2016

ANNUAL REPORT TO SHAREHOLDERS

California Casualty Management Co.

Contents

The Pathfinder, a bronze sculpture of a "mountain man," was commissioned by Carl G. Brown, Jr. in 1981 to symbolize the character and resourcefulness which was required of trailblazers in early American history to triumph over - as well as appreciate - life's challenges.

Just as a "pathfinder" must constantly depend on his or her skills to survive and progress in a highly competitive world, we believe the key to our success is to continually find effective ways to deliver quality service to our clients.

The signed and numbered statue by the well-known sculptor, Edward J. Fraughton, is presented annually to one California Casualty employee who exemplifies these qualities through his or her work, as well as devotion to community.

The Carl G. Brown, Jr. Award of Excellence is California Casualty's highest honor.

Looking back at 2016, we are excited to share the message that our company is growing, and our underwriting enhancements are having a very positive impact on operating results. California Casualty Group (CCG) exceeded its premium and retention targets, and California Casualty Management Company (CCMC) employees exceeded our service and claims satisfaction targets. We sold more policies than in 2015, and we hit goal in four of the final five months of the year. In the month of December, we grew customers. Growing customers is a goal we have been pursuing to complement the premium growth we have achieved over the past 5 years. When we close the books on 2017, our goal in addition to growing premium for a 6th straight year is to have more customers than we had at the beginning of the year.

CCMC's employees made a difference in people's lives in 2016. Our customers make a special contribution to society by serving our children and our communities. People who commit to make a difference for our communities deserve financial protection with the highest levels of care, service, compassion, and understanding…which is why we exist.

CCMC FINANCIAL PERFORMANCE

CCMC net income for 2016 was $2.4 million, and revenue was $119.3 million. CCMC did not earn an incentive fee in 2016 because CCG produced a pre-tax loss.

CCMC achieved a 5.1 percent return on adjusted beginning shareholders' equity of $46.5 million. This percentage rate of return on equity is lower compared to CCMC's 10-year and 20-year historical averages of 9.9 percent and 12.1 percent, respectively. One reason for this lower-than-average return is CCMC's decision in 2016 to reduce its return on operating capital for a fourth straight year in order to support management's efforts to lower CCG's expense ratio. This reduction benefitted CCG's combined ratio by approximately 0.9 percentage points in 2013, 2014, 2015 and 2016.

Investment income of $1.6 million in 2016, while $0.1 million favorable to plan, was lower than investment income of $4.8 million in 2015 due to lower realized gains on investment sales in 2016.

Total shareholder return, on an adjusted basis, of 6.2 percent was higher than the 5.1 percent return on adjusted beginning shareholders' equity due to other comprehensive income of $0.5 million, which was driven primarily by net unrealized gains on investment securities. This percentage rate of adjusted total return is lower than CCMC's 10-year and 20-year historical averages of 8.5 percent and 11.5 percent, respectively.

At December 31, 2016, the adjusted book value of CCMC common stock was $43.15, down a dollar from $44.15 at December 31, 2015. The primary reason for the decline is that dividends paid were higher than net income by $1.6 million. CCMC paid $4.0 million in dividends in 2016, or $3.75 per share.

On a Generally Accepted Accounting Principles (GAAP) basis, CCMC had shareholders' equity of $5.9 million and a book value per share of $5.71 at December 31, 2016, compared to shareholders' equity at December 31, 2015, of $9.1 million and a book value per share of $8.65. Notes 9 and 11 of CCMC's financial statements explain how cumulative charges, resulting from recognition of the funded status of employee benefit plans in the balance sheet as required by pension accounting standards implemented at December 31, 2007, are removed to generate CCMC's adjusted book value of $43.15.

CCMC maintains a strong liquidity position, with

$46.1 million in cash and marketable securities at December 31, 2016, down from $47.9 million at December 31, 2015. Dividend payments of $4.0 million were the primary driver of the decline in cash and marketable securities.

CCMC did not make a contribution to the qualified defined benefit pension plan in 2016. In 2013, 2014 and 2015, CCMC made contributions totaling $39.0 million to the qualified defined benefit pension plan. This plan, which ceased accruing additional benefits as of December 31, 2015, was 88.6 percent funded at December 31, 2016 (up from 86.9 percent at December 31, 2015), with $191.9 million in assets compared to $216.6 million in liabilities. Since this plan is now frozen, all employees will participate in CCMC's defined contribution pension plan going forward.

CCG OPERATING AND FINANCIAL PERFORMANCE

Our primary profitability goal for 2016 was to improve CCG's personal lines combined ratio from 111.9 percent in 2015 to 106.9 percent in 2016. Our CCG personal lines combined ratio was 108.2 percent in 2016. Removing write-offs and unfavorable variances associated with our mid-year decision to replace our current policy management system with Guidewire, CCG's personal lines combined ratio adjusts to 106.9 percent for 2016.

This 2016 combined ratio improvement comes during a year when we expect industry data, published in mid-2017, will ultimately show that the average personal lines insurance company combined ratio deteriorated by a percentage point or more. Our 2016 combined ratio improvement over 2015, even if we adjust out the 3 percentage points in 2015 associated with the California wildfires, was solid in a personal lines marketplace characterized by declining profitability. In 2016, we executed well on our strategy to match improved underwriting with more competitive pricing in many of our markets in order to move toward growth and profitability.

CCG's personal lines incurred loss ratio improved from 68.2 percent in 2015 to 67.2 percent in 2016, although 2015 included 3 percentage points of losses relating to the California wildfires. A bright spot was our 2016 non-California homeowners loss ratio of 60.5 percent, representing a second year in a row of strong results on this metric, and reflecting the positive impact of a series of underwriting changes implemented over the past three years.

Direct written premium grew from $341.3 million in 2015 to $348.6 million in 2016. Customers in force declined in 2016 by 1,669 from 166,248 to 164,579, but grew in the fourth quarter of 2016 by 26. Total customer retention in 2016 improved by 0.6 percentage points relative to 2015, from 90.6 percent to 91.2 percent, and was favorable to our year-end plan of 90.9 percent by 0.3 percentage points. Customer Service satisfaction at 99.4 percent was nearly a half point better than plan, and Claims satisfaction at 96.1 percent was more than a full point better than plan.

