



CSE Insurance Group

— Since 1949 —



WE SERVE THE
PEOPLE
WHO SERVE
THE PEOPLE.

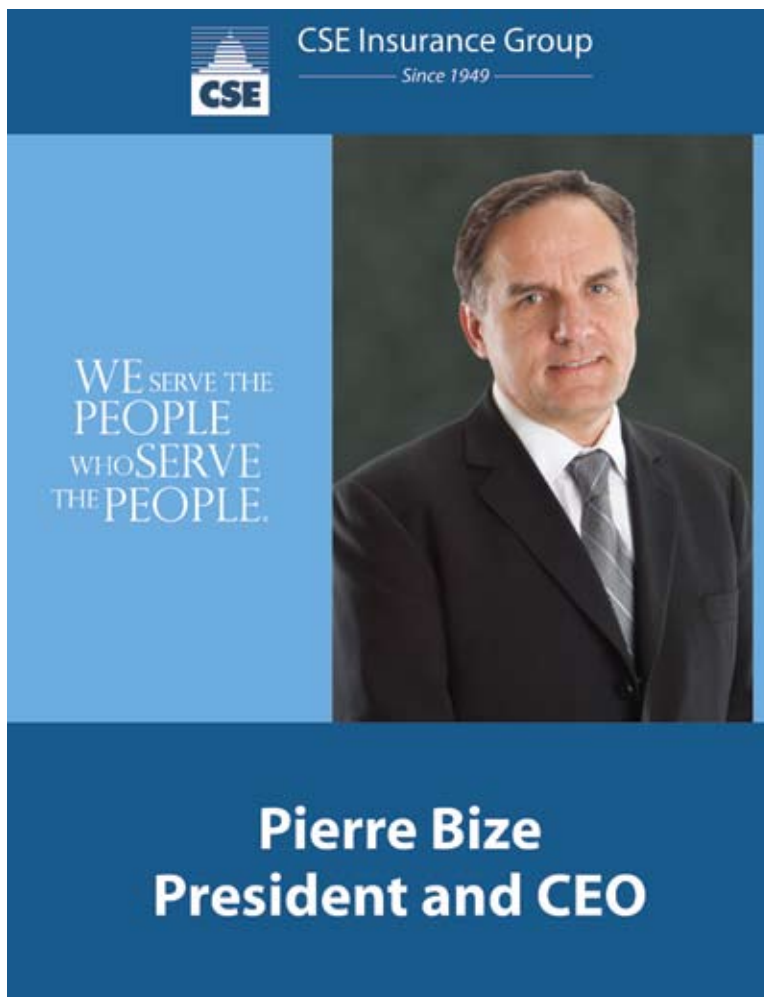
2010
ANNUAL
REPORT

CSE Insurance Group
Five Year Highlights
(\$000's Omitted)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Gross premiums written	138,671	136,003	121,717	119,727	126,099
Net premiums written	117,085	113,976	104,001	102,626	111,320
Net underwriting profit (loss)	1,308	(1,092)	3,429	6,228	8,207
Net investment income	7,426	7,851	8,012	8,583	7,513
Net realized capital gains	4,551	2,853	(930)	694	(892)
Net operating income	15,513	11,345	12,163	17,401	15,579
Total admitted assets	238,718	231,228	216,464	210,468	199,911
Total liabilities	130,913	132,634	121,896	125,646	131,608
Total capital and surplus	107,805	98,595	94,568	84,822	68,304
Risk-based capital percentage	1,282.3%	1,114.5%	1,083.0%	958.3%	791.5%
Net cash flow from operations	10,224	15,629	12,339	7,598	20,760
Calendar year ratios :					
Loss ratio	51.4%	49.0%	44.5%	46.6%	40.9%
LAE ratio	10.2%	10.6%	11.6%	9.2%	14.7%
Underwriting ratio	37.3%	41.5%	40.5%	39.2%	37.1%
Combined ratio	98.9%	101.1%	96.6%	95.0%	92.7%
Net written premium to surplus	1.09	1.16	1.10	1.21	1.63

Note: All figures and statistics are shown as reported in the annual statement filed with the California Department of Insurance.

President's Letter



2010 was another positive year for CSE. The company realized over \$116M in earned premiums, an increase of 7.9% over 2009. Our net income grew by 36.7% over the preceding year to \$15.5M.

The focus of our strategy remained on our core market of public employees, with an emphasis on educators, law enforcement officers and firefighters. This effort continued to gather momentum among our independent agents.

Our policies in force grew by 3.6% over 2009, to a total of 127,000. Business in Arizona increased by 4.9% and in Utah by 12.6%. We accomplished this while maintaining a strong combined ratio at 98.9%.

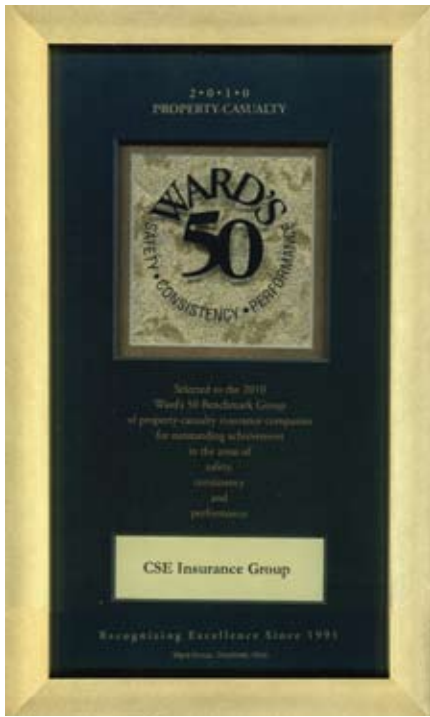
Property losses were higher than expected due to three weather related catastrophes compared to an average of one per year over the last five years. On the positive side, there were no major firestorms.

We were honored during the year by inclusion in the Ward's 50 Property-Casualty Top Performers list. The year also saw CSE's initiation of the rollout of our new carrier management system. Referred to internally as "SPInn," it brings together tasks that previously had been split out over multiple systems, thus providing greater efficiency.

SPInn enables our independent agent force to write new business, and make modifications to existing policies, with far greater ease than before. It facilitates use of the same tool at both the agency and company level, making for a seamless process of doing business with us.

While continuing our efforts toward reaching our target audience in the civil servant market, CSE increased its public visibility in 2010 by launching aggressive television advertising campaigns. This was done in conjunction with increased direct sales outreach. These efforts will continue as we establish the brand image of CSE as the insurer of choice among public employees.

