I am pleased to report that both NCCI and the industry as a whole saw positive results during 2013.

NCCI met or surpassed all established corporate goals for the year, and our realization of a 0.0% difference between the filed and approved loss costs in NCCI states was a significant achievement. While individual carriers in most states can deviate from our filings and make their own decisions on final rates and expenses, the 0.0% difference from filed loss costs is an excellent starting point.

For the industry at large, conditions continue to improve. We’re seeing:
• Continued negative frequency trends—though at a slower rate
• A reasonable rate of medical and indemnity severity growth
• A better combined ratio—coupled with solid investment gains—driving a double-digit operating result

Today, industry costs remain largely contained. There is a reasonable expectation of some level of profit. The system in most states (but not all) is operating efficiently. In short, the market is operating as it should, in a balanced fashion.

On a cautionary note, my optimism does not mean that I am unaware of the uncertainties that lie ahead of us. Issues such as TRIA renewal, rising healthcare costs, pending state judicial decisions, and the Affordable Care Act may all impact workers compensation in ways we can’t yet foresee.
Given that, I continue to be watchful, even as we welcome a more positive outlook for the line this year. As history has shown, good results can unravel fast, and there are too many existing uncertainties to overstate the health of this line.

In the near future, NCCI will work hard to maintain our leadership position in residual market management services in the face of continued competition. And, of course, we will continue to deliver excellence in NCCI core services, such as ensuring loss cost adequacy and building the company’s reputation for actuarial excellence and thought leadership.

I want to thank NCCI’s hundreds of dedicated, professional employees for another successful year. And I want to express my appreciation to our many stakeholders for letting us know when we serve you well—and when we can improve.

As always, we appreciate your feedback and partnership. We encourage you to visit ncci.com for our in-depth workers compensation industry analysis and frequent updates on NCCI activities. We will do our best to surpass your expectations for a successful 2014.

Stephen J. Klingel, CPCU, WCP
President and CEO
2013 IN REVIEW

Meeting and Exceeding Corporate Objectives

On the regulatory front, NCCI attained a loss cost inadequacy of 0.0%. That is well below the corporate target of less than 2%. Achieving this result was not without its challenges—NCCI filed for decreases in 19 states, but there were an equal number of states where NCCI filed for increases.

Further, NCCI tracked nearly 1,000 pieces of proposed legislation, produced pricing analysis for nearly 200 enacted bills, and monitored scores of critical court cases nationwide.

The residual markets that NCCI manages also experienced good results. The industry burden of these markets was held to 0.7% as opposed to a corporate target of a 1.5% burden. This result was achieved even as the premium volume in the pool increased by approximately 35%.

Of note, NCCI faced significant competitive challenges to its residual market management franchise during 2013. Over the past decades, residual market rates have remained largely stable and affordable, and NCCI’s proprietary tools developed during that time have fostered efficiencies for agents, brokers, and insurers alike.

The industry as a whole strongly supports NCCI as a residual market Plan Administrator and appreciates its more than 80-year history of providing outstanding plan administration services. During this entire period, NCCI has been the only organization to be qualified under NAIC standards for residual market administration.

On another front, NCCI worked effectively on a cooperative strategy to transition Texas to a full NCCI state.

Staff not only managed internal and external expectations, but also worked tirelessly to ensure that the production and distribution of the necessary components were accomplished in time to meet aggressive deadlines.

The results of these efforts? We expect full transition of Texas to an NCCI state in 2014.

Improved Data Collection and Information

In terms of data collection, NCCI garnered excellent results, with unit data availability holding constant at 99.2%. Also, 100% of participating states were above the threshold for financial data despite increased validation efforts.

ON THE REGULATORY FRONT, NCCI ATTAINED A LOSS COST INADEQUACY OF 0.0%. THAT IS WELL BELOW THE CORPORATE TARGET OF LESS THAN 2%. ACHIEVING THIS RESULT WAS NOT WITHOUT ITS CHALLENGES—NCCI FILED FOR DECREASES IN 19 STATES, BUT THERE WERE AN EQUAL NUMBER OF STATES WHERE NCCI FILED FOR INCREASES.
In 2010, NCCI began collecting carrier data of another kind—medical data. This was a huge effort that represented the largest volume of data NCCI has collected for any single data type. Today, that program is fully operational.

NCCI is now using the data to support legislative analysis and approved research projects. A Medical Data Call research committee was formed to provide input and guidance on the use of medical data in our research.

One of the primary goals of the Medical Data Call was to create a single format for all states and prevent the need for states to initiate their own Data Calls. NCCI is now well positioned to answer regulator questions through standard reports. In addition, NCCI collects the data on behalf of several independent bureaus.

**Good Fiscal Stewardship**
NCCI once again successfully managed corporate financial operations during 2013.

All financial results were strong. Revenue exceeded goal by $1 million, and expenses were below budget by $3.3 million, or 2.1%. The company also completed a restructure of all outstanding debt at favorable interest rates.