CCG produced a net loss of $11.0 million in 2016 compared to a net loss of $37.8 million in 2015. Of the $37.8 million net loss in 2015, $14.3 million was due to the Fireman's Fund quota share reinsurance agreement expiration and $8.5 million was due to the California fires. CCG surplus decreased by $11.3 million, dropping from $284.3 million at December 31, 2015, to $273.0 million at December 31, 2016.

CCG's personal lines loss adjustment expense ratio improved from 15.9 percent in 2015 to 14.4 percent in 2016. CCG's personal lines underwriting expense ratio, as a percent of net written premium, improved from 27.8 percent in 2015 to 26.6 percent in 2016.

CCG's 2016 total expense ratio (to net earned premium) was 41.3 percent. Excluding $4.5 million in system write-offs and unfavorable variances associated with the decision to move to Guidewire, our 2016 total expense ratio was 40.0 percent. CCG's 2015 total expense ratio of 49.0 percent was greatly distorted due to the impact of the Fireman's Fund quota share reinsurance agreement expiration on net earned premium. Going back two years for a better comparison, CCG's 2014 total expense ratio was 44.2 percent. The improvement is due to expense management actions, significantly lower defined benefit pension expense, and growing premium.

CCG's 2016 operating cash flow ratio was 99.4 percent while its underwriting cash flow ratio was 95.4 percent. In comparison, CCG's 2015 operating and underwriting cash flow ratios were 113.2 percent and 108.1 percent, respectively, although the 2015 ratios are distorted by the expiration of the Fireman's Fund quota share reinsurance agreement.

CCG is well capitalized. Our preliminary projection for CCG's 2016 Best's Capital Adequacy Ratio (BCAR) is that it will be approximately 250 percent, compared to 263 percent in 2015. If California Casualty Indemnity Exchange (CCIE) exercised its right to put 186,000 shares back to CCMC, CCG's surplus would increase by approximately $20 million and BCAR would increase by approximately 18 percentage points. If CCIE should exercise that put option, CCMC would be required to purchase the shares at an 85 percent premium to adjusted book value. That would produce a corresponding decline in adjusted book value for all other shareholders of approximately 18.5 percent Note 3 of CCMC's financial statements, "Related Party Transactions", describes the details of CCIE's investment in CCMC.

2016 STRATEGY FOR GROWTH AND PROFITABILITY

Our strategy is to improve underwriting to boost profitability and support lower prices in many of the markets where we have been uncompetitive. Our reciprocal structure, including policyholder ownership of California Casualty's insurance companies, enables us to focus on the longer-term. The primary components of our strategy continue to be:

- Underwriting – Maintain home gains and implement auto improvements
- Pricing – Improve competitiveness and expand multivariate rating capability
- Operational Effectiveness – Staff appropriately, identify process changes and introduce technology to enhance customer experience and control expenses
- Relationships – Build on our main source of competitive advantage

In 2016, we not only posted a second year of improved performance for homeowners business outside of California, but we also laid additional groundwork for future stability with the rollout of homeowners multi-peril rating in eight of our largest states. We are continuing to roll out homeowners multi-peril rating on a state-by-state basis in 2017.

We have been implementing automobile underwriting enhancements and organizational initiatives that we expect to improve our results, including:

- Working with our valued partner, QPC, to more accurately fine tune how we determine miles driven and identify undisclosed drivers
- Better identifying policyholders who have had repeated permissive user accidents within a certain time period

- Implementing an automated fast track new account process for auto policies that pass a strict set of rules
- Continued audits and training
- Combining Home Office Underwriting and Underwriting Operations

We are improving as an underwriter, and we are working to support our customers by staffing appropriately, identifying process changes and introducing technology.

GUIDEWIRE

We have signed a contract with Guidewire to replace our policy management system and operational databases over the next couple of years. We have extensive experience with Guidewire, having implemented Guidewire ClaimCenter in 2008, and we will build on this experience with our new project.

Replacing a policy management system is an immense undertaking, and by teaming with Guidewire and a globally renowned technology implementation partner, EY, we are confident that we will deliver a new system that will help drive our future success by boosting our customer-facing systems capabilities and standardizing our environment. The system, which includes a rating module, will also facilitate more granular rating plans and product updates to support our customer satisfaction and growth objectives.

RELATIONSHIPS AND COMMUNITY

Our customers commit to making a difference for our communities. They deserve financial protection with the highest levels of care, service, compassion and understanding. That is why we exist.

Why do we have customers that stay with us for 10, 25 or even 50 years? It is because we act with integrity, fulfill our promises and provide exceptional service. It is also because we excel at developing and maintaining relationships. Service, Sales, Partner Relations and Claims representatives engage with customers on a daily basis. Those of us who do not regularly talk to customers support those who do, helping to keep California Casualty customer-friendly and financially strong. A relationship is often the sum of many individual interactions.

Our community programs enhance our customer relationships when we support organizations and causes that our customers believe in. One such example is the California Casualty Awards for Teaching Excellence, made in partnership with the NEA Foundation and presented each February at the NEA Foundation Gala in Washington, D.C., to the Teachers of the Year from 35 to 40 participating states. After this event, our Field Marketing Managers fan out to large cities and small towns to present the California Casualty Awards at state-level and local-level events, demonstrating that we value how teachers make a positive difference in our communities and that we are friends who can be trusted. California Casualty's employees have worked hard over decades to earn this trust, and we aim to keep it!