Pierre Bize
President and CEO
CSE Insurance Group



CSE Named to Ward's Top 50 in 2010

Annually since 1991, Ward Group analyzes the financial performance of over 3,000 property-casualty insurance companies and nearly 800 life-health insurance companies domiciled in the United States and identifies the top performers in each segment. In 2010, the Ward Group named CSE Insurance to its elite Ward's 50 group of top performing companies in the property-casualty field.

Each of the top fifty companies is awarded the Ward's 50® Seal and their names are listed as the Ward's 50® Top Performers for the year. Each Ward's 50® company has passed all safety and consistency screens and achieved superior performance over the five years analyzed. An insurance provider must pass a series of stringent performance, safety and consistency tests before it is considered for inclusion on the list. The company must pass all of these tests for a minimum of five consecutive years, thus demonstrating it is a solid, secure provider in which its customers can place their trust. This prestigious accomplishment is awarded only to those companies meeting the Ward Group's strict standards of excellence.

At CSE, we are proud to be included in this prestigious group. We will continue to strive to provide the highest level of service to our customers in the most fiscally and morally responsible manner.

What is SPInn?

ISCS's SurePower Innovation software suite, labeled SPInn at CSE, is a modular system built on the latest technologies. It is designed to deliver the benefits of pre-integrated functionality, such as policy issuance, real time third-party interfaces, rules-based risk selection/rating,

document generation, e-delivery/billing and flexible billing/payment options.

SPInn offers the ability to combine what had been previously handled through different software packages that were incompatible with each other into a unified process. This simplification has resulted in greater efficiency across multiple departments, including Claims, Policy Processing and Underwriting.

The architecture of SPInn provides same view/same information access to CSE's agents, internal functional support departments, insureds/policyholders, and other authorized parties. The unified communication among all parties provides a streamlined, easy to use tool available to everyone.

Traditionally difficult processes, including integrated report ordering, qualification of risks, automated workflow, regulatory compliance tools, out of sequence and across policy term endorsements along with many others, are now far easier to execute through the additional flexibility now available through SPInn.

SPInn has grown to incorporate a web-based Lead Capture platform, enabling the ability to quote, bind and then issue policies online. An upcoming feature will enable agents to co-brand the portal to compete with larger direct carriers. As the product is further developed, the web-based service portals will provide consumer access to CSE's offerings, as well as a wide range of self-service functionality for CSE agents and policyholders on a 24/7 basis.

For CSE and its agents, SPInn provides added agility and flexibility in the highly competitive Property and Casualty marketplace. The technology continues to be enhanced, with each step in its development and implementation providing ever more first-class delivery of CSE's offerings and customer service.

Quote / Policy Pages

The screenshot shows a web application interface for CSE. At the top, there is a navigation menu with 'HOME', 'QUOTE/POLICY', and 'UTILITY'. Below this, there are several tabs: 'POLICY', 'ATTACHMENTS', 'CURRENTHOLDERS', 'TAGS', 'RATES', 'DATA REPORTS', 'ACTIVITY', and 'LOGS'. The main content area is titled 'Quote / Policy Pages' and contains two sections:

- Policy:** This section is used for existing policies and new business quotes. It includes a detailed description of the section's purpose and a screenshot of the 'Quote Product Information' form.
- Attachments:** This section allows for adding electronic files to a policy record. It lists supported file types such as Proof of Prior Insurance, Insured Cancellation Request, Photos, Loss History, Inspection Information, Proof of Repair, and Correspondence from the Insured. It also includes a screenshot of the 'Quote Attachments' interface.

Products and Support

2010 was a busy time in Products and Support. To maintain both the steady growth enjoyed the previous two years and maintain a competitive edge in the market, great emphasis was placed on advancing technology. The rollout of SPInn into the field was a major development not only in the year, but in CSE's history.

As an example of how SPInn is positively impacting CSE, in 2010 the company was able to implement a plan requiring only one month's down payment for new personal Auto policies in California when payment is made via EFT. It has proven to be a popular payment plan choice. This could only have been done on SPInn.

Additional projects throughout the year included the implementation of a new Sales Portal in support of the company's direct marketing campaigns. Through this portal, potential insureds can get a quote, find an agent and, should they choose to do so, buy a policy online that will then be assigned to a participating local agent.

Accounting

Calendar year 2010 was another stellar year for CSE. The company's investment portfolio was well positioned to capitalize on the recovery in capital markets that started in March of 2009. Despite the historically low yield environment during most of the year, the company investment portfolio earned a total return of 7.3% or \$13.0 million, composed of \$8.5 million of gross investment income and \$4.5 million of realized capital gain. CSE's investment portfolio of high quality bonds ended the year with an unrealized capital gain of \$10.5 million.

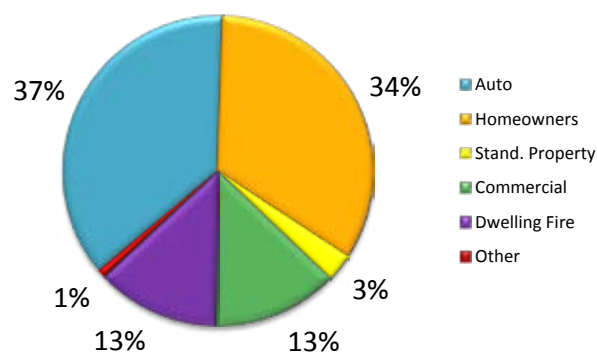
CSE's surplus surpassed the \$100 million mark, finishing 2010 with \$108M in surplus and \$239 million in assets. CSE continued to see growth in the number of policies in force, and its combined ratio stayed under 100% at 98.9%.

The reinsurance renewal contracts were restructured to begin in July 2010 and end June 2011. The primary benefit of this restructuring was allowing the company

Premium (in 000's)

	2007		2008		2009		2010	
Auto	46,394	36%	44,938	37%	52,486	39%	50,794	37%
Homeowners	43,996	37%	42,024	35%	45,127	33%	46,775	34%
Stand. Property	2,425	2%	3,192	3%	3,700	3%	4,043	3%
Commercial	15,226	13%	15,961	13%	17,366	13%	18,159	13%
Dwelling Fire	13,210	11%	14,779	12%	16,165	12%	17,706	13%
Other	1,176	1%	823	1%	1,159	1%	1,194	1%
Total	119,727		121,717		136,003		138,671	

2010



The products in Arizona were refined to increase their attractiveness to agents and potential insureds alike. Also, rate modifications were implemented for Safeguard Auto and Homeowners products in California to shore up profitability without affecting production.

