

ACCIDENT FUND HOLDINGS



2013 Annual Report

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Earning Your Trust, Building Our Success



Legendary coach Vince Lombardi once shared his perspective on the difficult task placed upon those who are committed to achieving excellence. “The price of success is hard work, dedication to the job at hand, and the determination that whether we win or lose, we have applied the best of ourselves to the task at hand.”

In 2013, Accident Fund Holdings proudly carried these principles to one of the most successful years in our company’s history. In the face of market turmoil, broad legislative challenges and an unstable insurance landscape, our team demonstrated their dedication to excellence and a tireless will to succeed.

To guide our efforts, we focused on three primary goals. The first was to return the Enterprise to calendar year profitability. Next, we endeavored to hit our financial plan in California. Finally, we committed to advancing a new market.

Individually, each of these goals represented a significant undertaking, requiring teamwork, communication and collaboration. Collectively, these markers were nothing short of daunting. Today, as we reflect on 2013, it gives me great pride to share that our passion for superior performance led to the successful achievement of each of these goals.

2013: Our Work Affirmed

As validation of our work, this year our financial strength rating of “A-” (Excellent) was affirmed by A.M. Best and our capital position improved. Our Enterprise was ranked 15th in A.M. Best’s “U.S. Workers’ Compensation – Top 25 Carriers for 2012” by net premiums written. Notably, of this group, we are the largest, non-governmental, monoline workers’ compensation company in the country. Finally, the holding company and each of our brands were included as a 2013 “Best Place to Work” by *Business Insurance* magazine, representing the first time all brands have been named to this prestigious listing.

As a whole, these honors reinforce the effectiveness of our business strategies and demonstrate our ongoing commitment to our valued agents and policyholders.

Even as we celebrate the success of 2013, we know our challenges will continue. With future volatility that is driven by both controllable and uncontrollable factors including the market cycle, the economy and the investment market, we know that average performance will not sustain us in a highly competitive industry. Therefore, we must remain diligent in our efforts to achieve long-term success.

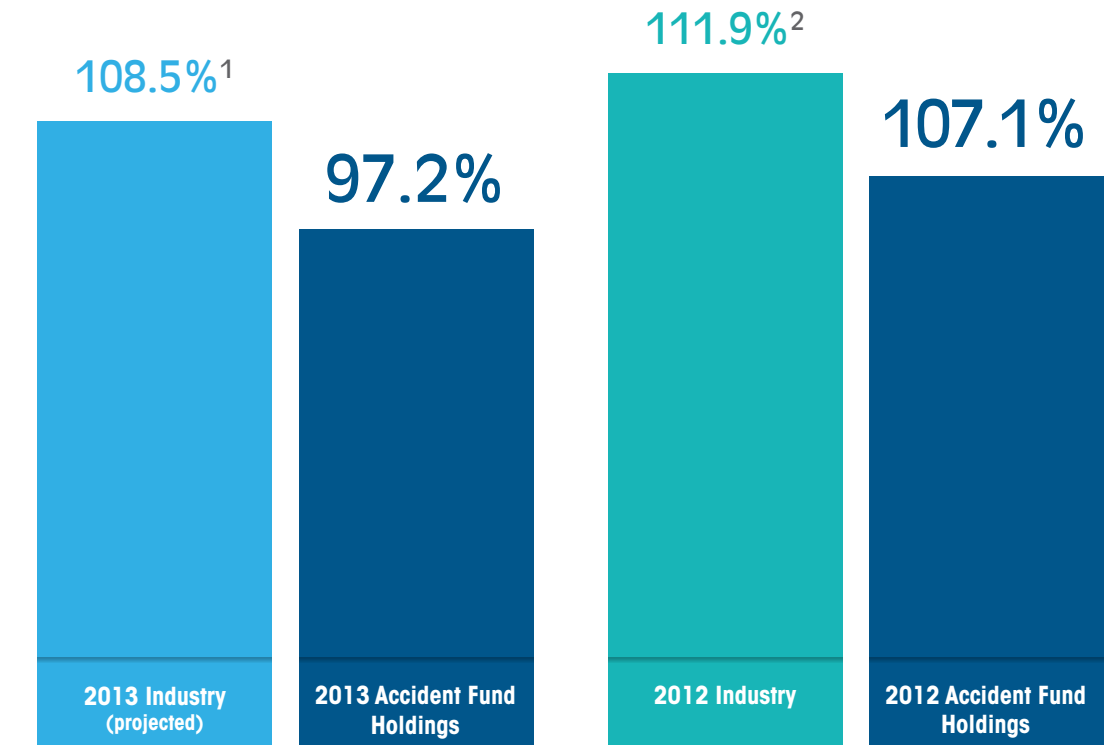
I am certainly proud of the fact that for more than 100 years, our team has risen to each and every challenge, producing results that are uncommon in our industry. I am thankful for the support of our parent company, Blue Cross Blue Shield of Michigan, for their confidence in our operations as a wholly-owned subsidiary. And I am grateful to our many agents for allowing us to serve their businesses, and to the thousands of businesses who trust us to care for their injured workers.