Carl B. Brown
Carl B. (Beau) Brown, CPCU
Chairman and CEO

Joseph L. Volponi
Joseph L. Volponi, FCAS
President and COO

Report of Independent Auditors

To the Board of Directors of California Casualty Management Company

We have audited the accompanying financial statements of California Casualty Management Company, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of income and comprehensive income, of shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of California Casualty Management Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

April 10, 2017
Los Angeles, California

December 31, 2016 and 2015
(dollars in thousands)

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 8,228	$ 12,206
Investment securities	37,875	35,665
Receivables	3,684	2,844
Income taxes recoverable	21	2
Deferred income taxes, net	-	1,552
Prepaid expenses and other	4,166	4,134
Total current assets	53,974	56,403
Property and equipment, net	27,575	33,945
Deferred income taxes, net	23,388	22,416
Other noncurrent assets	485	554
Total assets	$ 105,422	$ 113,318
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 2,628	$ 2,312
Accrued employee compensation	13,179	11,013
Accrued benefit liability	3,413	3,357
Taxes payable	412	362
Current capital lease obligation and other	5,015	4,267
Total current liabilities	24,647	21,311
Capital lease obligations	1,516	4,983
Accrued benefit liability	71,444	75,749
Noncurrent employee compensation	1,310	1,079
Deferred gain on sale of real estate	172	581
Other noncurrent liabilities	401	509
Total liabilities	99,490	104,212
Shareholders' Equity		
Common stock - no par value	15,250	15,250
Common stock with put right (Note 3)	14,849	15,193
Accumulated other comprehensive loss	(44,211)	(43,194)
Retained earnings	20,044	21,857
Total shareholders' equity	5,932	9,106
Total liabilities and shareholders' equity	$ 105,422	$ 113,318

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2016 AND 2015
(DOLLARS IN THOUSANDS)

2016

	2016	2015
Revenue		
Management fee	$ 118,017	$ 122,698
Other	1,260	1,249
Total revenue	119,277	123,947
Operating expenses		
Personnel	71,023	79,859
Acquisition and professional services	19,828	19,275
Facility and equipment	11,459	11,685
Communications	7,367	7,476
Other	7,220	3,010
Total operating expenses	116,897	121,305
Operating income	2,380	2,642
Investment income (includes reclassification of $363 and $2,507, net of tax of $187 and $1,291, for 2016 and 2015, respectively from other comprehensive income for net gain on investments)	1,559	4,833
Interest expense	(466)	(679)
Income before provision for income taxes	3,473	6,796
Provision for income taxes	1,120	2,228
Net income	2,353	4,568
Other comprehensive income (loss), net of tax		
Unrealized gain (loss) on investments (net of tax of $479 and ($195) for 2016 and 2015, respectively)	929	(377)
Less: Reclassification adjustment for net gain included in net income (net of tax of ($187) and ($1,291) for 2016 and 2015, respectively)	(363)	(2,507)
Change in employee retirement benefit plans (net of deferred taxes of ($816) and $8,502 for 2016 and 2015, respectively) (Note 11)	(1,583)	16,505
Other comprehensive income (loss)	(1,017)	13,621
Comprehensive income	$ 1,336	$ 18,189

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

YEARS ENDED DECEMBER 31, 2016 AND 2015
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

2016

	Common Stock	Common Stock with Put Right	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Total
Balances at December 31, 2014	15,217	$ 15,185	$ (56,815)	$ 21,205	$ (5,208)
Net income				4,568	4,568
Change in carrying value of common stock with put right (Note 3)		8		(8)	-
Common stock retired (25,580 shares)	(908)			(166)	(1,074)
Dividends paid to shareholders ($3.50 per share)				(3,742)	(3,742)
Stock issued in long-term executive incentive plan (16,291 shares)	719				719
Stock issued in executive stock plan (5,029 shares)	222				222
Change in unrealized gain on investments, net of deferred tax of ($1,486)			(2,884)		(2,884)
Change in employee retirement benefit plans, net of deferred tax of $8,502 (Note 11)			16,505		16,505
Balances at December 31, 2015	15,250	15,193	(43,194)	21,857	9,106
Net income				2,353	2,353
Change in carrying value of common stock with put right (Note 3)		(344)		344	-
Common stock retired (33,866 shares)	(891)			(556)	(1,447)
Dividends paid to shareholders ($3.75 per share)				(3,954)	(3,954)
Stock issued in long-term executive incentive plan (14,232 shares)	628				628
Stock issued in executive stock plan (5,947 shares)	263				263
Change in unrealized gain on investments, net of deferred tax of $292			566		566
Change in employee retirement benefit plans, net of deferred tax of ($816) (Note 11)			(1,583)		(1,583)
Balances at December 31, 2016	$ 15,250	$ 14,849	$ (44,211)	$ 20,044	$ 5,932

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015
(dollars in thousands)

2016

	2016	2015
Cash flows from operating activities		
Net income	$ 2,353	$ 4,568
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization on property and equipment	5,141	5,637
Amortization on bonds	215	239
Gain on sale of real estate	(412)	(412)
Net loss (gain) on sale and disposal of property and equipment	3,607	(68)
Net realized gain on investment securities	(550)	(3,798)
Provision for deferred income taxes	1,103	2,042
Changes in:		
Receivables and other assets	(823)	474
Payables, accrued expenses, and other liabilities	(2,582)	(7,272)
Net cash provided by operating activities	8,052	1,410
Cash flows from investing activities		
Proceeds from sale of property and equipment	154	144
Purchase of property and equipment	(2,531)	(2,683)
Proceeds from sale and maturities of investment securities	6,514	19,393
Purchase of investment securities	(7,530)	(6,413)
Net cash (used in) provided by investing activities	(3,393)	10,441
Cash flows from financing activities		
Payments on capital lease obligations	(3,236)	(2,968)
Common stock retired	(1,447)	(1,074)
Dividends paid to shareholders	(3,954)	(3,742)
Cash used in financing activities	(8,637)	(7,784)
Net change in cash and cash equivalents	(3,978)	4,067
Cash and cash equivalents		
Beginning of year	12,206	8,139
End of year	$ 8,228	$ 12,206
Supplemental disclosure of cash flow information		
Cash paid during the year for income taxes	$ 36	$ 201
Supplemental schedule of noncash investing and financing activities		
Common stock issued through employee stock plans	$ 891	$ 941

The accompanying notes are an integral part of these financial statements.

1. Nature of Operations

California Casualty Management Company ("CCMC") is the attorney-in-fact for the California Casualty Indemnity Exchange ("CCIE"), a reciprocal insurance exchange, and manager for CCIE's wholly owned subsidiaries. CCIE and its subsidiaries are collectively referred to as the California Casualty Group ("CCG").

CCMC operates in the insurance services segment. CCG is a personal lines insurance group headquartered in San Mateo, California, and Portland, Oregon writing automobile and homeowner insurance policies. Some directors and officers of CCMC are nonvoting members of the Boards and/or are officers of CCG.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates
GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates.