Keeping expense growth under control continues to be a point of emphasis for NCCI. In fact, over the past decade, NCCI has realized an annual compounded expense growth rate of only 1.5%, well below the inflation average of 2.4%.

**NCCI BY THE NUMBERS**

The annual volume of data that NCCI collects allows us to provide statistically significant market information to our customers.

- **105M** Number of MEDICAL DATA CALL transactions
- **4.7M** Number of UNIT STATISTICAL REPORTS used for NCCI experience rating and class ratemaking
- **2.7M** Number of POLICIES analyzed to ensure the accuracy and timeliness of unit reporting and providing proof of coverage service
- **$24B** Amount of PREMIUM represented in the yearly analysis of overall loss cost levels for each state
- **250K** Number of NEW CLAIMS analyzed to report on trends, perform legislative pricing, and identify recurring injuries and areas of concern
- **$1.1B** Amount of RESIDUAL MARKET ANNUAL WRITTEN AND EARNED PREMIUM ANALYZED

**Actionable Research**
In terms of leveraging the data it collects into actionable information, NCCI continued to conduct valuable industry research in 2013.

Key research reports focused on topics such as claims frequency (see chart), the cost of prescription drugs, temporary total disability duration, and much more.

NCCI’s research continues to deliver strategic insights to affiliates as well as other stakeholders.
NCCI has been able to control expense growth through:

- Ongoing productivity improvements, which have resulted in a 7% reduction in staffing levels over the last five years
- Limited use of outside contractors and consultants

Operational Excellence

The company has been successful on other internal management fronts as well:

- The Board engaged in a successful strategic planning process with NCCI senior management in 2013, ensuring that the priorities of the Board and company management are in alignment
- Employee turnover remained low at 5.8% in 2013—with 96.5% of the company’s high-performing employees retained
- Our Legal Department conducted an independent review of our intellectual property program to guarantee that our materials and content are safe and secure
- NCCI undertook a number of projects to keep customer data safe and evolve technology to meet customer needs
- NCCI continued to improve the customer experience by enhancing many of our frequently used online tools, such as WorkComp Workstation, online circulars, and webinars.

Based on the company’s results—and more than 1,000 NCCI personnel visits to customers last year—carriers, regulators, and other stakeholders have all reported that NCCI is performing well. During 2013, the company received historically high scores on many customer surveys that polled vital stakeholders such as carrier executives and regulators.

NCCI’s solid performance during 2013 sets the stage for even greater expectations during the year ahead.

We invite you to visit us on ncci.com regularly and stay in touch as we strive to remain the nucleus of workers compensation expertise for the industry.

NCCI Research Report: Workers Compensation Claim Frequency—2013 Update (available at no charge on ncci.com)
CORPORATE SOCIAL
RESPONSIBILITY

NCCI integrates socially responsible programs into our business practices, culture, and values. We are committed to ethical behavior and business development and, through our actions, we create a positive impact on the communities that we serve.

Making It Add Up to More
As an active community and business partner, we listen to employees and work with stakeholders to build relationships and respond to needs in four targeted areas that create value for employees, nonprofit organizations, and the business itself. Through our actions, we multiply the impact.

Community
We connect individuals with meaningful community involvement and initiatives that strengthen families, protect children, and serve the neediest in our communities.

NCCI’s 2013 programs included:
• Large campaigns for March of Dimes and United Way
• Smaller outreach programs in support of the Multiple Sclerosis Walk, PACE Center for Girls, SOS Children’s Villages, Junior Achievement, the Animal Shelter Awareness Campaign, and the Y Corporate Cup Challenge
• Matching dollars for employee donations to 132 qualified organizations, which doubled the impact
• Volunteer Time Off (VTO) to serve in the community—one hour a week can change a life

People
NCCI wants employees to be successful—both professionally and personally. We assist employees in finding responsible balance through:
• Our “Wellness Wins!” program, which includes:
  • Annual “Know Your Numbers” biometric screenings and health risk assessments
  • An on-site fitness center offering a variety of classes—from yoga to spinning
  • Nutrition education, weight counseling, and healthy food choices in our Café
• Financial education and retirement planning
• Relevant learning opportunities that help employees increase their knowledge, skills, and engagement within the company

In 2013, NCCI’s CEO Steve Klingel was recognized as one of 10 Ultimate CEOs by the South Florida Business Journal.

I’m proud to be part of a company that does so much for the community.
—Maria S.

5th
NCCI’s ranking for the United Way of Palm Beach County’s annual campaign
490
The number of pairs of shoes collected for disadvantaged children

2,743
The number of Volunteer Time Off hours submitted

490
The increased percentage in salad bar sales

Practices
NCCI’s Code of Business Conduct guides our employees’ actions and reflects our corporate values. We uphold the highest standards of integrity and transparency and require all employees to complete one or more compliance courses each year.