Through the deliberate execution of our customer-centered strategies, I am confident we are equal to the task of continuing to earn your trust.

Elizabeth R. Haan

¹ Projection from A.M. Best Special Report, Nov. 18, 2013.

² SNL Financial and A.M. Best Annual Statement databases. Includes workers’ compensation and excess liability lines of business.



Calendar Year Combined Ratio

Financial Results

In 2013, Accident Fund Holdings once again delivered improved financial results, exceeding plan and posting a strong underwriting profit. Our commitment to underwriting excellence led to a year-over-year improvement of more than \$64 million in underwriting income and an accident year combined ratio that is better than our annual goal.

These strong underwriting results more than offset the decline in investment income, resulting in better-than-planned net income and return on equity.

We also grew our surplus while strengthening our reserve position, resulting in a stronger balance sheet and an improved overall capital position.

Accident Fund Holdings strives to be an elite workers' compensation carrier, targeting financial results in the top 15% of the industry. Our financial results, combined with key strategic accomplishments in 2013, have positioned us well to overcome the significant industry challenges we foresee in the years ahead.

Accident Fund Holdings, Inc. — Annual Results

Dollars in thousands

	2013	2012	2011	2010	2009
Shareholders' Equity ¹	858,978	836,295	800,935	841,558	884,836
Statutory Surplus	684,052	633,604	578,901	648,219	689,923
Net Income/(Loss)	56,051	35,326	(52,268)	(53,712)	79,063
Net Written Premium/Surplus	1.04	1.02	1.05	1.12	1.13
Leverage Ratio					
Net Written Premium + Net Reserves/Surplus	2.33	2.55	2.94	2.99	2.74

¹ Exclusive of Non-Controlling Interest.

Accident Fund Holdings, Inc. — Year Ended December 31

Dollars in thousands

	2013	2012	2011
Revenues			
Direct Written Premiums	870,062	824,817	771,686
Net Written Premiums	714,689	647,496	605,585
Net Earned Premiums	684,311	629,725	592,618
Net Investment Income	44,405	54,591	60,594
Net Investment Gains	52,045	71,051	47,759
Total Revenues	780,761	755,367	700,971
Pre-Tax Operating Income (Loss)	57,353	34,887	(66,082)
Net Income (Loss) from Operations	37,295	22,586	(42,395)
Net Income (Loss)	56,051	35,326	(52,268)
Return on Equity	8.1%	5.3%	(7.9%)

Underwriting Ratios as a Percentage of Net Earned Premiums

	2013	2012	2011
Losses & Loss Adjustment Expenses	62.2%	65.5%	73.6%
Policy Acquisition & Other Underwriting Expenses	28.9%	29.8%	34.1%
Policyholder Dividends	3.2%	4.4%	5.4%
Accident Year Combined Ratio	94.3%	99.7%	113.1%
Calendar Year Combined Ratio	97.2%	107.1%	127.7%

Balance Sheet Data as of Year End

	2013	2012	2011
Cash and Investments	2,092,611	2,073,128	2,019,299
Total Assets	3,476,992	3,345,317	3,166,669
Reserves for Losses and Loss Adjustment Expenses	1,439,748	1,451,411	1,438,041
Notes and Subordinated Debt	115,571	142,692	189,541
Shareholder's Equity ¹	858,978	836,295	800,935
Statutory Surplus	684,052	633,604	578,901

2013 Shared Profits

Our success in 2013 allowed us to distribute dividends and incentives to key stakeholders, while building our financial position for the future. This included:

Our Policyholders

Paid **\$28 million** in policyholder dividends to select insureds who produced excellent results.