Cash Equivalents
Cash equivalents are all highly liquid investments with insignificant interest rate risk which have original maturities of three months or less. CCMC's cash equivalents are stated at cost which approximates fair value and generally consist of money market funds and high quality short-term fixed income securities.

Investment Securities
CCMC classifies its marketable investment securities as available-for-sale. Accordingly, investment securities are reported at fair value. Investment securities are classified as current assets in the balance sheets as they represent funds available for current operations. Unrealized gains and losses on securities are recorded, net of tax, as a separate component of shareholders' equity under accumulated other comprehensive income ("AOCI"). Gains and losses on investment securities that were realized and included in net income of the current period that also had been included in other comprehensive income ("OCI") as unrealized holding gains and losses in the period in which they arose are deducted through OCI in the current period as reclassification adjustments. Realized gains and losses on sales of investments are recognized on a first-in, first-out basis.

CCMC reviews its investment portfolio for reductions in fair value below cost that, in the opinion of CCMC, represent an other-than-temporary impairment ("OTTI"). Management reviews several factors to determine whether a loss is other than temporary, such as the length of time a security is in an unrealized loss position, the extent to which fair value is less than amortized cost, the impact of changing interest rates in the short and long term and the potential impact of credit–related losses.

For bonds, the amount of an OTTI related to a credit loss is recognized in investment income as a realized loss. Similarly, an impairment on a bond which CCMC has the intent, at the balance sheet date, to sell or will more likely than not be required to sell before recovery of cost, is also recognized in investment income as a realized loss. This OTTI is also reflected as a reduction in the cost basis of the bond. The amount of an unrealized loss on bonds related to other factors is recorded, net of tax, as a component of shareholders' equity in AOCI with no change to the cost basis of the security. For stocks, an OTTI is recognized in investment income and reflected as a reduction of the cost basis of the security based on the extent and duration that fair value is below cost, in addition to issuer-specific events.

Fair Value Option

CCMC has adopted current authoritative accounting guidance which permits entities to elect to measure eligible items at fair value at specified dates. CCMC did not elect to apply the fair value option to any eligible financial assets or financial liabilities upon adoption, or during the years ended December 31, 2016 and 2015. CCMC may elect to account for selected financial assets and financial liabilities at fair value. Such an election could be made at the time an eligible financial asset, financial liability or firm commitment is recognized or when certain specified reconsideration events occur.

Disclosures About Fair Value of Financial Instruments

The fair value of investment securities classified as available-for-sale is based upon quoted market prices or fair values quoted by an independent pricing service based on sales of similar securities. Management monitors fair value by reviewing market prices during the year. The carrying amounts of cash and short-term investments are reasonable estimates of fair value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is recognized principally using a straight-line method over the estimated useful lives of the assets (estimated lives range from three to ten years for equipment and automobiles and up to thirty nine years for property). Leasehold improvements are amortized over the useful life of the improvement or the applicable lease term, whichever is shorter. Cost of property and equipment retired or otherwise disposed of and the related accumulated depreciation and amortization are removed from the accounts, and the resulting gains or losses are included in statement of income in the period disposed.

Computer software developed or obtained for internal use is capitalized. Upon project completion, these costs are amortized over the estimated useful life of the software (estimated lives range from three to ten years) on a straight-line basis.

Revenue Recognition

Revenue from management fee and other services are recognized as earned when the underlying services are performed because such services are rendered under contracts, the price is determinable, and collectability is reasonably assured.

Other revenue is comprised of commissions earned on premiums for specialty types of insurance coverage provided to CCG's policyholders through CCMC's strategic underwriting partners. Commissions are earned at the later of the bill date or inception date of the policies.

Income Taxes
CCMC accounts for income taxes using a balance sheet approach. Under this method, the provision for income taxes is based on pretax financial statement income and includes amounts that are deferred. Deferred income tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts using enacted rates.

Accounting for Unrecognized Tax Benefits
Current authoritative accounting guidance for unrecognized tax benefits requires a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. CCMC records a liability for the difference between the benefit recognized and measured pursuant to the guidance and the tax position taken or expected to be taken on CCMC's tax return. A liability is established when CCMC believes that certain tax return positions may be challenged despite CCMC's belief that the positions are fully supportable. The liability may be adjusted in light of revised assessments of a tax return position, or in the case of changing facts and circumstances, such as the outcome of a tax audit. Adjustments to the liability are recorded in the period in which the determination is made. The provision for income taxes includes the impact of initial liability recognition and any subsequent adjustments to those liabilities that are considered appropriate. Accrued interest and penalties related to unrecognized tax benefits are also recognized in the provision for income tax.

Variable Interest Entities
Current authoritative accounting guidance for the consolidation of variable interest entities ("VIEs") requires a qualitative assessment of whether an entity has the power to direct the VIE's activities and, whether the entity has the obligation to absorb losses or the right to receive benefits that could be significant to the VIE. The guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary of a VIE. CCMC has evaluated its relationship with CCG to determine whether or not consolidation is required under this guidance.

Management's assessment included consideration of CCG's equity (surplus), which is more than adequate to finance its ongoing operations, as well as the governance and organizational structure of both CCMC and CCG. CCMC's Board of Directors and CCG's Advisory Board have no overlapping authorities or responsibilities. Management concluded that CCG's Advisory Board holds and exercises the power to direct the activities that most significantly impact the economic performance of CCG, therefore CCMC is not the primary beneficiary and consolidation is not required.

CCMC has no loss exposure as a result of its relationship with CCG (Note 1, Note 3).

Recent Accounting Standards

Amendments to Guidance for Recognition of Leases for Lessees
On February 25, 2016, the FASB issued a new Accounting Standard, *Leases* (ASC 842). According to the new standard, lessees will need to recognize all leases (other than short-term leases) on the balance sheet, by recording a right-of-use asset and lease liability, equal to the present value of lease payments. The expense recognition and amortization of the leased assets will vary depending on the classification of the lease as either operating lease or finance lease. For operating leases, the standard requires recognizing a lease expense on a straight-line basis, with interest expense on the lease and amortization of the leased asset, reflected as a single line item in the income statement. For finance leases, interest expense and a straight-line amortization expense are required to be reflected separately in the income statement, with the total expense declining throughout the lease term. The standard adds new disclosure requirements regarding the nature and terms of the leases. For non-public companies, the standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. CCMC is currently assessing the impact of this guidance on its financial statements.