Our Ethics and Business Conduct course for 2013 explained the employee’s responsibility to commit to ethical and legal compliance in today’s complex business and regulatory environment. It contained fundamental information that was relevant across all business sectors and helped employees make sound decisions.

Environment
NCCI was recertified as a Green Plus workplace by the Institute for Sustainable Development for its energy conservation, waste reduction, and people practices.

By choosing the right technologies, NCCI maintained its continuity of business operations and exceeded its sustainable corporate goals:

- A new roof coating system reduces heat absorption by 64%
- The new conveyor and dishwasher cleans 8,500 dishes an hour using 50% less energy and water than the old equipment
- Expanded use of LED lighting and more efficient equipment, together with the roofing improvements, have saved more than $100,000 in electricity costs since 2011
# Consolidated Condensed Balance Sheets

NCCI Holdings, Inc. and Subsidiaries  
December 31, 2013 and 2012  
(in thousands)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>$45,210</td>
<td>$61,987</td>
</tr>
<tr>
<td>Property and equipment—net</td>
<td>61,114</td>
<td>61,750</td>
</tr>
<tr>
<td>Investment securities—Deferred compensation plans</td>
<td>11,844</td>
<td>9,990</td>
</tr>
<tr>
<td>Investment securities—Held to maturity</td>
<td>16,319</td>
<td>13,167</td>
</tr>
<tr>
<td>Retirement plan asset—net</td>
<td>7,109</td>
<td>—</td>
</tr>
<tr>
<td>Goodwill</td>
<td>5,850</td>
<td>5,850</td>
</tr>
<tr>
<td>Deferred income tax asset</td>
<td>6,452</td>
<td>10,211</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,402</td>
<td>3,301</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$157,300</strong></td>
<td><strong>$166,256</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND MEMBERS’ EQUITY</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIABILITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$29,476</td>
<td>$28,164</td>
</tr>
<tr>
<td>Accrued pension and postretirement benefit obligation</td>
<td>26,331</td>
<td>32,857</td>
</tr>
<tr>
<td>Senior unsecured notes and term loan</td>
<td>40,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Other noncurrent liabilities</td>
<td>15,626</td>
<td>13,476</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>111,433</strong></td>
<td><strong>129,497</strong></td>
</tr>
<tr>
<td><strong>MEMBERS’ EQUITY:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Members’ capital contribution</td>
<td>10,053</td>
<td>10,053</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>41,499</td>
<td>40,897</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(5,685)</td>
<td>(14,191)</td>
</tr>
<tr>
<td><strong>Total Members’ Equity</strong></td>
<td><strong>45,867</strong></td>
<td><strong>36,759</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$157,300</strong></td>
<td><strong>$166,256</strong></td>
</tr>
</tbody>
</table>

A full financial report, including an audited statement, is available for members on ncci.com.
### Consolidated Condensed Statements of Operations

**NCCI Holdings, Inc. and Subsidiaries**  
For the Years Ended December 31, 2013, 2012, and 2011  
(in thousands)

<table>
<thead>
<tr>
<th>Years Ended December 31</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET SALES</td>
<td>$160,322</td>
<td>$154,489</td>
<td>$153,219</td>
</tr>
<tr>
<td>OPERATING EXPENSES:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and payroll taxes</td>
<td>92,705</td>
<td>90,304</td>
<td>86,137</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>23,631</td>
<td>22,394</td>
<td>22,193</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>10,928</td>
<td>11,400</td>
<td>11,003</td>
</tr>
<tr>
<td>Computer hardware and software expenses excluding depreciation</td>
<td>8,835</td>
<td>9,348</td>
<td>8,987</td>
</tr>
<tr>
<td>Occupancy expenses excluding depreciation</td>
<td>4,760</td>
<td>4,640</td>
<td>4,735</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>14,814</td>
<td>14,371</td>
<td>15,161</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>155,673</td>
<td>152,457</td>
<td>148,216</td>
</tr>
<tr>
<td>INCOME FROM OPERATIONS</td>
<td>4,649</td>
<td>2,032</td>
<td>5,003</td>
</tr>
<tr>
<td>INTEREST AND OTHER (EXPENSE) INCOME</td>
<td>(3,212)</td>
<td>(1,527)</td>
<td>757</td>
</tr>
<tr>
<td><strong>INCOME BEFORE INCOME TAXES</strong></td>
<td>1,437</td>
<td>505</td>
<td>5,760</td>
</tr>
<tr>
<td>INCOME TAX PROVISION</td>
<td>835</td>
<td>490</td>
<td>2,324</td>
</tr>
<tr>
<td><strong>NET INCOME</strong></td>
<td>$602</td>
<td>$15</td>
<td>$3,436</td>
</tr>
</tbody>
</table>