Our Agents

Distributed **\$11 million** in incentive and contingent commissions to select agents and brokers across the country.

Our Future

Added **\$20 million** to prior year reserves to ensure our long-term financial stability.

¹ Exclusive of Non-Controlling Interest.

Achievements

Supported by our loyal agents and policyholders, success for Accident Fund Holdings in 2013 was the direct result of effective execution of our key strategies. These important areas of focus are designed to improve the health of our business while attacking the environmental challenges facing our industry and company.

Guided by these strategies, here are a few of our significant accomplishments in 2013:

We met, and in some cases exceeded, our financial goals.

Despite a challenging insurance and financial environment, Accident Fund Holdings concluded 2013 with positive financials, both collectively and in each of our four brands. Our overall results exceeded plan in all major categories including a strong calendar year underwriting profit, net income and return on equity. Our reserve position improved, surplus increased and our overall capital position remained strong.

We achieved our plan in California.

After several challenging years in the state, our turnaround plans in California made great progress as we finished 2013 better than our underwriting target, creating great momentum for 2014.

We successfully entered a new market.

After executing deliberate, multi-year strategies to improve internal core competencies, Accident Fund Holdings is focused on profitable growth. To support this, we are building our health care segment with successful entries in California and Florida and will look for additional expansion opportunities in this market and others in 2014.

We improved our underwriting performance.

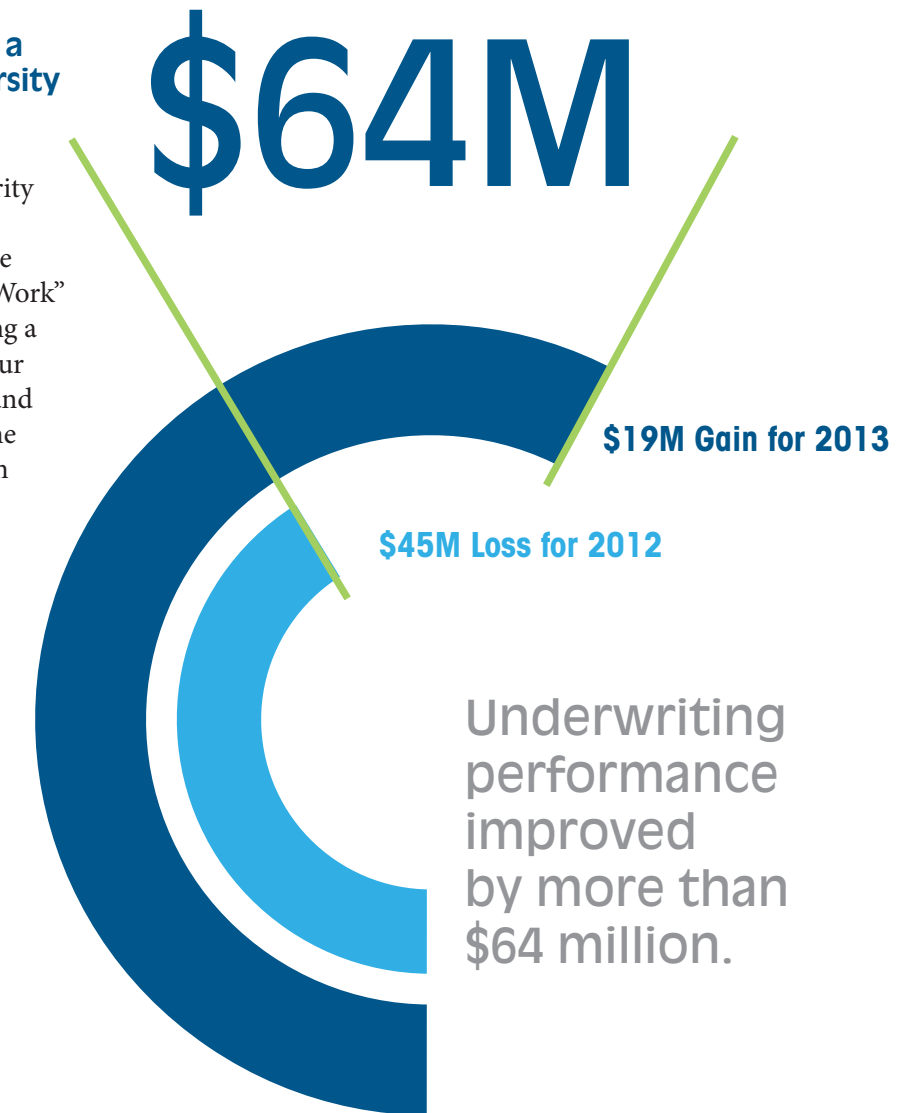
In 2013, underwriting performance improved by \$64 million, offsetting a more than \$29 million decline in investments caused by low interest rates. We anticipate this trend continuing in 2014.