Amendment to Guidance of Balance Sheet Classification of Deferred Taxes
The Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (ASU) 2015-17, Balance Sheet Classification of Deferred Taxes. The update requires that deferred tax assets and liabilities be classified as noncurrent in a classified statement of financial position. The amendment is effective for non-public entities for fiscal year starting after December 15, 2017. Early adoption is permitted. CCMC has early adopted this guidance as of December 31, 2016.

Amendment to Guidance for Fair Value Measurement Disclosures
The Financial Accounting Standards Board (“FASB”) recently issued Accounting Standards Update (ASU) 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). Impacting reporting entities that measure an investment’s fair value using the net asset value per share (or an equivalent) practical expedient, the amendments in ASU No. 2015-07 eliminated the requirement to classify the investment within the fair value hierarchy. In addition, the requirement to make specific disclosures for all investments eligible to be assessed at fair value using the net asset value per share has been removed. Instead, such disclosures are restricted only to investments that the entity has decided to measure using the net asset value per share. The amendments will be effective for non-public entities for fiscal years starting after December 15, 2016. Early adoption is permitted. CCMC has adopted this guidance as of December 31, 2016.

3. Related Party Transactions

Management Fee and Reimbursements
CCMC is the attorney-in-fact for CCIE and manager for CCIE’s wholly owned subsidiaries under various management agreements. CCMC is paid a fee consisting of expenses incurred on behalf of CCG plus a markup not to exceed 25% of expenses. In establishing the markup, CCMC’s management considers several factors, including CCG’s financial strength, operating results and the competitiveness of CCG’s insurance products. CCG’s 2016 premium and equity (surplus) are approximately $348,600 and $273,000, respectively. An annual incentive fee of up to 10% of CCG’s calendar year pre-tax income, calculated after giving effect to such incentive fee, may also be paid to CCMC. No incentive fee was earned by CCMC in 2016 and 2015. CCMC reimburses

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CCG for the annual savings in state income taxes that are attributable to managing CCG's operations, or charges CCG for any adjustments to true-up prior years.

The management fee earned and state income tax (savings) adjustments for the years ended December 31 are as follows:

	2016	2015
Expenses incurred	$ 117,292	$ 121,965
Markup taken	725	733
Incentive fee	-	-
State income tax (savings) adjustments	-	-
Net management fee	$ 118,017	$ 122,698
Maximum markup allowed (25% of expenses incurred)	$ 29,323	$ 30,491
Markup taken	(725)	(733)
Markup allowed but not taken	$ 28,598	$ 29,758

Other Transactions
In accordance with the management agreements, generally all expenses incurred by CCMC that relate to the management of CCG shall be paid by CCMC and reimbursed through the management fee. Exceptions include the following, which shall be paid by CCG or if paid by CCMC, reimbursed separately from the management fee: losses, allocated claims expense, governmental charges, premium taxes, federal and all other taxes of CCG, reinsurance, CCG Directors' expenses and specific expenses authorized by the Advisory Board of CCIE. CCMC billed CCG $618 and $609 for expenses incurred under this provision in 2016 and 2015, respectively. These transactions are shown as a reduction of CCMC expense, rather than revenue.

At December 31, 2016 and 2015, CCMC had a receivable due from CCG of $3,289 and $2,545, respectively. Related party balances are settled monthly.

CCIE Investment in CCMC
In 2004, CCIE purchased 186,000 shares of CCMC common stock from existing shareholders (158,722 Series A and 27,278 Series B) at a price of $99.09 per share. CCIE's interest in CCMC is 17.9% and 17.7% at December 31, 2016 and 2015. In accordance with the acquisition agreement, CCIE has the right to put the shares back to CCMC at a purchase price equal to the CCMC adjusted book value per share (Note 9) at the time the put right is exercised, multiplied by the same book value multiple used in the original purchase, 1.85. If CCIE were to exercise its put right on the 186,000 shares, at its ownership level as of December 31, 2016 and 2015, the resulting adjusted book value to the remaining shareholders will be reduced by approximately 18.5% and 18%, respectively. At December 31, 2016 and 2015, the carrying value of the common stock with put rights was $14,849 and $15,193, respectively, and is reported as a separate component of shareholders' equity. There is a corresponding reduction to retained earnings and, therefore, no net impact to total shareholders' equity. CCMC paid dividends to CCIE of $698 and $651 in 2016 and 2015, respectively.

4. Investment Securities

Current authoritative accounting guidance applies to all assets and liabilities measured at fair value on a recurring or nonrecurring basis, and establishes a fair value hierarchy that prioritizes inputs to valuation techniques used to measure fair value.

The guidance clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. Fair value measurements assume the asset or liability is exchanged in an orderly manner; the exchange is in the principal market for that asset or liability (or in the most advantageous market when no principal market exists); and the market participants are independent, knowledgeable, able and willing to transact an exchange. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value.

Fair Value Hierarchy
CCMC has categorized its financial instruments into a fair value hierarchy of three levels, as follows:

Level 1 When available, CCMC uses unadjusted, quoted prices in active markets for identical instruments at the measurement date. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 includes active exchange-traded equity and certain U.S. Treasury securities.

Level 2 When quoted market prices in active markets are not available, CCMC uses quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and inputs other than quoted prices that are derived principally from or corroborated by observable market data by correlation or other means. These quotes come from independent pricing vendors and may be based on recently reported trading activity and other relevant information including benchmark yields, market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable. Level 2 includes certain corporate, municipal and asset backed bonds.

Level 3 Valuations are derived principally from inputs that are unobservable in the market. These unobservable inputs reflect CCMC's own subjective estimates of assumptions that market participants would use in pricing the instrument.