In non-product specific areas, CSE's Compliance team worked with the Claims department to improve compliance with regulations. In addition, the retirement of Bob Adams, Vice President of Internal Audit and Control, resulted in co-sourcing the Internal Audit process with the outside firm ControlMetric. This has brought the company an updated vision of how to approach Internal Audit.

Future plans include the implementation of a self-service portal for insureds to manage their policies online, the full implementation of SPInn across remaining products and territories, and introducing new products such as the SAVE program that will allow Safeguard Auto customers to save money by driving less.

and reinsurers to have more accurate loss data to price a reinsurance renewal following a large loss occurring in the fourth quarter.

The operational area of the department met the challenges which came from the integration of the New Policy System. Accounting continues to make strides in building efficiencies and improving its performance.

Actuarial

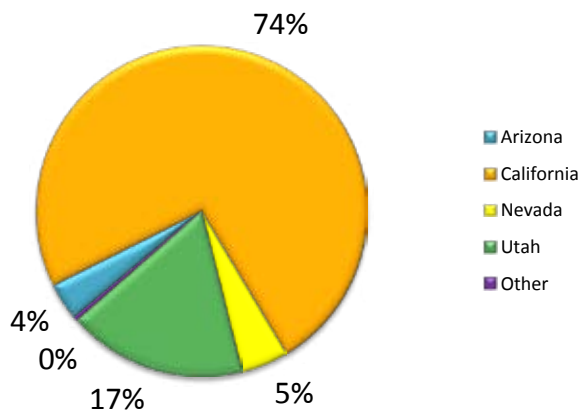
In Actuarial, 2010 was a very favorable year in that the company experienced new business growth while maintaining a profitable combined ratio. Targeted pricing changes over the past twelve months helped to achieve these excellent top and bottom line results. Growth continued to be centered in the civil servant and affinity groups, showing the company's focus with targeted discounts for these segments has been, and continues to be, well received in the marketplace.

Rate modifications to the California CSEICO Auto program, as well as the CSE Safeguard Auto and Home prod-

ucts, strengthened all of these lines while putting them on a more sustainable growth path. Rate modifications in the California commercial program were implemented to help improve retention in a very soft market. These pricing actions openly supported CSE's strategy to continue engaging its agency force. Outside of California, rate adjustments in the Arizona preferred automobile and homeowners market were enacted to help further stimulate new business opportunities. CSE realized marked improvements to the United Underwriters automobile loss ratio as a result of earlier rate adjustment actions. At year end, the company's conservative loss reserving practices continued to provide CSE with a strong loss reserve position.

Future initiatives include the development of a new automobile program that will allow policyholders to save based on their actual mileage. This program will be the first of its kind in California. If approved by the California Department of Insurance, implementation is expected in early 2011. Work has also begun on merging the two California preferred automobile programs. The merging of these two programs will bring operational efficiencies to CSE and simplicity to its valued agents and policyholders. For the Homeowners product, Actuarial has targeted balancing a strong competitive position with the need to maintain an adequate rate that reflects a more volatile climate and weather pattern environment. Work continues on focusing pricing to improve CSE's penetration of the civil servant market.

Percentage of Premium by State in 2010



Claims

In 2010 the Claims Department was focused on strengthening itself from within by concentrating on discipline and accountability.

The Continuous Claims Audit program was expanded to ensure full compliance with all DOI regulations in all states where CSE does business. DOI assessment training and testing was implemented to keep all employees fresh and informed. Also, the SPIIn system was used to

enhance compliance by automating as many Claims tasks as possible, thus freeing personnel to focus on other areas while ensuring no steps in the claims process would be overlooked.



VP of Field Operations & Market Development Kelli Schulhofer and SVP of Claims Jim Williamson during the 2010 CSEAA Agents Convention.

A set of questionnaires was created and placed online, with insureds who had gone through the claims process encouraged to rate their experience. The information gained via this method was highly valuable toward identifying both strengths and weaknesses in the claims handling process.

Continued development of the multi-line adjusting concept and development of the Care Center continued throughout the year. In the case of the latter, work was done to maximize its impact on overall customer service by creating a brand identity for CSE. The results of these efforts were encouraging if not altogether satisfactory, with an 89% customer service rating.

During the year, inclusion of the Home Office Claims Technical Manager positions for Casualty and Property claims led to the reemergence of a centralized Home Office claims (technical) process. This effort led to the restructuring of reporting, communicating and handling of specific exposures, serving as a new level of technical (file) supervision and accountability.

A Material Damage unit, focusing on the handling of total loss and total theft claims, was created. Also created was an Advance Charges desk, responsible for monitoring the company's salvage vendor, glass program, and roadside service program.

The department continued to look for opportunities for controlling and reducing expenses along with ensuring adequate reserves were on hand for containing loss development, especially in older accident years.

There were three CAT losses during the year: the January winter storm activity, the November Arizona hail storm, and the December southern California storm activity. Also, there was the effort involved in handling the aftermath of smoke, soot and ash claims from the 2009 Station wildfire. As a result of moving to a multi-line adjusting environment from the previous mono-line model, and with some reliance upon a trusted I/A vendor partnership, these challenges were successfully met. Moreover, the model for handling the smoke, soot and ash claims was both innovative and proved valuable in avoiding lawsuit activity.

Achievements during the year included the relocation and opening of the Sacramento office, with a realized cost-savings opportunity for CSE. The department enjoyed outstanding subrogation results, with this core effort exceeding its stretch goal by coming in barely under \$3.3M. Also, through the course of the year late recognized loss development experienced favorable results. Staff resources improved with the hiring of experienced senior level property adjusters along with the promotions of well-qualified staff. In addition, Claims experienced favorable results in paid loss severity. This was especially the case for BI and Comprehensive lines, and substantially improved the net salvage return with a salvage vendor

for which a partnership was established in 2009.

External Relations

External Relations devoted 2010 to maintaining its current level of efficiency in regards to statistical and regulatory reporting, assisting in the compliance process based on past audits, and decreasing the time needed for product filing implementation.