We enhanced our predictive modeling tools.

A key strategy for Accident Fund Holdings in 2013 was building our predictive modeling analytics. This led to the deployment of several new models that assisted us in ensuring the right price for risks and appropriate medical management. This has earned Accident Fund Holdings national recognition for innovation and will continue to set us apart from the competition.

We continued to build a strong culture of diversity and inclusion.

Creating and supporting a dynamic workforce is a priority at Accident Fund Holdings. In 2013, our entire Enterprise was named a “Best Place to Work” by *Business Insurance*, earning a national ranking of fifth in our size category. Our diversity and inclusion strategy has become an excellent foundation upon which we will build our innovative workplace.



2013 Highlights

- Accident Fund Holdings’ Care Analytics® program was one of 10 innovations chosen nationwide to be featured in A.M. Best’s “2013 Innovation Showcase.”
- Accident Fund Holdings received the 2013 Technology Innovation Award from the Insurance Accounting and Systems Association (IASA) and Ward Group for the creation of Care Analytics® Early Detection.
- Accident Fund was listed as one of the top 10 property and casualty carriers in 2013 by Deep Customer Connections, a nationwide research and consulting firm.
- Accident Fund Holdings’ collaborative research with Johns Hopkins University on opioid abuse led to testimony before the U.S. Food and Drug Administration in February. The research resulted in a landmark study published in the *Journal of Occupational and Environmental Medicine*.
- For the first time in the history of the Enterprise, Accident Fund Holdings has received an official U.S. Patent. The patent protects our intellectual property for evaluating provider performance to optimize medical outcomes on claims.

Brand Performance



Accident Fund is a workers' compensation specialist that uses data analytics to drive superior financial performance in a wide array of market segments through independent agents. With a broad appetite, we provide industry-leading tools and services for agents and policyholders, while consistently outperforming the workers' compensation market. Accident Fund produces the highest written premium volume for the Enterprise.

In 2013, our focus on innovation across business processes and strategy led to enhanced state-specific planning and improved segmentation to better drive desired business to our company. We also improved our data management with tools for new business and renewals, deployed FocalPoint, a new program to partner with agents in reviewing their book of business, and expanded our product availability with the launch of AFXpress.

Accident Fund Companies Selected Financial Data

Dollars in thousands

	2013	2012	2011	2010	2009
Direct Written Premium	519,698	490,011	463,789	431,997	473,495
Net Earned Premium	498,046	494,931	444,063	444,436	465,467
Underwriting Gain (Loss)	40,653	13,955	(78,768)	(57,170)	(22,711)
GAAP Combined Ratio	91.8%	97.2%	117.7%	112.9%	104.9%

Accident Fund Insurance Company of America is a member of Accident Fund Holdings, Inc. All policies are underwritten by a licensed insurer subsidiary of Accident Fund Holdings. Accident Fund companies include Accident Fund Insurance Company of America, Accident Fund National Insurance Company and Accident Fund General Insurance Company.

The hard work of our staff, coupled with our strong agency relationships, truly paid off as Accident Fund exceeded plan from a top-line perspective, driven by strong premium retention, new business and audit and endorsement premium. Success was also achieved from an accident year combined ratio perspective as a result of strong net rate increases and lower claim frequency.

By all measures, 2013 was a highly successful year as we exceeded our goals on nearly all metrics. This success illustrates the ability of our skilled team to work collaboratively to meet or exceed the company's goals, which has also prepared us well for what lies ahead in 2014 and beyond.



