



DELIVERING THE

ANNUAL REPORT 2016

EXCEPTIONAL

Pioneering insurance
solutions through culture,
innovation and partnership.

 **AF Group**



Delivering the Exceptional through Transition and Growth

In January of 2016, we were pleased to introduce the AF Group brand as we positioned our organization for future growth and diversification, bringing greater visibility to our holding company and paving the way for continued success.

This introduction was complemented by a number of important leadership changes, all reflecting the outstanding talent within our organization and ensuring the seamless delivery of our mission and vision. These changes included:

- Appointment of AF Group President and CEO **Elizabeth Haar** to executive vice president & president of Emerging Markets, Blue Cross Blue Shield of Michigan. In addition to her new role, Haar will maintain oversight of AF Group as chief executive officer.
- Appointment of **Lisa Corless** as president of AF Group. Corless joined AF Group in 2013, most recently serving as senior vice president, chief administration officer and chief of staff.
- Appointment of **Bryan Bogardus** as chief operating officer of AF Group. Bogardus was the former president of our CompWest brand.
- Retirement of Accident Fund Insurance Company of America President **Mike Britt** following another highly profitable year for the brand. Britt had provided effective leadership of the brand since 2009.
- Appointment of **Al Gileczek** as president of Accident Fund and CompWest. This appointment affirmed Gileczek's tremendous industry expertise and strong affinity with agents and customers.

Throughout 2016, the effectiveness of these leadership changes was validated with the conclusion of one of the most successful years on record for our collective enterprise.

“The AF Group leadership team represents an exceptional group of highly talented individuals who are dedicated to furthering our organization and industry with unparalleled excellence. Supported by our outstanding employees, I am confident this team will carry our company to new levels of performance and growth.”



Elizabeth R. Haar
Executive Vice President & President of Emerging Markets, Blue Cross Blue Shield of Michigan
Chief Executive Officer, AF Group





LETTER FROM THE PRESIDENT

When I arrived at AF Group in 2013, I was struck by the presence of three extraordinary things that are fundamental to any highly successful business: a remarkable work culture, an intentional focus on innovation and an unmistakable commitment to partnership.

Today, I remain passionate in my support of these foundational elements of our business. Each is integral to the dynamic ecosystem we have created here, and is essential in helping us sustain our long-term success.

In 2015, we reported a record-breaking year that laid the groundwork for 2016—and a repeat performance that has been nothing short of outstanding. Our year was marked by a number of important initiatives, including:

- introduction of a new brand for our holding company—AF Group—which now provides a revitalized identity to emphasize the collective strength of our organization
- continuation of our underwriting discipline in preparation for a softening market
- launch of the transformation of our digital infrastructure, which will advance our technological capabilities for years to come
- broadening of our product offerings outside of traditional workers' compensation, allowing for new growth, new opportunities and new sources of revenue
- completion of an analysis by our Innovation Works team that will lead to the introduction of new products to the market in 2017

All of this was achieved in an environment committed to building partnership at many levels—with our community and local business leaders, with physicians, with our supportive parent, with our valued agents and most importantly, with the injured workers we help return to the workforce. It is these partnerships that serve as the reward for all of our efforts.

I invite you to spend a few moments reviewing our year as shared across the pages of this brief report. As you do, I hope you join me in taking great pride in the amazing culture we are building through teammates who are dedicated to carrying us toward even greater success.

Lisa Corless
President, AF Group

Our Mission

We are a trusted partner providing innovative insurance products and services that promote workplace safety and exceptional care for injured workers.