Certain assets held by the Defined Benefit Pension Plan (Note 11) are measured at Net Asset Value.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis
The following table presents available-for-sale investments measured at fair value on a recurring basis classified by the fair value hierarchy:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Bonds				
U.S. Government	$ 2,998	$ 957	$ -	$ 3,955
Municipal agencies		8,821		8,821
Asset backed		2,993		2,993
Industrial and miscellaneous		6,186		6,186
Total bonds	2,998	18,957	-	21,955
Stocks				
Large cap	10,325			10,325
Mid cap	3,723			3,723
Small cap	1,872			1,872
Total stocks	15,920	-	-	15,920
	$ 18,918	$ 18,957	$ -	$ 37,875

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Bonds				
U.S. Government	$ 2,685	$ 954	$ -	$ 3,639
Municipal agencies		7,852		7,852
Asset backed		2,724		2,724
Industrial and miscellaneous		7,541		7,541
Total stocks	2,685	19,071	-	21,756
Stocks				
Large cap	8,909			8,909
Mid cap	3,114			3,114
Small cap	1,886			1,886
Total stocks	13,909	-	-	13,909
	$ 16,594	$ 19,071	$ -	$ 35,665

CCMC currently has no material financial liabilities that would require classification.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

The cost and market values of investment securities are as follows:

	December 31, 2016			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 3,953	$ 7	$ (5)	$ 3,955
Municipal agencies	8,804	132	(115)	8,821
Asset backed	3,048	32	(87)	2,993
Industrial and miscellaneous	6,098	104	(16)	6,186
Total bonds	21,903	275	(223)	21,955
Stocks				
Large cap	5,022	5,327	(24)	10,325
Mid cap	2,006	1,727	(10)	3,723
Small cap	1,207	689	(24)	1,872
Total stocks	8,235	7,743	(58)	15,920
	$ 30,138	$ 8,018	$ (281)	$ 37,875

	December 31, 2015			
	Cost	Unrealized Gains	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 3,655	$ 5	$ (21)	$ 3,639
Municipal agencies	7,570	282	-	7,852
Asset backed	2,730	49	(55)	2,724
Industrial and miscellaneous	7,456	132	(47)	7,541
Total bonds	21,411	468	(123)	21,756
Stocks				
Large cap	4,211	4,764	(66)	8,909
Mid cap	1,823	1,370	(79)	3,114
Small cap	1,341	634	(89)	1,886
Total stocks	7,375	6,768	(234)	13,909
	$ 28,786	$ 7,236	$ (357)	$ 35,665

(dollars in thousands, except per share and share amounts)

The amortized cost and market value of bonds at contractual maturities at December 31, 2016 are as follows:

	Amortized Cost	Market Value
Less than one year	$ 2,826	$ 2,826
One to five years	10,559	10,633
Five to ten years	4,730	4,803
Over ten years	3,788	3,693
Total bonds	$ 21,903	$ 21,955

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

Proceeds from sales of stocks during 2016 and 2015 were $1,357 and $7,014, respectively. Proceeds from sales and maturities of bonds during 2016 and 2015 were $5,157 and $12,379, respectively. Gross realized gains and losses pertaining to investment securities sold and realized losses recognized for declines in the fair value of stocks which were determined to be OTTI were as follows:

	December 31, 2016			
	Gains	Losses	OTTI	Net
Bonds				
U.S. Government	$ 11	$ -	$ -	$ 11
Municipal agencies	19	-	-	19
Asset backed	-	-	-	-
Industrial and miscellaneous	14	(36)	-	(22)
Total bonds	44	(36)	-	8
Stocks				
Large cap	557	-	(67)	490
Mid cap	135	-	(37)	98
Small cap	52	(7)	(91)	(46)
Total stocks	744	(7)	(195)	542
	$ 788	$ (43)	$ (195)	$ 550

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	December 31, 2015			
	Gains	Losses	OTTI	Net
Bonds				
U.S. Government	$ 31	$ (1)	$ -	$ 30
Municipal agencies	25			25
Asset backed	27			27
Industrial and miscellaneous	23	(21)		2
Total bonds	106	(22)	-	84
Stocks				
Large cap	2,665	(2)	(10)	2,653
Mid cap	965	(2)	(81)	882
Small cap	288	(18)	(91)	179
Total stocks	3,918	(22)	(182)	3,714
	$ 4,024	$ (44)	$ (182)	$ 3,798

Unrealized losses and related market value of investment securities are as follows:

	December 31, 2016			
	Less than 12 months		12 months or greater	
	Unrealized Losses	Market Value	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 5	$ 1,295	$ -	$ -
Municipal agencies	115	3,577	-	-
Asset backed	27	1,228	60	771
Industrial and miscellaneous	15	2,297	1	249
Total bonds	162	8,397	61	1,020
Stocks				
Large cap	14	157	10	174
Mid cap	9	162	1	7
Small cap	21	99	3	24
Total stocks	44	418	14	205
	$ 206	$ 8,815	$ 75	$ 1,225

(dollars in thousands, except per share and share amounts)

	December 31, 2015			
	Less than 12 months		12 months or greater	
	Unrealized Losses	Market Value	Unrealized Losses	Market Value
Bonds				
U.S. Government	$ 21	$ 2,884	$ -	$ -
Municipal agencies				
Asset backed	3	611	52	819
Industrial and miscellaneous	36	3,230	11	502
Total bonds	60	6,725	63	1,321
Stocks				
Large cap	66	505		
Mid cap	79	192		
Small cap	86	312	3	31
Total stocks	231	1,009	3	31
	$ 291	$ 7,734	$ 66	$ 1,352

The number of securities in an unrealized loss position at December 31, 2016 and 2015 were 61 and 72, respectively.

CCMC believes the unrealized losses are temporary in nature and has not recorded a realized investment loss in its statement of income related to these securities. Given the size of its investment portfolio and anticipated future earnings, CCMC has the ability and intent to hold these securities until the fair value recovers the unrealized loss. Additionally CCMC did not incur a material credit loss and does not have the intent to sell these bonds in an unrealized loss position.

The components of investment income for the years ended December 31 are as follows:

	2016	2015
Interest and dividends	$ 702	$ 741
Net realized gains	550	3,798
Gain on sale of real estate	412	412
Investment expense	(105)	(118)
Investment income	$ 1,559	$ 4,833

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

5. Property and Equipment

A summary of property and equipment at December 31 is as follows:

	2016	2015
Cost:		
Home office building held under capital lease	$ 32,407	$ 32,407
Capitalized software	34,507	36,249
EDP equipment	9,213	9,139
Building	14,120	14,120
Office equipment	7,018	6,930
Leasehold improvements	3,125	3,125
Building improvements	2,422	2,422
Automobiles	1,415	1,576
Equipment held under capital lease	999	999
Land	1,400	1,400
Land improvements	159	159
	106,785	108,526
Less: Accumulated amortization under capital leases	(30,476)	(28,406)
Less: Accumulated amortization on capitalized software	(24,275)	(22,408)
Less: Other accumulated depreciation and amortization	(24,459)	(23,767)
Property and equipment, net	$ 27,575	$ 33,945
Depreciation and amortization expense on property and equipment	$ 5,141	$ 5,637

In 2016, CCMC recognized an impairment loss on software being developed for internal use in the amount of $3,680. This was due to a decision to discontinue certain software development projects with the intent to replace them by a purchased software system. The impairment loss was recognized in the statement of income under other operating expenses.