### Consolidated Condensed Statements of Cash Flows

**NCCI Holdings, Inc. and Subsidiaries**  
For the Years Ended December 31, 2013, 2012, and 2011  
(in thousands)

<table>
<thead>
<tr>
<th>Operating Activities Cash Flows</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$602</td>
<td>$15</td>
<td>$3,436</td>
</tr>
<tr>
<td>Non-cash adjustments</td>
<td>8,559</td>
<td>14,084</td>
<td>10,232</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities</td>
<td>4,764</td>
<td>380</td>
<td>(1,159)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>13,925</td>
<td>14,479</td>
<td>12,509</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investing Activities Cash Flows</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property and equipment</td>
<td>(5,400)</td>
<td>(2,697)</td>
<td>(5,385)</td>
</tr>
<tr>
<td>Capitalized internally developed software</td>
<td>(5,052)</td>
<td>(4,174)</td>
<td>(5,165)</td>
</tr>
<tr>
<td>Purchases of investment securities</td>
<td>(10,343)</td>
<td>(16,480)</td>
<td>(10,613)</td>
</tr>
<tr>
<td>Maturities and sales of investment securities</td>
<td>10,150</td>
<td>7,489</td>
<td>5,352</td>
</tr>
<tr>
<td>Other cash provided from investing activities, net</td>
<td>115</td>
<td>1</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(10,530)</td>
<td>(15,861)</td>
<td>(15,811)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from borrowings</td>
<td>40,000</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Payments on notes payable</td>
<td>(55,000)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Payments of deferred financing costs</td>
<td>(195)</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>(15,195)</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Decrease in Cash and Cash Equivalents</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents—Beginning Year</td>
<td>35,220</td>
<td>36,602</td>
<td>39,904</td>
</tr>
<tr>
<td>Cash and Cash Equivalents—End of Year</td>
<td>$23,420</td>
<td>$35,220</td>
<td>$36,602</td>
</tr>
</tbody>
</table>
NCCI’S BOARD OF DIRECTORS
[AS OF MAY 2014]

Elizabeth R. Haar
Board Chair
President and CEO
Accident Fund Holdings, Inc.

W. Robert Berkley, Jr.
President and Chief Operating Officer
W. R. Berkley Corporation

C. Allen Bradley, Jr.
Chairman and CEO
AMERISAFE, Inc.

Douglas D. Dirks
President and CEO
Employers Holdings, Inc.

Laurence A. Hubbard
President and CEO
Montana State Fund

Russell Huffer
Retired Chairman CEO
Apogee Enterprises, Inc.

Craig A. Johnson
President and CEO
FCCI Insurance Group

Russell M. Johnston
President, Casualty Americas
AIG

Barbara A. Klein
Former Senior Vice President and Chief Financial Officer
CDW Corporation

Stephen J. Klingel
President and CEO
NCCI Holdings, Inc.

Ernest J. Mrozek
Retired Vice Chairman and President
The ServiceMaster Company

George M. Reider, Jr.
Former Connecticut Insurance Commissioner and Former NAIC President

John C. Roche
Executive Vice President
President—Business Insurance
The Hanover Insurance Group

Tracy A. Ryan
Executive Vice President and Chief Product Officer
Commercial Insurance
Liberty Mutual Insurance

SERNIOR MANAGEMENT
[AS OF MAY 2014]

Stephen J. Klingel
President and Chief Executive Officer

Katherine Antonello
Chief Actuary

Cheryl L. Budd
Chief Communications Officer

Terrence D. Delehanty
General Counsel and Chief Legal Officer

Alfredo T. Guerra
Chief Financial Officer

Bradley Kitchens
Chief Human Resources Officer

Mark Mileusnic
Chief Customer Operations Officer

Michael Spears
Chief Information Officer and Chief Data Officer

Helen J. Westervelt
President—Regulatory Services Division
The following ethical and performance values guide our behavior and decision making at NCCI. We believe that the commitment of each employee to these values will continue to make NCCI a success.

**Integrity**
Our actions are guided by the principles of honesty, fairness, and professionalism. We abide by all laws, regulations, and corporate policies. We foster an open environment and behave ethically in all we do.

**Respect**
We show consideration for all people, value the differences among us, and deal with each other in a courteous way.

**Quality and Excellence**
We strive constantly to improve our processes and products to remain the industry’s unimpeachable source for accurate, objective workers compensation information. We draw upon our individual strengths and collaborate to consistently meet and exceed the highest expectations of our stakeholders.

**Responsibility**
We honor our commitments and are personally answerable for our actions. We actively give back to the communities in which we live and work.

**Commitment**
We are driven to achieve our business objectives. We exhibit passion, focus, and intensity of effort in our work while simultaneously striving to achieve work/life balance.