United Heartland is a niche market carrier offering a high-touch service model resulting in highly satisfied customers and agents. We utilize a focused and service-oriented approach to underwriting, claims and loss control to lower our customers' cost of risk. As specialists in workers' compensation, we have expertise in core segments of health care, manufacturing, nonprofits, nursing homes, schools/colleges, social services and wholesale/retail.

The past year continued to be challenging for United Heartland due to reserve development from prior accident years and competition pursuing our

desirable business. Despite these challenges, we achieved all of our accident year and calendar year goals and our year-end financial results were strong, with reserve development within expectations. In addition, we expanded our footprint into the health care market in Florida.

We further refined our risk selection to build performance in our core industries, improved our long-term performance, chose to control the amount of temporary labor written on retrospective-rated policies and refined our appetite and risk selection.

United Heartland Selected Financial Data

Dollars in thousands

	2013	2012	2011	2010	2009
Direct Written Premium	243,612	239,781	229,625	209,369	208,884
Net Earned Premium	241,294	234,756	219,178	208,251	204,488
Underwriting Gain (Loss)	7,578	(1,949)	(27,906)	(4,599)	4,844
GAAP Combined Ratio	96.9%	100.8%	112.7%	102.1%	97.6%

United Heartland is the marketing name for United Wisconsin Insurance Company, a member of Accident Fund Holdings, Inc. All policies are underwritten by a licensed insurer subsidiary of Accident Fund Holdings.

Brand Performance



CompWest focuses on small- to middle-market California business, using a data-driven business model and a niche strategy in selected market segments. We leverage predictive analytics in our underwriting and claims operations, which significantly improves our risk selection, pricing accuracy and claims outcomes to drive superior results.

In 2013, our efforts were aimed at achieving a significant turnaround for our business in a challenging California market. We intentionally focused on aligning our loss ratio with long-term targets while executing initiatives designed to drive the growth required to achieve our target expense ratio. Initiatives included the expansion of our retail agency network and moving into the health care market—both of which began to produce growth in the second half of the year. Although we experienced

an underwriting loss in 2013, we were slightly better than long-term targets on an accident year basis.

Within the litigious state of California, our execution of an effective claims litigation strategy led to better-than-anticipated results that included a savings of 13% of internal and external attorney costs. This process also allowed us to carefully evaluate our legal panels to ensure high-quality representation.

With the development and deployment of proprietary predictive models in both underwriting and claims in 2013, we are continuing to increase our utilization of data to achieve better outcomes. These efforts, in concert with continued expansion into new markets, will be fundamental to our continued success in 2014 and provide the foundation to achieve our long-term growth and profit goals.

CompWest Selected Financial Data

Dollars in thousands

	2013	2012	2011	2010	2009
Direct Written Premium	48,797	57,513	65,021	92,945	111,158
Net Earned Premium	35,929	45,719	64,849	92,889	107,094
Underwriting Gain (Loss)	(22,618)	(59,757)	(69,989)	(94,376)	(17,676)
GAAP Combined Ratio	163.0%	230.7%	207.9%	201.6%	116.5%

CompWest Insurance Company is a member of Accident Fund Holdings, Inc. All policies are underwritten by a licensed insurer subsidiary of Accident Fund Holdings.



Third Coast Underwriters specializes in niche, underserved markets that present complex and challenging exposures such as construction, specialty transportation, energy segments, oil and gas, and mergers & acquisitions with a minimum premium of \$150,000. We partner with agents who focus on our core appetites and who also value long-term partnerships.

Our success in 2013 led to a combined ratio much better than target. This commitment to quality underwriting has allowed us to maintain profitability in a difficult and tumultuous marketplace. A focus on premium diversification by both territory and market segment also led to significant improvements in 2013. Additionally, prior-year claim development was favorable, providing evidence that our reserving practices are adequate and effective.

We are establishing 3CU as the preferred outcome-based risk management partner for our targeted classes of business. In 2014, we will diversify with a regional approach to build our customer service model in our defined geographic region.

As we evolve from a start-up to a mature organization, we are focused on producing consistent results for our holding company. This focus, and the momentum built in 2013, has positioned us for a strong performance ahead as our footprint grows and we explore new opportunities to expand our writings.