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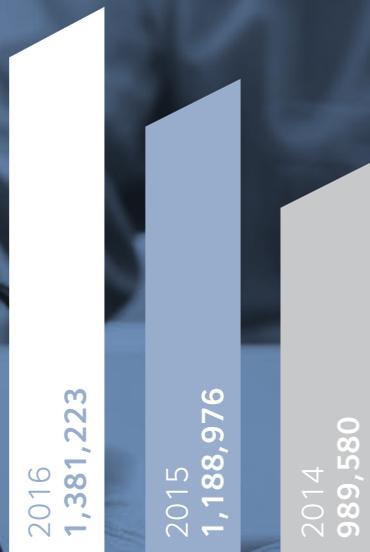
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COLLECTIVE FINANCIAL PERFORMANCE

AF GROUP – YEAR ENDED DECEMBER 31*

Gross Written Premiums

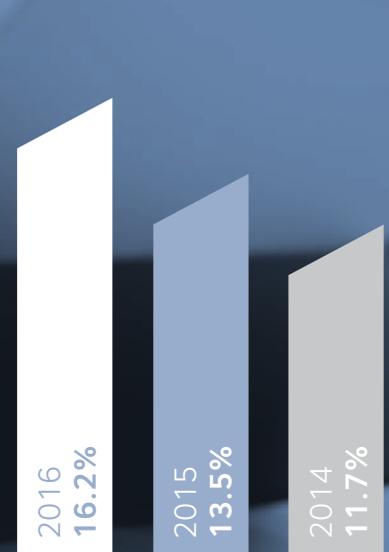
**Dollars in thousands*



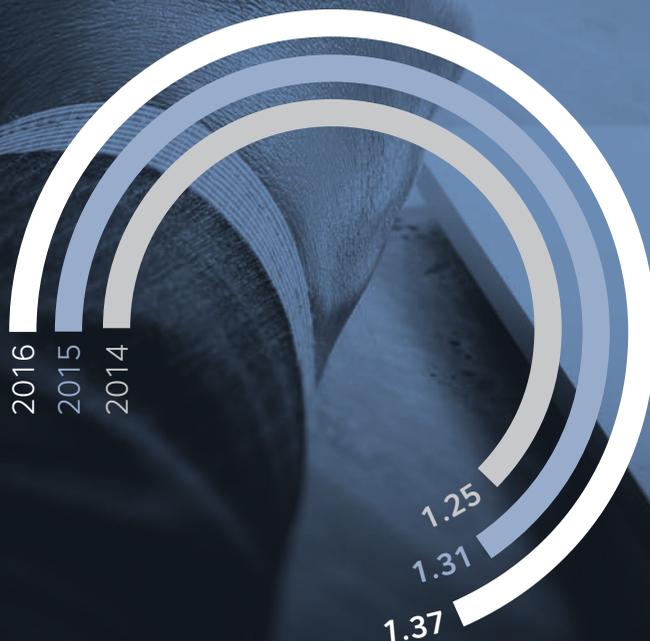
Net Income



Return on Equity



Net Written Premium/Surplus



Underwriting Ratios as a Percentage of Net Earned Premiums

Calendar Year Combined Ratio



YEAR IN REVIEW

Over the course of the year, AF Group and its brands demonstrated excellence that was recognized across the industry.



Introduced AF Group as the new holding company brand.



Named to *Business Insurance's* list of Best Places to Work in Insurance for the sixth year in a row—earning second place in the large employer category and first-place honors as an insurer/provider.



Earned an “A-” (Excellent) financial strength rating from A.M. Best.



Congratulated Liz Haar as a *Crain's Detroit Business* “100 Most Influential Women” and Marguerite Dixen as a *Business Insurance* “Woman to Watch.”



Caring and Sharing

Raised a record-setting \$434,000 for the organization's annual Caring & Sharing Community Campaign (see p. 9).



Held our first successful employee Hackathon and Idea Pipeline challenge to generate new, innovative ideas and solutions for the business.



Hosted the seventh annual Michigan Creative Educators Summit—designed to showcase outstanding education programs in Michigan.



Reached a training milestone with 524 agents and 565 employees earning the Certified Authority on Workers' Compensation (AF Group's proprietary training program) designation.



2016 LEADER OF THE YEAR

Jaime Dibeau
Director, Business Liaison Office



2016 EMPLOYEE OF THE YEAR

Dave Fairman
Videographer & Graphic Design



“The ongoing success of Accident Fund is predicated on simple fundamentals: good people providing great service through exceptional agent partners.”