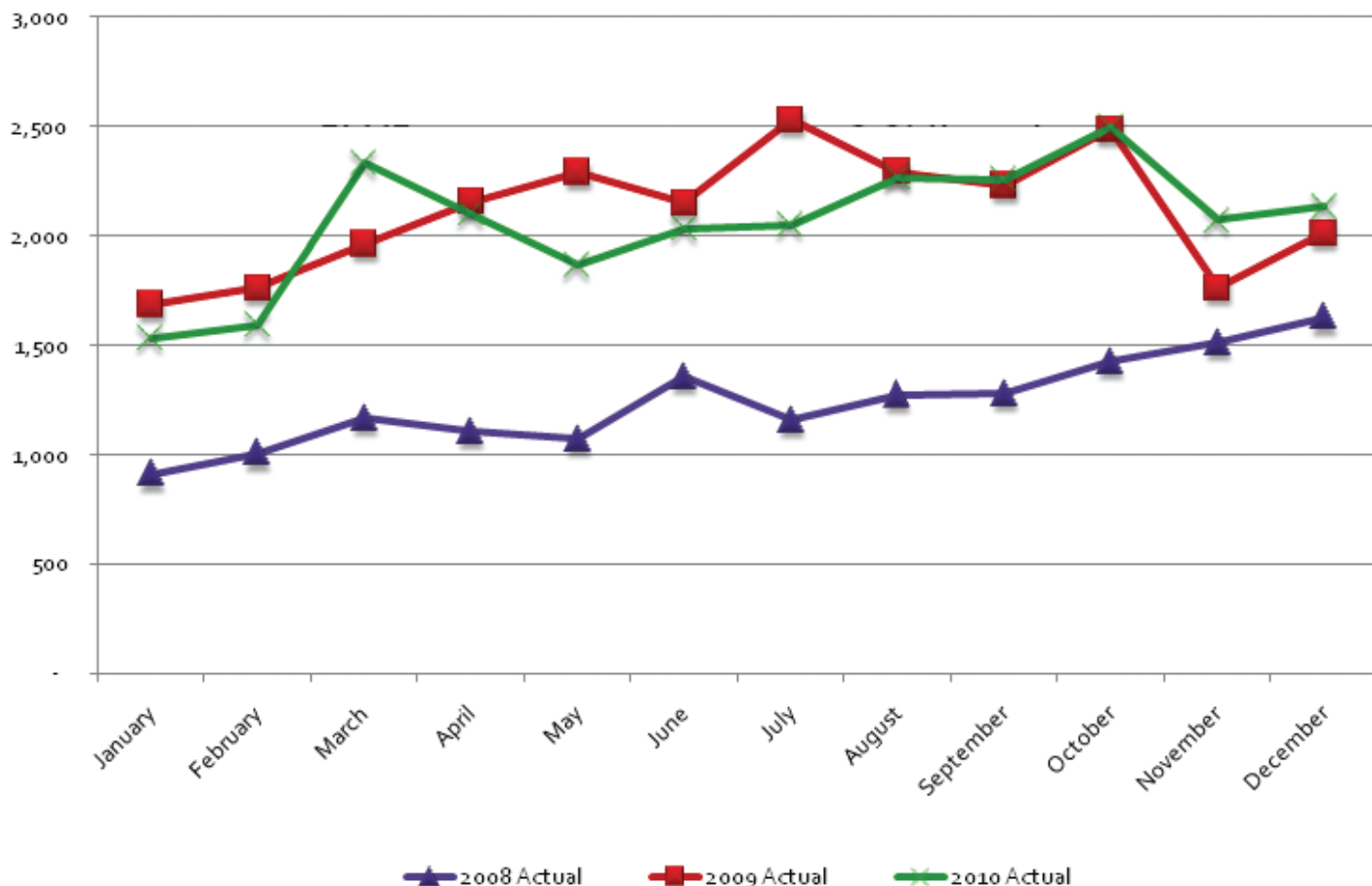
There were no delays in any product filings, and timely submissions were generated on all reporting responsibilities.

Internally, the department participated in the SPInn project, especially on output evaluation. Also, a significant amount of statutory reporting was generated by the move of the San Francisco office to Walnut Creek. The department worked with all other departments affected by the move to implement changes as they occurred. Increased use of online filing, when made available by the state involved, enhanced department efficiency.

In 2010, CSE had 100% compliance results with the training and testing of the Claims Department for the California Annual Recertification.

In 2011, External Audit is placing greater emphasis on the auditing process. It is also placing renewed emphasis

New Business Review



on professional education. The report tracking system is being updated to include those reporting responsibilities outside of External Relations for total corporate response improvement. Also, the department continues to review manual procedures that can be improved with technology.

Field Operations

The Field Operations goals for 2010 were to continue developing agencies through performance improvement plans, focusing on agency growth and profitability in an attempt to improve production results.

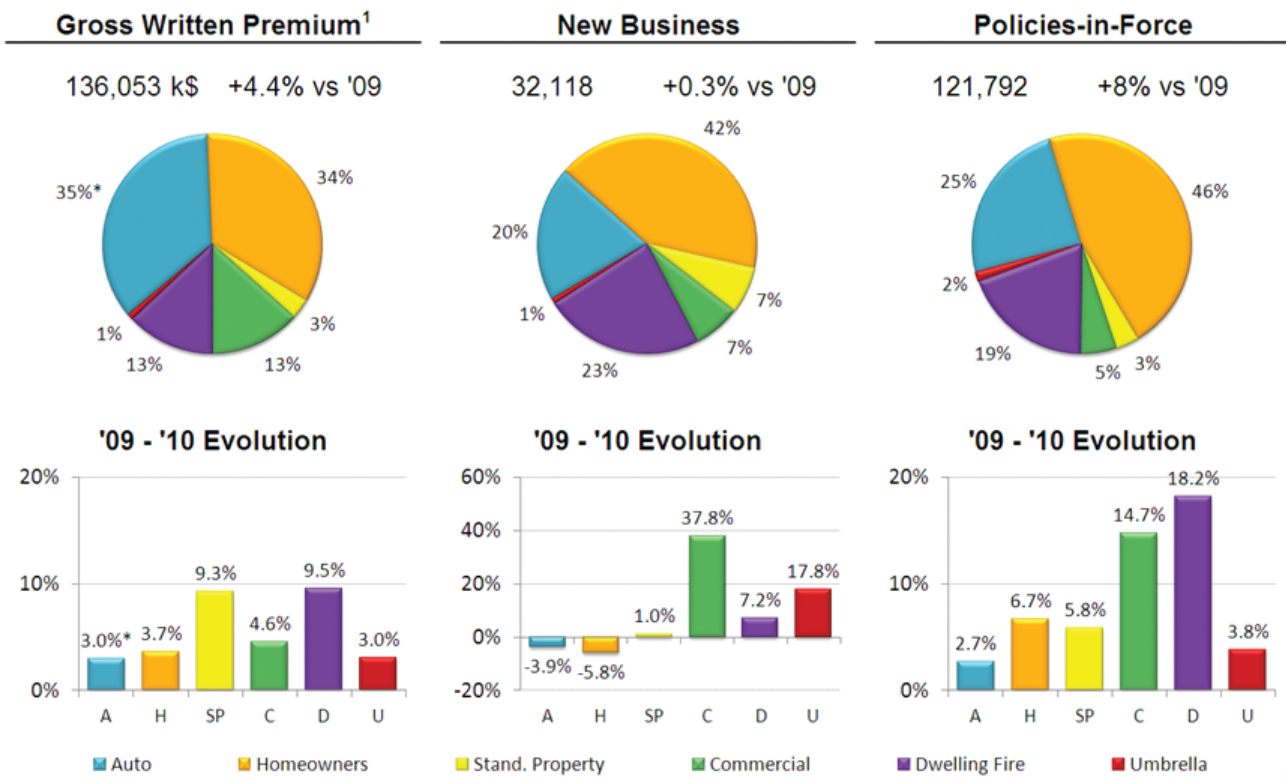
The efforts by the Field Operations territory managers to promote CSE products, services and strategies to

