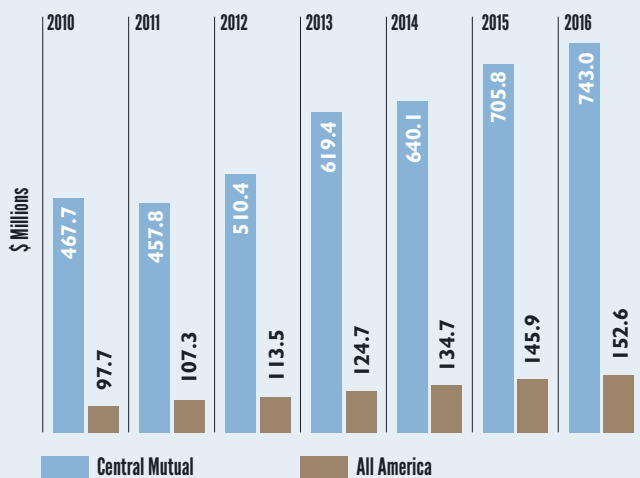
Combined Ratio

The lower the **Combined Ratio** the more successful a company has been in managing its operation profitably. Several catastrophic weather events and a struggling economy contributed to atypical results in 2010 and 2011, but over the past several years, Central has returned to our customary results of bettering the industry.



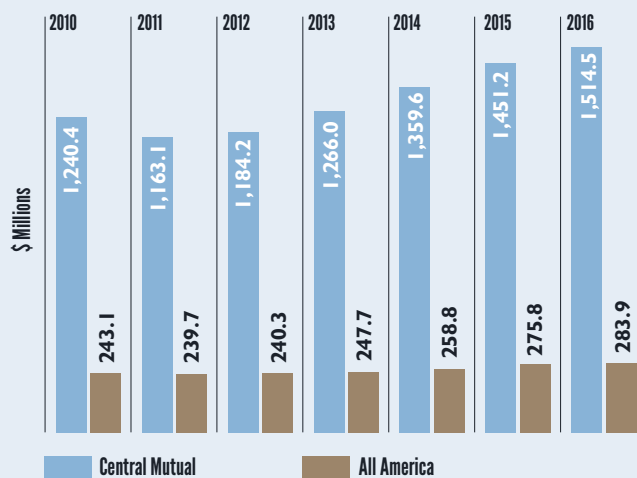
Direct Written Premium

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. Following several years of profitability measures to increase pricing and emphasize risk selection, premium writings reached their lowest point in 2011. Since then, direct written premiums have regained healthy growth year-over-year.



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 \$743 million in 2016 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 \$63 million in 2016 and remain conservatively invested producing consistent investment income each year.



**CENTRAL
INSURANCE
COMPANIES**

Fulfilling the Promise Since 1876

central-insurance.com



INTEGRITY RELATIONSHIPS EXCELLENCE

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and President

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Vice President
Treasurer

S. A. Etzler

Vice President
Risk Management

B. S. Faurote

Vice President
Human Resources & Facilities

J. F. Glasser

Vice President
Northeast Regional Office

T. C. Glenn

Chief Actuary

M. P. Guth

Senior Vice President
Personal Lines

C. M. Hurless

Vice President
Customer Services

P. J. Jackson

Vice President
Central Regional Office

S. Mansfield

Vice President
Southwest Regional Office

S. K. Moore

Senior Vice President – Secretary
Southeast Regional Office

E. P. Purmort

Vice President
Northeast Regional Office

T. L. Rauch

Vice President
Marketing

J. L. Ringwald

Vice President
Commercial Lines

T. E. Simpson

Vice President
Claims

C. E. Wasson

General Counsel

J. E. White

Senior Vice President
Information Technology

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S. K. Moore

E. J. Noonan

F. W. Purmort

D. D. Stripe

J. E. White