—Mike Britt
President

In one of its most successful years on record, Accident Fund concluded a remarkable performance in 2016, continuing to deliver on the proven service model that has earned the brand the respect of agents and policyholders for more than a century. The brand was better-than-plan on all major metrics, producing outstanding accident and calendar year ratios that outperformed the industry.

With continued focus on underwriting discipline, superior claims and medical management strategies along with continued loss control excellence, Accident Fund generated underwriting profit of more than \$100 million for the third year in a row. The brand also experienced double digit premium growth and exceeded top line, bottom line, retention and new business targets.

AccidentFund.com

QUICK FACTS

Accident Fund's appetite focuses on small to mid-size businesses in construction, health care, retail/wholesale, hospitality and manufacturing.

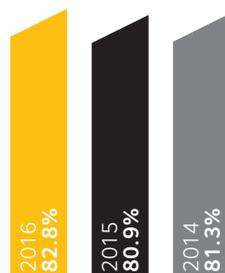
**Dollars in thousands*

SELECTED FINANCIAL DATA*

Direct Written Premium



GAAP Combined Ratio



“The success of our high-touch, service-driven brand is the direct result of our customer-focused team and their commitment to demonstrating our value on a daily basis.”

—Steve Cooper
President

Despite difficult market conditions, United Heartland completed one of its best years on record in 2016, earning a 15% increase in premium for the year while producing outstanding accident and calendar year combined ratios. United Heartland was also successful in gaining new business while continuing to grow its loss sensitive products for all brands.

Along with record-setting customer retention for the year, the brand decreased its loss frequency by 19%, reflecting United Heartland's expertise in helping policyholders prevent losses.

UnitedHeartland.com

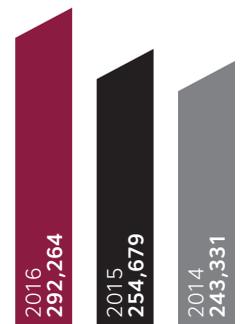
QUICK FACTS

United Heartland's appetite focuses on mid- to large-size businesses in education, health care, long-term care facilities, manufacturing, nonprofits, social services and wholesale/retail.

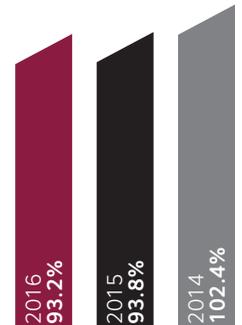
**Dollars in thousands*

SELECTED FINANCIAL DATA*

Direct Written Premium



GAAP Combined Ratio





“The resurgence of CompWest is a great example of how a team of dedicated individuals can make an impact in even the most challenging environments. Our commitment to customers and partner agents is making a difference.”

— Al Gileczek
President

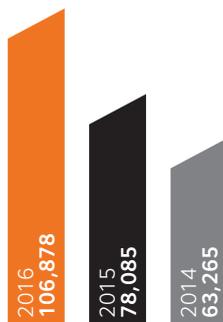
The CompWest brand experienced a remarkable turnaround in the last five years, and in 2016, sustained its return to relevance in the California workers’ compensation market. After initiating several technology implementations in 2015, the brand’s renewed stability allowed it to effectively navigate the challenging West Coast market, delivering success against written premium, new business and underwriting income goals.

CompWest concluded the year by sustaining profitable growth, expanding its appetite while surpassing \$100 million in premium and exceeding goals for new business and top- and bottom-line growth.

CompWestInsurance.com

SELECTED FINANCIAL DATA*

Direct Written Premium



GAAP Combined Ratio



QUICK FACTS

CompWest’s appetite focuses on small to mid-size businesses in artisan contracting, health care, hospitality, manufacturing, professional services, retail and wholesale services.

*Dollars in thousands



“Our outstanding service model represents a key differentiator in our market, and with our ability to effectively partner with agents, we are well positioned for continued growth.”

— Marguerite Dixen
President

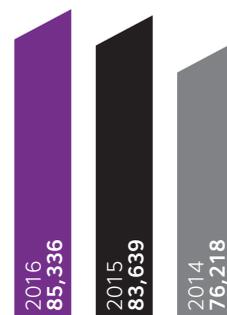
Third Coast Underwriters concluded 2016 with an intentional focus on bottom-line profitability, while achieving better-than-plan results on a number of key metrics including profit goals and calendar year combined ratio.