6. Credit Arrangement

The home office complex lease amendment (Note 7) requires CCMC to post a letter of credit which may be used by the landlord to compensate for any loss due to CCMC's failure to fulfill its monetary obligations under the amended lease. A bank has an irrevocable $304 letter of credit in favor of Hines REIT Properties, L.P.

A bank holds two standby letters of credit, totaling $109, which are held to secure future monetary obligations under expired large deductible workers' compensation insurance policies.

7. Lease Commitments

CCMC has various lease agreements for office buildings, equipment and software. Certain leases have renewal options and certain office buildings and equipment have purchase options.

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In 1998, CCMC entered into a sale-leaseback agreement for its home office building and the related land located in San Mateo, California. The leaseback has been accounted for as a capital lease for the building and an operating lease for the land. CCMC recognized a gain of $8,308 from the sale, which was deferred and is being amortized to income over the lease term using the straight-line method. In 2005, the home office lease was amended pursuant to the landlord's sale of the property. The amendment did not change the classification of the lease. Interest expense recorded in 2016 and 2015 for capital lease obligations was $466 and $679, respectively.

The home office lease amendment included an incentive payment of $949 paid to CCMC in January 2006, which is recognized on a straight-line basis over the remaining term of the lease, which ends May 31, 2018.

The total future minimum sublease rentals under noncancelable subleases on capital leases was $611 and $353 at December 31, 2016 and December 31, 2015, respectively.

Rent expense under operating and capital leases was $8,023 and $7,731 in 2016 and 2015, respectively. Future minimum lease payments, net of sublease rental income, under capital leases and operating leases at December 31 are as follows:

	Capital Leases	Operating Leases
2017	$ 3,702	$ 1,424
2018	1,542	1,311
2019	-	1,109
2020	-	444
2021	-	-
Thereafter	-	-
Net minimum lease payments under capital leases	5,244	$ 4,288
Less: Amount representing interest	(262)	
Present value of net minimum lease payments	$ 4,982	
Current	$ 3,466	
Noncurrent	1,516	
Present value of net minimum lease payments	$ 4,982	

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8. Income Taxes

A reconciliation of CCMC's effective income tax rate for each year is as follows:

	2016		2015	
	Amount	**Percentage**	**Amount**	**Percentage**
U.S. federal tax (statutory tax rate)	$ 1,181	34.0 %	$ 2,311	34.0%
Tax-exempt income	(105)	(3.0)	(112)	(1.7)
All other items	44	1.3	29	0.5
Provision for income taxes (effective tax rate)	$ 1,120	32.3%	$ 2,228	32.8%

The significant components of the provision for income taxes for years ended December 31 are summarized below:

	2016	2015
Current benefit	$ 4	$ 228
Deferred provision		
Current	-	24
Noncurrent	1,116	1,976
Total deferred provision	1,116	2,000
Provision for income taxes	$ 1,120	$ 2,228

The provision for income taxes was increased by $5 of accrued interest and penalties related to unrecognized tax benefits for the year ended December 31, 2016.

Income taxes recoverable recorded on the balance sheets as of December 31, 2016 is reported net of a $37 liability for interest and penalties related to unrecognized tax benefits. CCMC does not expect any material changes in the liability for unrecognized tax benefits in 2016.

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As of December 31, 2016, CCMC is classifying deferred tax assets (liabilities) as non-current. The change in classification is on a prospective basis.

The significant components of the net deferred tax assets (liabilities) recorded on the balance sheets at December 31 are as follows:

	2016	2015
Current		
Employee benefits	$ -	$ 2,708
Unrealized appreciation on investments	-	(2,339)
Workers' compensation expense	-	10
Deferred gain on sale of real estate	-	140
Building capital lease	-	1,100
Prepaid expenses	-	(537)
Realized book losses on OTTI securities	-	213
All other	-	257
Total current net deferred tax liabilities	-	1,552
Noncurrent		
Employee benefits	27,111	25,783
Unrealized appreciation on investments	(2,631)	-
Deferred gain on sale of real estate	198	198
Workers' compensation expense	10	-
Building capital lease	697	(6)
Depreciation	(3,539)	(4,112)
Rent expense	82	99
Prepaid expenses	(575)	-
Net operating loss	1,488	817
AMT credit carryforward	215	215
Realized book losses on OTTI securities	230	-
Internally developed computer software	(33)	(644)
All other	135	66
Total noncurrent net deferred tax assets	23,388	22,416
Net deferred tax assets	$ 23,388	$ 23,968

Realization of these assets is primarily dependent upon generating sufficient future taxable income to utilize these assets. CCMC will establish a valuation allowance if it is more likely than not that these items will either expire before CCMC is able to realize their benefits, or that future deductibility is uncertain. There was no valuation allowance required at December 31, 2016 and 2015.

CCMC adjusts its tax liabilities when our judgment changes as a result of the evaluation of new information not previously available. Due to the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which they are determined. CCMC has no material uncertain tax positions at December 31, 2016 and 2015.

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CCMC files income tax returns in the United States federal jurisdiction (Internal Revenue Service, or IRS) and various state jurisdictions. In the normal course of business, CCMC is subject to examination by taxing authorities from any of these jurisdictions. With few exceptions, CCMC is no longer subject to income tax examinations for years before 2014. CCMC is not currently under a federal income tax audit by the IRS.