Due to the combined efforts of the territory managers in the field providing SPInn training in the agency offices and Deirdre Meola setting up GoToMeeting weekly SPInn training sessions, all California agencies were trained on the SPInn platform. Ms. Meola also e-mailed the SPInn tip of the week to agency users and with assistance from other CSE employees created the SPInn user guides to help make the transition to SPInn as effortless as possible.

Field Operations implemented new CRM software mid-year that allowed for the combining of CSE business processes and resources in one centralized application. The system enables the staff to analyze their territories more quickly and efficiently, and from a variety of angles, which allows for prompt focus on areas of concern.

Field Operations participated in twelve industry

2010 Production Summary



the company's independent agent channels caused 69% of the CSE agents to grow their book of business, with a resulting 4.4% increase in written premium and an 8% increase in policies in force. The success of the territory managers' efforts was due in part to the excellent relationships they have cultivated with the agencies in their respective territories.

Agents previously affiliated with Workmen's Auto Insurance Company were introduced to CSE products when the book roll of the property business began in June. Their enthusiasm for the CSE property products resulted in Field Operations appointing twenty four of these agencies with CSE. In addition, the department grew the overall agency force and returned excellent production results.

events, focusing on promoting the CSE brand to the civil servant market. Due to the resulting improved production results and expanded distribution channels through independent agents, associations, networks, general agencies, and credit unions, Territory Manager Mary Ann Paschall was promoted to National Accounts Manager. Ms. Paschall is dedicated to promoting and developing our expanded distribution channels that support the independent agency framework. Alex Robles was hired to replace Ms. Paschall as the Los Angeles Territory Manager. Mr. Robles came to CSE with thirteen years of insurance experience and a strong background in automobile insurance.

Production and profitability remained comparable to 2009, which was one of the most profitable production

years on record for the company.

In 2011, Field Operations expects to increase CSE's Independent Agency force by 25%, improving agency coverage throughout the company's active territories.

Human Resources

Coming into the year, Human Resources set goals of streamlining employee services while tackling the challenge of moving the San Francisco office to Walnut Creek mid-year.

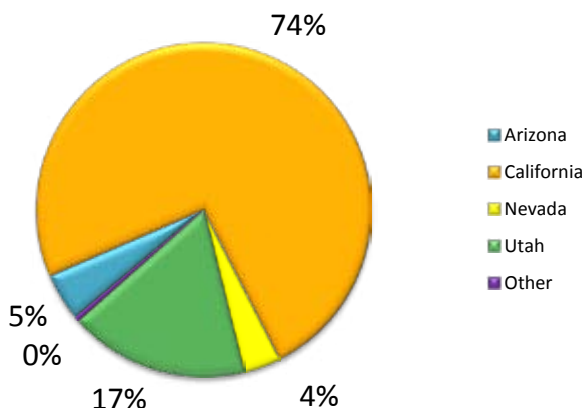
The department implemented a new paperless time and attendance system. This involved training all employees on the details of the new system along with transferring all information from old to new. The new system streamlines payroll activities, eliminating many paper driven activities. This leads to a greener approach to payroll. Additional validation of the new system's efficiency was evidenced by clean audits on CSE's payroll distribution process, benefit administration and 401(k) plan by three different independent external auditors.

One of the best features of the new payroll systems is a human resources portal that will be rolled out in 2011. The portal will allow Human Resources to leverage technology in the following areas: performance evaluation, service awards, legal compliance, salary administration, employee communication, disaster recovery and many other fields.

The department assisted Claims by developing, in conjunction with different members of the department, a test to assure compliance with DOI regulations. Training was conducted in all offices with claims file handlers, and individual tutoring and attention was provided to all employees as needed. The claims management team worked hard to assure all employees were trained and certified as knowledgeable about DOI compliancy issues.

To meet the challenge of rising health care costs, the department implemented a health incentive medical plan as one of the options provided to employees and their families. This program, offered through Blue Cross, provides employees additional flexibility in managing the

2010 Policies in Force by State



escalating cost of medical insurance. It reflects a trend of employers placing more power with their employees on how they spend their benefit dollar. Rollover of all funds not utilized at the end of the claims year also provides the employee a long term perspective and focuses the employee on managing their benefit dollar from year to year.



President & CEO Pierre Bize presents Grant Rider from Rider Insurance Agency a Lifetime Achievement Award during the 2010 CSEAA Convention.

Information & Technology

The demands on Information and Technology in 2010 were substantial. In addition to maintaining current systems, implementing the new SPInn system was mission critical throughout the year.

In time, SPInn will evolve into a system where insureds will be able to access a self-service portal to perform select changes to their policy.

By year's end approximately 15% of the California existing book of business had been converted to SPInn. In addition, the legacy online systems for writing auto and homeowners applications were retired for all California agents in favor of SPInn. The new system received rave reviews from agents for its ease of use and top level functionality.

As a part of the SPInn project, a sales portal based on SPInn was implemented. This serves as both a leads generation and management platform as well as a site for potential insureds to get a quote and find an agent. Presently online for auto in California, it will be expanded to include all lines of business and states where CSE does business.

A unique challenge came about in September when the San Francisco office and its personnel moved to the Walnut Creek location. Through extensive pre-planning and hard work the move was accomplished with no interruption in the work process.

Marketing

2010 was another successful year for Marketing.