A highlight of the year included successful expansion into the agribusiness segment, which generated new opportunities to develop agency relationships while extending the brand’s reach in the market. Third Coast Underwriters also launched a web-based tool allowing staff easy access to sales materials, which can be quickly provided to agents as they promote benefits to customers.

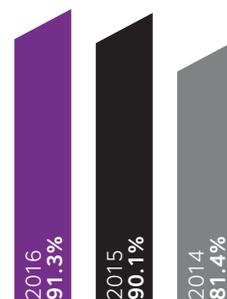
Despite an increase in competition in their high severity market, Third Coast Underwriters’ strong reputation and unparalleled customer service model continued to position the company well for strong performance in 2017.

SELECTED FINANCIAL DATA*

Direct Written Premium



GAAP Combined Ratio



3CU.com

QUICK FACTS

Third Coast Underwriters’ appetite focuses on mid- to large-size businesses in agribusiness, construction, emerging markets, energy (gas & oil), mergers and acquisitions, specialty transportation and USL&H.

*Dollars in thousands

ALTERNATIVE MARKETS & MULTILINE

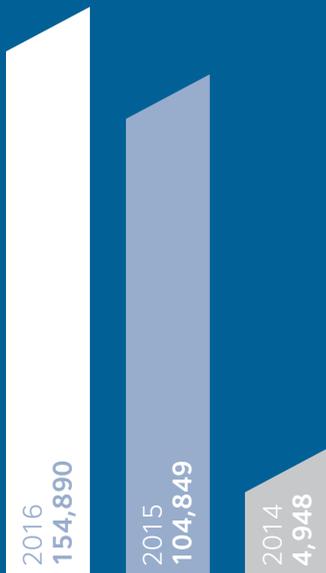
First introduced in 2014, this division increased its profitability throughout 2016, advancing AF Group's growth and diversification efforts with new opportunities.

As part of our long-term growth strategy, these innovative products have broadened the portfolio in response to agent and policyholder desire for offerings beyond traditional guaranteed cost workers' compensation. We have further diversified our products by offering non/low risk-bearing solutions to the marketplace.

SELECTED FINANCIAL DATA*

*Dollars in thousands

Gross Written Premium



Underwriting Profit



Fronting

This non-risk bearing product allows participants of the insurance industry to use AF Group paper or services. Through collaboration with reputable partners, fronting generated \$122 million in gross written premium in 2016. AF Group will work to grow this market segment with the goal of diversifying into more fee-based products in 2017.

Assigned Risk

In 2016, AF Group earned servicing carrier contracts for Michigan and Indiana. This non-risk bearing division is now operational, with additional state contracts being explored.

Idea Pipeline

A true example of innovation, the Idea Pipeline is a state-of-the-art crowdsourcing and social networking platform that offers an idea management solution using Lean startup and Design Thinking practices to help turn ideas into actionable business initiatives.

Multiline Diversification

Securing the first multiline premium in company history, the work of the AF Global Capital brand reflects our efforts to partner with Lloyd's of London syndicates.

To prepare for even further growth, AF Group secured multiline licensing in 40 states in 2016.

INDUSTRY IMPACT

AF Group is a noted advocate of building a healthy workers' compensation system, actively supporting legislation and organizations that are committed to strengthening the industry, ensuring appropriate care for injured workers and providing effective cost management strategies to sustain businesses.

In 2016, our engagement enhanced the workers' compensation landscape through research and collaborations that reflected our expertise and insights on industry concerns:



Featured in the National Council on Compensation Insurance's 2016 issues report, providing a real-life example of an effective workers' compensation system.

Claims
COVERING THE BUSINESS OF LOSS

Cited in *Claims* magazine for joint research with Johns Hopkins University that addresses how treatment guidelines lower costs and shorten claim duration.