Third Coast Underwriters Selected Financial Data

Dollars in thousands

	2013	2012	2011	2010	2009
Direct Written Premium	57,955	37,512	13,251	3,657	N/A
Net Earned Premium	48,621	24,620	7,819	1,145	N/A
Underwriting Gain (Loss)	6,441	1,152	(5,489)	(2,024)	N/A
GAAP Combined Ratio	86.8%	95.3%	170.2%	276.8%	N/A

Third Coast Underwriters is a division of Accident Fund Holdings, Inc., and its subsidiaries. All policies are underwritten by a licensed insurer subsidiary of Accident Fund Holdings.

Giving Back

Accident Fund is committed to making a positive impact in communities where we do business and where our employees live and work. As a collective force, we strive to be responsible and involved as we enhance our communities through employee volunteer service and corporate financial support. Together, our efforts focus on aligning with non-profit organizations that create safer work environments and help injured workers return to normal life as quickly as possible.

In 2013, Accident Fund Holdings and its employees made contributions to more than 200 non-profit organizations and contributed more than \$550,000 through employee donations and sponsorships.

We will continue to give back to our communities by supporting organizations that have a clear connection to our core business, share our passion for economic development and who are committed to education.



Total Charitable Giving

\$180,000 Employee Donations
 \$80,000 Company Match
 \$290,000 Charitable Contributions

\$550,000

\$550,000

to nearly 200 organizations

Volunteers

222
People

600
Hours

22%
of Employees

In-Kind
Contributions of goods and services.

\$50K



Food Bank
Volunteers – Boxed and sorted over 30,000 pounds of food.

30K lbs



Blood Drives
Eight blood drives collected 239 pints of blood, exceeding our goal.

239 pts



“We are truly grateful for your company’s support of United Way. Thank you again for demonstrating how you LIVE UNITED.”

— *United Way in Waukesha County*

“Your gifts of funds, food and great volunteers are making a difference. Many, many thanks.”

— *Greater Lansing Food Bank*

“Your donation will allow us to continue to improve the health of workers and businesses throughout mid-Michigan.”

— *Sparrow Foundation*

“We value your support of our mission to enhance the independence and quality of life for people with disabilities. The work we accomplish would not be possible without your generosity.”

— *Paws with a Cause*

“The items collected at the Holiday Giving Drive event make it possible for us to provide life-changing services to thousands of children and families in our community each year. I would like to thank you and the staff of Accident Fund for the generous donation.”

— *St. Vincent Catholic Charities*

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President
J.G. Agee Consultants, LLC

Lewin Wyatt Jr., DO

Vice Chair
Medical Provider

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

Patrick J. Devlin

Financial Secretary-Treasurer
Michigan Building and Construction Trades Council

A. Gregory Eaton

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

Diane R. Goddeeris, RN, BSN

Registered Nurse-OB Informatics
Sparrow Hospital

Elizabeth R. Haar

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Accident Fund Holdings, Inc.

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Blue Cross Blue Shield of Michigan

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Retired President and COO
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Senior Vice President
Michigan Health and Hospital Association

Gregory A. Sudderth

President
Executive Labor-Management Services Inc.

Richard E. Whitmer

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



Reflections of Team

“It’s great to work for an organization that allows employees to learn different aspects of the business in order to discover where they can excel. After many years with Accident Fund, this freedom has led me to a role that meets my personal goals and best serves the organization.”

Dan Hassenzahl

Business Development Consultant
Accident Fund Insurance Company of America

“Our strength is in our diversity and willingness to embrace new ideas. We are making a significant impact in the marketplace and I am excited to be a part of such a dynamic organization.”

Marisa Tiraboschi

Claims Representative II
CompWest Insurance Company

“The high level of engagement by employees reflects our dedication to delivering excellence, each and every day. This has created a wonderful work environment, and I am proud to be part of an organization that consistently earns its designation as a ‘Best Place to Work.’”

Amy Corcoran

Senior Project Management Specialist
Accident Fund Holdings

“I believe our greatest accomplishment is not becoming complacent. We have an environment that encourages employees from all levels to speak up and voice their ideas on how we can improve and get better.”

Jonathan Sarcia

Claims Representative
United Heartland

“I am most proud of our ability to find innovative solutions that best serve our customers. It is a great example of how we are consistently working to keep our promises to our agents and policyholders.”

Adam Rett

Supervisor, Administrative Operations
Third Coast Underwriters



ACCIDENT FUND HOLDINGS, INC.



AccidentFundHoldings.com