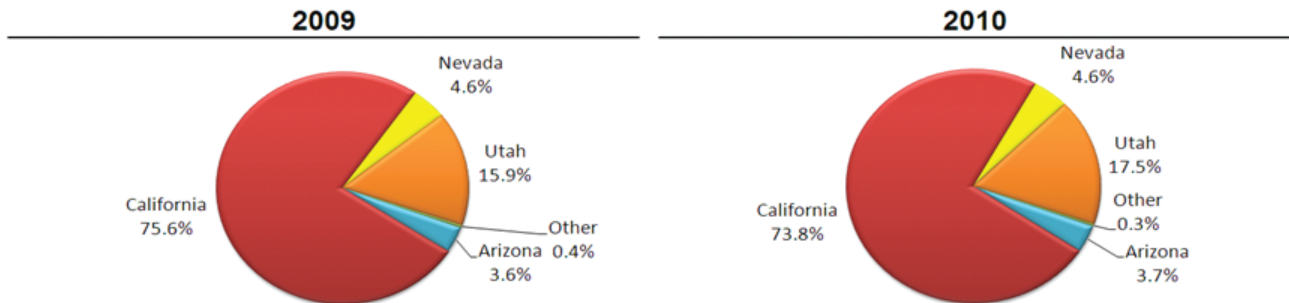
The department’s goals for the year included designing and opening the Lead Generation online sales portal, supporting it with a major advertising campaign and measuring results to set benchmarks of marketing media efficiency. Also on the agenda was driving CSE’s continuing effort in social media, launching the CSE Accident Tool Kit for the Google Android platform and hiring a star marketing manager to plan and execute these new campaigns with new creative. The aim was achieving these goals without losing any of the efficiency gained in 2009 in departmental duties of custom agent advertising production and Corporate Communication efforts.

The Lead Generation online sales portal opened in October. Once in place, the department ran marketing campaigns aimed at generation leads. Direct mail and e-

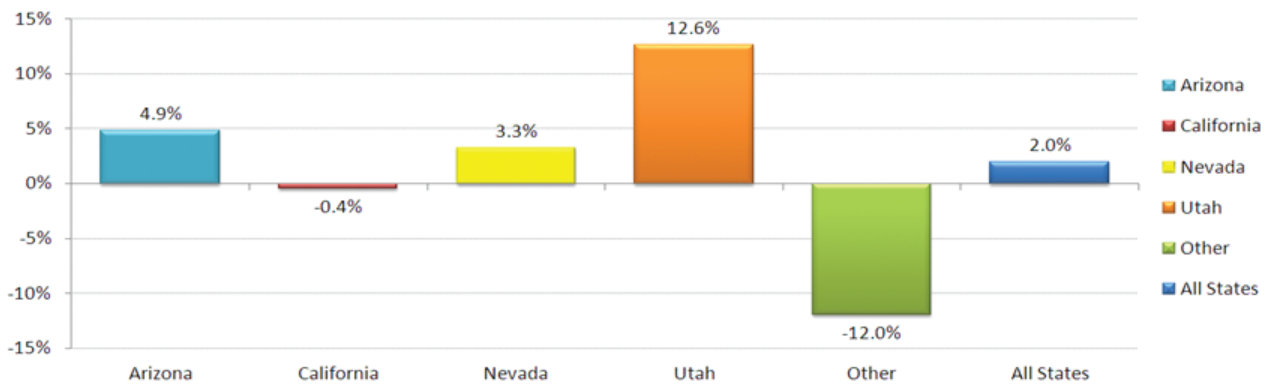
A phone infrastructure was created to provide call support to the campaign. CSE registered a unique 800 number for the campaign, which directed incoming calls to the nearest participating agent by area code and prefix. The throughput rate was 48%, an extraordinarily high return for such a campaign and indicative of the effort put into usability on the site. With the results of this work, Marketing has put plans in place to improve the response and throughput rates to lower the effective cost per app for CSE.

In August, Sarah Ferrucci was brought on as Marketing Manager. Ms. Ferrucci worked for Fremont Bank, a major regional financial institution, as its Marketing Manager for three years prior to joining CSE. She became responsible for continuing the efforts to build the CSE brand. Ms. Ferrucci has already made significant contributions to increase efficiency and effectiveness of CSE’s marketing efforts.

2010 Location Share (by premiums)



Premium '09 - '10 Evolution +2% vs '09



mail campaigns targeted civil servant prospects in California. The direct mail campaign consisted of four different types of creative, while the e-mail campaign had two. Each piece of creative had a personal URL printed on it unique to the recipient. This provided the opportunity to measure response by several different criteria, including creative version, occupation, zip code, mailing list and combination of media. These measurements would not have been possible without SPInn and the Lead Generation online sales portal.

Marketing continued to expand the scope of the company’s advertising efforts. In addition to co-operative, custom, and print ads, CSE added television advertising in the two major urban markets in California in 2010. In late November, CSE produced six new television commercials through Comcast Cable. The commercials feature each of the primary target occupations of CSE customers -- firefighters, teachers and law enforcement professionals. The commercials are fifteen second “bookend” spots, meaning the first spot is separated from the second spot



Filming one of CSE's new commercials.

by another company's commercial. The second spot reinforces the first by continuing the same action and story. This technique has the effect of giving CSE a minute and thirty seconds of air time for the cost of thirty seconds.

On the social media front, the department continued to make progress. The department generated 102 blog posts, which helped it exceed its goal of 3,600 unique site visits for the year. Blog traffic more than doubled from the previous year, with 5,611 unique site visits, versus 2,457 in 2009 and less than 500 in 2008.

The original blog content direction of being heavily insurance based saw little traction in terms of site visits. It was therefore modified to be insurance related while covering a greater spectrum of topics. This generated a far more enthusiastic response.

2010 was the second year CSE supported corporate Facebook and Twitter accounts. The department began monitoring available metrics to determine the effectiveness of reaching insureds and agents alike through these channels. Fifty-seven Twitter followers were added in 2010, a year over year increase of 35%. Facebook results were even better with sixty-nine new fans, a 93% year over year increase.

A first for CSE in 2010 was the Holiday Card and Calendar design contest. Agents and the general public were encouraged to send drawings by their children or grandchildren on either a winter holiday or calendar-suitable theme. The winners received gift cards and had their drawings incorporated into the company's holiday cards

and 2011 calendar. The contest was received enthusiastically by CSE's agent force.

The CSE Accident Toolkit was launched for the Google Android phone platform. A virtual carbon copy of the iPhone application launched last year, the Android version of the application was designed to operate on the six most popular screen sizes, covering 90% of active cellular subscriptions for Android smartphones. With the app available on the two most popular smartphone platforms, CSE is now available to the majority of smartphone users.