COMMUNITY IMPACT

As an engaged corporate citizen, AF Group's impact reaches far beyond the walls of our business and the industry. We are mindful of connecting our core business—workplace safety, accident prevention, return-to-work programs, disabilities and rehabilitation—with organizations whose missions are focused on benefiting those in the communities in which we work and live.

To build this connection, we have developed partnerships with many remarkable human service organizations, educational initiatives and rehabilitative programs across the country.

As one example, each year AF Group conducts a number of charitable events as part of our annual Caring and Sharing Community Campaign. Through employee and corporate contributions, the 2016 campaign raised \$434,000 in support of 28 charitable enterprises around the country. This total represents nearly \$1.5 million raised since 2011.

FOOD BANK CONTRIBUTIONS

DONATED
\$70K
TO LOCAL
FOOD
BANKS

SERVING MORE THAN
770,000
MEALS



2,500
EMPLOYEE
VOLUNTEER
HOURS



GIVING

\$510,000 in
CORPORATE
DONATIONS

\$230,000 in
EMPLOYEE
DONATIONS

\$740,000
in TOTAL
DONATIONS



To further live out our community commitment, AF Group employees are encouraged to volunteer for charitable organizations of their choice and are provided with the opportunity to do so, even during work time. Numerous employees also serve on local boards and committees, thereby extending our mission of partnership and service across the country.

"As a result of our invaluable partnership with AF Group, we provided critical services to much-deserving Michigan communities."

Sarah Paspal
Major Gift Officer
American Red Cross



"By supporting wishes, companies like United Heartland help Make-A-Wish to leave lasting impressions on the hearts and minds of children, helping them to journey back from tough days and setbacks to the magical days that should define every childhood."

Wande Olude
Associate Gift Officer
Make-A-Wish Illinois



"Because of community partners like Accident Fund, we have been able to provide assistance dogs at no cost to our clients. We are grateful for the independence Accident Fund provides every day."

Catherine Rogg
Development Director
Paws with a Cause



"Since 2012, we have been able to count on the generosity of CompWest and their employees in a matching giving program to benefit our OC Food Bank."

Buddy Ray
Executive Director
Community Action Partnership
of Orange County (CA)



BOARD OF DIRECTORS*

James G. Agee

Chair
President
J.G. Agee Consultants, LLC.

Elizabeth R. Haar

Executive Vice President & President of
Emerging Markets, Blue Cross Blue Shield of Michigan
Chief Executive Officer, AF Group

Gregory A. Sudderth

Vice Chair
President
Executive Labor—Management Services Inc.

Daniel J. Loepf

President and Chief Executive Officer
Blue Cross Blue Shield of Michigan

Mark R. Bartlett

Executive Vice President and
Chief Financial Officer
Blue Cross Blue Shield of Michigan

Timothy J. McCarthy

Retired President and Chief Operating Officer
Soave Enterprises Transportation Group

Patrick J. Devlin

Financial Secretary—Treasurer
Michigan Building and Construction Trades Council

Gary J. McNerney

Owner
McNerney and Associates

A. Gregory Eaton

Partner, Karoub Associates and
Metro Cars Luxury Sedans
Owner, Gregory's, Inc.

Nancy P. McKeague

Senior Vice President and Chief of Staff
Michigan Health and Hospital Association

Diane R. Goddeeris, R.N., B.S.N.

Registered Nurse—OB Informatics
Sparrow Hospital

Richard E. Whitmer

Retired President and Chief Executive Officer
Blue Cross Blue Shield of Michigan

*As of March 1, 2017.

Individual Focus. Collective Strength.

At AF Group, our brands are committed to delivering excellence with an unparalleled focus on the individual:

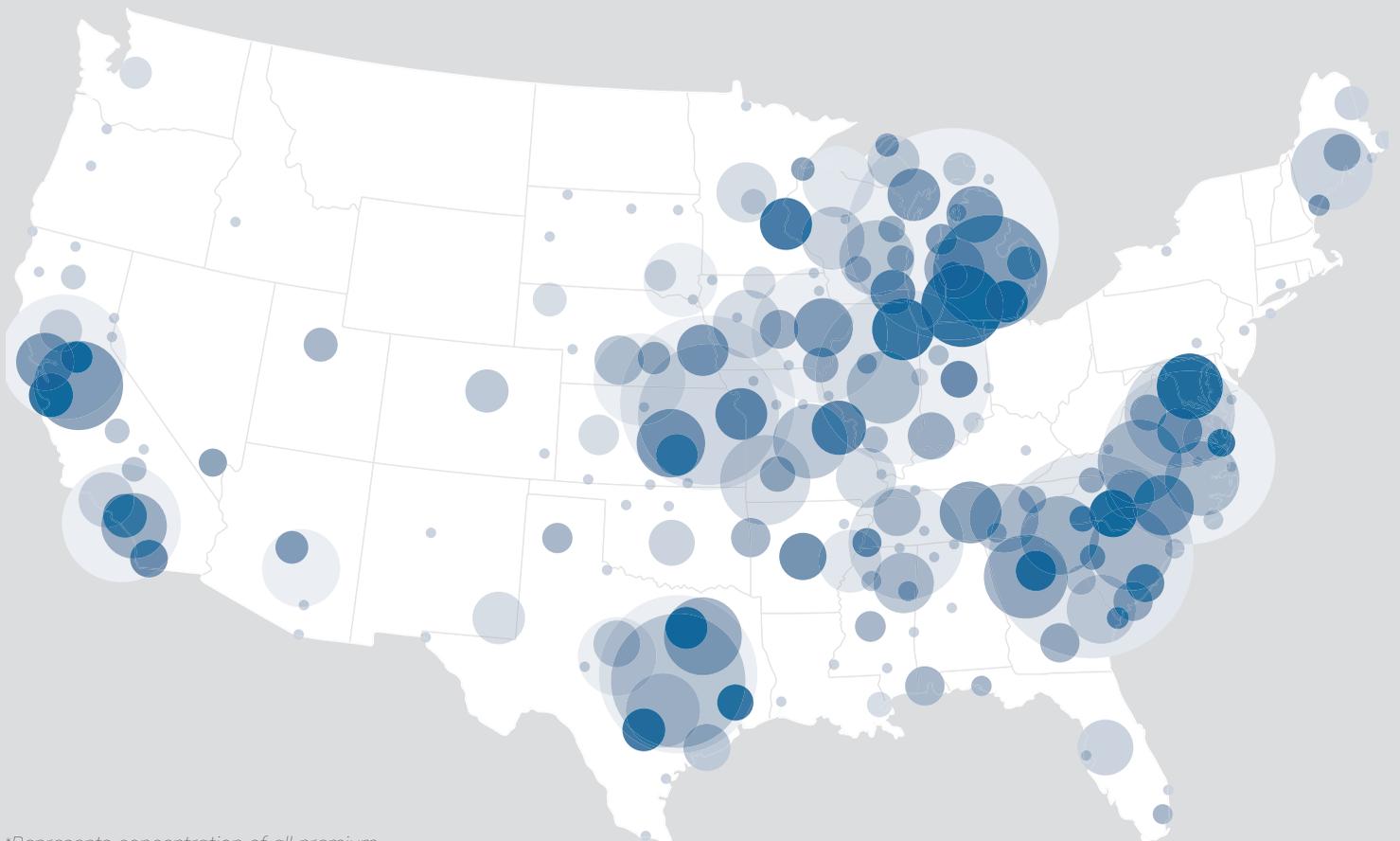
- **Individual customers**—through tailored products and services
- **Individual injured workers**—through compassionate relationships centered on their return to health and work
- **Individual agents**—through meaningful and lasting partnerships
- **Individual communities**—through contributions of time and resources that make a positive impact

With this collective focus, we are a highly purposeful organization, reflective of a distinct culture of excellence.

PARTNERSHIP DEFINED

For more than 100 years, AF Group and its brands have forged unmatched relationships with our agents. Today, these valued partnerships have helped position us as the 14th largest writer of workers' compensation insurance in the country—benefiting an increasing number of businesses while keeping their workers safe.

Our sincerest gratitude to these agent partners for helping ensure our collective success!



**Represents concentration of all premium*



AFGROUPINSURANCE.COM