Marketing sent 62,153 cross-sell solicitations to policyholders who held a single auto or home policy, emphasizing the available savings of having both their home and auto coverage through CSE. 14,210 pieces of custom agent advertising collateral were created. Corporate Communications posted 93 agent bulletins.

Marketing has set ambitious goals for 2011. These include continued improvement in increasing efficiencies of marketing campaigns, generating 10,000 unique blog visits, and opening a fully automated print-on demand store for CSE agents from which they can order marketing collateral with automatic fulfillment.

Commercial Underwriting

Coming into 2010, Commercial Underwriting's focus was on growing the business outside of California, with a specific target of \$750K written premium in Arizona and Utah. This would be synchronized with following estab-



*One of the winning entries in the
2010 Holiday Card and Calendar Contest*

lished sound underwriting principles in order to maintain a calendar year loss ratio below 40%.

The company joined the Arizona Multi-housing Association (AMA) as an associate member for 2011, increasing visibility of CSE as a habitational insurer in the state to facilitate continued growth.

The dual challenges in the California market of continued soft market pricing and competing carriers were met by implementing a BOP rate reduction for older buildings. A new inspection company began providing older building property inspections, verifying the condition of and updates to building systems such as the roof, electrical and plumbing. This allowed agents to utilize the new building rate for older buildings without requiring insureds to provide documentation of building updates. The goals for these modifications were improved retention and maintaining a competitive market position in this niche. Other measures taken to enhance CSE's position in the market included standardizing each product's coverage options in all states and replacing outdated forms with the current ISO editions. Also, implementation of a specialty apartment product offered exclusively to members of the Preferred Rental Properties Association, distributed through a program agent model, brought in an additional \$370,000 in written premium in California.

These efforts were rewarded with stellar results. Total commercial new business production increased 11% over the previous year to the highest level since before the soft market began in 2005. Arizona total written premium increased 67% over the previous year to \$545,500. Total commercial written premium grew 2% to \$17,680,800. Excluding the Arizona CAT losses due to the early November hailstorm, calendar year loss ratio was 31.8%. Premium per employee improved 2% over 2009.

Personal Lines Underwriting

Personal Lines Underwriting focused on the old and new in 2010, aiming to strengthen previously established disciplines while exploring the opportunities for increased efficiency brought about by the rollout of SPInn.

The department worked closely with IT on the user aspect of SPInn, ensuring that elements such as workflow, underwriting rules, and reports were properly implemented. These were put to the test when the Workmen's Auto (W.A.I.C.) bookroll, a major acquisition of 2,250 policies with a written premium of \$1M, was processed via SPInn. The system was also used to automate both the sending out of Auto Questionnaires and increase of annual mileage (12,000) for non-responses. In both cases the new system performed well, saving large amounts



In late April 2010, VP of Market Strategy and Business Development Matt Hull presented a check for over \$10,000 donated by CSE employees to be used toward earthquake relief efforts in Haiti to American Red Cross Bay Area Chapter Chief Executive Officer Harold Brooks.

of labor time. The department maintained a time service standard of an average of three days for the processing of work items.

An unexpected challenge came as a key home value replacement cost tool was discontinued by its manufacturer, which brought out a new product deemed unsatisfactory for the department's needs. A different software vendor's product was tested and approved, with final implementation scheduled for mid-2011.

The department received very good results from external audits, such as the GenRe audit review.

The results at year end were solid, with the department meeting its goals of realizing more than \$1M in underwriting profit while contributing to the net profit of \$15.5M.

2010 Board of Directors

CSE Insurance Group
Since 1949


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WHO SERVE THE PEOPLE



Jean Fleury
Chairman

CSE Insurance Group
Since 1949


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Sophie Beuvadén
Treasurer

CSE Insurance Group
Since 1949

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Pierre Bize
Director

CSE Insurance Group
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Patrice Forget
Director

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Frank Jeusette
Director

CSE Insurance Group
Since 1949

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WHO SERVE THE PEOPLE



Tom Kelly
Director

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Luc Kranzen
Director

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Olivier Le Borgne
Director

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Richard Miles
Director

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Dominique Salvy
Director

2010 Management Executive Committee

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Pierre Bize
President and CEO

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Dave Brinker
EVP Products and Support

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Frank Querques, CPCU
SVP Insurance Operations

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Jim Williamson, SCLA, FCLA
SVP Claims

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Lee Baumgartner
VP Administration and IT

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Kai Fung, ACAS, MAAA
VP Actuarial

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Matt Hull
VP Market Strategy and Business Development

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Greg Parini, CPCU, ITP, AIS, AINS
VP External Relations

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Dave Schlocker, SPHR, GPHR
VP Human Resources

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Kelli Schulhofer, AINS
VP Field Operations and Market Development

Statement of Income

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
UNDERWRITING INCOME				
Premiums earned	116,338,030	107,853,163	103,847,174	105,003,923
DEDUCTIONS				
Losses incurred	59,770,045	52,840,595	46,198,192	48,938,186
Loss adjustment expenses incurred	11,812,273	11,394,219	12,057,061	9,616,633
Other underwriting expenses incurred	43,447,609	43,447,609	42,162,856	40,221,393
Aggregate write-ins for underwriting deductions	-	-	-	-
Total underwriting deductions	<u>115,029,927</u>	<u>108,944,911</u>	<u>100,418,109</u>	<u>98,776,211</u>
Net underwriting gain (loss)	1,308,103	(1,091,748)	3,429,065	6,227,712
INVESTMENT INCOME				
Net investment income earned	7,425,593	7,851,178	8,012,012	8,582,737
Net realized capital gains (losses) less capital gains tax	4,550,802	2,853,122	(929,721)	693,738
Net investment gain (loss)	<u>11,976,395</u>	<u>10,704,300</u>	<u>7,082,292</u>	<u>9,276,475</u>
OTHER INCOME				
Net gain (loss) from agents' or premium balances charged off	(96,452)	(152,299)	(71,409)	250,802
Finance and service charges not included in premiums	2,121,238	1,810,975	1,467,584	1,799,684
Aggregate write-ins for miscellaneous income	203,991	73,720	255,283	(153,936)
Total other income	<u>2,228,777</u>	<u>1,732,397</u>	<u>1,651,458</u>	<u>1,896,550</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	15,513,275	11,344,948	12,162,814	17,400,738
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>15,513,275</u>	<u>11,344,948</u>	<u>12,162,814</u>	<u>17,400,738</u>
Federal and foreign income taxes incurred	-	-	-	-
Net income	<u>15,513,275</u>	<u>11,344,948</u>	<u>12,162,814</u>	<u>17,400,738</u>

These statements are unaudited.

Capital and Surplus Account

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Surplus as regards policyholders, December 31 prior year	98,594,684	94,567,709	84,821,975	68,303,597
Net income	15,513,275	11,344,948	12,162,814	17,400,738
Change in net unrealized capital gains or (losses) less capital gains tax	-	53,030	167,826	-
Change in net unrealized foreign exchange capital gain (loss)	-	-	-	-
Change in net deferred income tax	-	-	-	-
Change in nonadmitted assets	(1,993,268)	(1,755,603)	(2,092,107)	634,041
Change in provision for reinsurance	674,400	(615,400)	575,200	(634,200)
Change in surplus notes				
Surplus (contributed to) withdrawn from protected cells	-	-	-	-
Cumulative effect of changes in accounting principles	-	-	-	-
Capital changes	-	-	-	-
Surplus adjustments	-	-	-	-
Net remittances from or (to) Home Office	-	-	-	-
Dividends to stockholders	(5,000,000)	(5,000,000)	(1,500,000)	(1,500,000)
Change in treasury stock				
Aggregate write-ins for gains and losses in surplus	15,650	-	432,000	617,800
Change in surplus as regards policyholders for the year	9,210,058	4,026,975	9,745,734	16,518,378
Surplus as regards policyholders, December 31 current year	<u>107,804,742</u>	<u>98,594,684</u>	<u>94,567,709</u>	<u>84,821,975</u>

These statements are unaudited.

Net Admitted Assets

	2010	2009	2008	2007
Bonds	206,378,035	202,415,319	187,580,844	172,829,514
Stocks	-	-	-	-
Preferred stocks	-	-	-	-
Common stocks	-	-	-	-
Mortgage loans on real estate	-	-	-	-
First liens	-	-	-	-
Other than first liens	-	-	-	-
Real estate	-	-	-	-
Properties occupied by the company	-	-	-	-
Properties held for the production of income	-	-	-	-
Properties held for sale	-	-	-	-
Cash, cash equivalents and short-term investments	11,230,657	7,507,729	10,054,093	18,488,101
Contract loans	-	-	-	-
Other invested assets	-	-	-	-
Receivables for securities	-	-	-	-
Aggregate write-ins for invested assets	546,312	485,480	393,639	532,906
Subtotals, cash and invested assets	218,155,004	210,408,529	198,028,575	191,850,521
Investment income due and accrued	1,872,663	2,012,620	1,972,546	2,171,112
Premiums and considerations	-	-	-	-
Uncollected premiums and agents' balances in course of collection	6,116,058	7,146,206	3,738,392	3,108,128
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,870,434	10,914,636	10,564,238	10,289,230
Accrued retrospective premiums	-	-	-	-
Reinsurance	-	-	-	-
Amounts recoverable from reinsurers	1,085,414	333,939	1,598,494	2,278,452
Funds held by or deposited with reinsured companies	-	-	-	-
Other amounts receivable under reinsurance contracts	-	-	-	-
Amounts receivable relating to uninsured plans	-	-	-	-
Current federal and foreign income tax recoverable and interest thereon	-	-	-	-
Net deferred tax asset	-	-	-	-
Guaranty funds receivable or on deposit	-	-	-	-
Electronic data processing equipment and software	376,249	278,710	220,321	262,090
Furniture and equipment, including health care delivery assets	-	-	-	-
Net adjustment in assets and liabilities due to foreign exchange rates	-	-	-	-
Receivables from parent, subsidiaries and affiliates	23,780	-	-	-
Health care and other amounts receivable	-	-	-	-
Aggregate write-ins for other than invested assets	218,338	133,769	341,454	508,587
TOTALS	238,717,939	231,228,409	216,464,022	210,468,119

Liabilities, Surplus and Other Funds

	2010	2009	2008	2007
LIABILITIES				
Losses	45,459,092	43,618,188	43,516,995	47,394,478
Reinsurance payable on paid losses and loss adjustment expenses				
Loss adjustment expenses	19,384,393	19,777,580	19,537,130	18,664,878
Commissions payable, contingent commissions and other similar charges	3,489,255	3,328,303	2,603,952	2,568,805
Other expenses (excluding taxes, licenses and fees)	2,538,955	4,305,646	2,622,955	2,475,418
Taxes, licenses and fees (excluding federal and foreign income taxes)	133,333	937,336	350,316	161,527
Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses))	-	-	-	-
Net deferred tax liability	-	-	-	-
Borrowed money \$.....0 and interest thereon \$.....0				
Unearned premiums	56,303,265	55,556,626	49,434,093	49,280,655
Advance premium	1,863,378	1,900,536	1,608,598	1,589,782
Dividends declared and unpaid	-	-	-	-
Stockholders	-	-	-	-
Policyholders	-	-	-	-
Ceded reinsurance premiums payable (net of ceding commissions)	514,412	1,255,660	1,089,326	242,640
Funds held by company under reinsurance treaties	200,331	233,657	263,713	1,164,297
Amounts withheld or retained by company for account of others	106,379	212,446	95,782	57,421
Remittances and items not allocated	-	-	-	-
Provision for reinsurance	-	674,400	59,000	634,200
Net adjustments in assets and liabilities due to foreign exchange rates	-	-	-	-
Drafts outstanding	-	-	-	-
Payable to parent, subsidiaries and affiliates	-	-	-	-
Payable for securities	-	-	-	-
Liability for amounts held under uninsured plans	-	-	-	-
Capital notes and interest thereon				
Aggregate write-ins for liabilities	920,406	833,351	714,455	1,412,043
Total liabilities	130,913,199	132,633,728	121,896,315	125,646,145
CAPITAL AND SURPLUS				
Aggregate write-ins for special surplus funds	-	-	-	-
Common capital stock	3,436,000	3,436,000	3,436,000	3,436,000
Preferred capital stock	-	-	-	-
Aggregate write-ins for other than special surplus funds	-	-	-	-
Surplus notes	-	-	-	-
Gross paid in and contributed surplus	30,057,317	30,057,317	30,057,317	30,057,317
Unassigned funds (surplus)	-	-	-	-
Surplus as regards policyholders	107,804,740	98,594,683	94,567,706	84,821,973
TOTALS	238,717,939	231,228,410	216,464,021	210,468,118

These statements are unaudited.



Some of the entries in the 2010 Holiday Card and Calendar Contest



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Southern Region

99 S. Lake Ave., Ste. 400
Pasadena, CA 91101
626.440.5800

Specialty Lines Center
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