9. Shareholders' Equity

CCMC has authorized 1,800,000 and 1,000,000 shares of Series A and Series B common stock, respectively. Shares issued and outstanding, book value per share, and common stock at December 31 are as follows:

	2016	2015
Shares issued and outstanding		
Series A	791,184	807,445
Series B	248,290	245,716
Total shares issued and outstanding	1,039,474	1,053,161
Book value per share	$ 5.71	$ 8.65

	2016	2015
Common stock		
Series A	$ 3,829	$ 3,908
Series B	11,421	11,342
Total common stock	$ 15,250	$ 15,250

CCMC expects to recover employee retirement benefit plan funding shortfalls over time as pension expense is recognized in accordance with GAAP and reimbursed by CCG through the management fee. (Note 3)

Adjusted book value per share is calculated as follows: total shareholders' equity as determined under GAAP, plus the shareholder equity charges resulting from pension accounting (Note 11), divided by total outstanding shares of common stock. The calculation is as follows:

	2016	2015
Total shareholders' equity	$ 5,932	$ 9,106
AOCI balance related to pension plan	38,925	37,395
Adjusted shareholders' equity	$ 44,857	$ 46,501
Total shares issued and outstanding	1,039,474	1,053,161
Adjusted book value per share	43.15	44.15

The rights, privileges and restrictions of Series A and B are identical except holders of Series A shares have exclusive voting rights and power to vote upon election of Directors or upon any other matters. CCIE's put right is discussed in Note 3.

10. Stock-Based Compensation Plans

CCMC has two stock-based compensation plans: the Long Term Executive Incentive Plan ("LTEIP") and the Executive Stock Plan ("ESP"). The key provisions of each plan are described below. Both written plan documents are subject to review and approval by the California Department of Insurance, which requires, among other things, that CCMC annually report on all transactions made under the plans. Under both plans, if a plan participant's employment terminates because of death, disability, or retirement, CCMC has the right to repurchase that participant's shares at the most recently computed adjusted book value at the expiration of ten years after the termination of employment. If a plan participant's employment terminates for any other reason, CCMC has the right to repurchase that participant's shares for a period of 60 days after termination of employment. With the exception of ESP shares subject to a five-year holding period, plan participants have the right at any time to cause CCMC to repurchase all or any portion of their shares at adjusted book value by providing written notice to CCMC. Generally, to be eligible to receive an award under either plan, a participant must be a CCMC employee at the end of a plan performance period. However, under both plans, participants or their successors receive a prorated award if the participant dies, becomes disabled or retires during a performance period. The fair value of the restricted shares of common stock issued under both plans is considered equal to adjusted book value, as described in Note 9.

Key Provisions of LTEIP

The LTEIP provides key executives, all of whom are members of CCMC's Operating Committee, with incentive awards consisting of common stock and/or cash compensation, based on the attainment of specific annual profitability and other measures over a three-year performance period. A new three-year performance period commences on January 1st of each year. In order for participants to be eligible for an award, CCMC must meet its threshold performance measures. The LTEIP requires that participants elect to receive at least 50% of their earned LTEIP award in shares of common stock, with the remainder paid in cash. The number of shares of common stock to be issued to each plan participant is based on the adjusted book value as of December 31 of the year prior to the date the stock is issued.

Awards are paid annually and are based on the preceding three-year performance period. Shares of stock are issued immediately following the award, so there are no shares awarded but un-issued. Stock is issued prior to March 15th each year. Compensation expense under the LTEIP is measured during the performance period based on a best estimate of performance against the goals. Compensation expense under the LTEIP was $1,303 and $1,159 in 2016 and 2015, respectively. CCMC assumes no forfeitures during the payout period when determining compensation expense over the performance period. During 2016 and 2015 there were no forfeitures of earned awards. Under the LTEIP, 300,000 shares of Series B common stock have been reserved for issuance. Total shares issued under the LTEIP were 14,232 and 16,291 in 2016 and 2015, respectively.

The accrued liability for the LTEIP is comprised of $1,073 in current employee compensation liability and $1,310 in noncurrent employee compensation liability on the balance sheet at

December 31, 2016. The current and noncurrent liability balances were $1,212 and $1,079, respectively, at December 31, 2015.

Key Provisions of ESP
The ESP provides all officers on the executive payroll with common stock and/or cash compensation based on the attainment of specific profitability and other measures over a one-year performance period, with a new performance period commencing on January 1st of each year. In order for participants to be eligible for an award, CCMC must meet its threshold performance measures. The ESP requires that participants elect to receive at least 60% of their earned ESP awards in shares of common stock, with the remainder paid in cash. The number of shares of common stock to be issued to each plan participant is based on the adjusted book value as of December 31 of the year prior to the date the stock is issued.

Awards are made annually, and are based on the preceding one-year performance period. Shares of stock are issued immediately following the award, so there are no shares awarded but un-issued. Stock is issued prior to March 15th each year. Participants are required to hold all shares of common stock issued under the ESP for a minimum of five years from the date of issuance before exercising repurchase rights.

Compensation expense under the ESP was $512 and $413 in 2016 and 2015, respectively. Under the ESP, 150,000 shares of Series B common stocks have been reserved for issuance. Total shares issued under the ESP were 5,947 and 5,029 in 2016 and 2015, respectively. The accrued liability for the ESP was $512 and $415 at December 31, 2016 and 2015, respectively. These balances are included in current employee compensation liability on the balance sheets.

11. Employee Retirement Benefit Plans

CCMC provides defined contribution plans as well as both funded and unfunded noncontributory defined benefit pension plans. Substantially all of its employees participate in one or more of these plans. The funded plans are subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”). All plans are described below.

Savings Investment Plans (the “SIPs”)
CCMC sponsors a plan for hourly employees and a plan for salaried employees. The SIPs are qualified under section 401(k) of the Internal Revenue Code (the “Code”). Participating employees may elect to contribute a percentage of their annual compensation to the applicable SIP, limited to a maximum annual dollar amount as provided by the Code. These employees are eligible to receive a matching contribution from CCMC. Those matching contributions were $1,441 and $1,475 for the years ended December 31, 2016 and 2015, respectively.

Effective January 1, 2004, the SIPs were amended to add a new defined contribution feature. Employees hired, or employees rehired following a break in service of 12 months or more, on or after January 1, 2004 receive an annual service-based CCMC contribution of 3% to 7% of annual compensation depending on length of service. The expense for the defined contribution portion of the SIPs was $2,900 and $600 in 2016 and 2015, respectively. The increase was due to a number of employees hired prior to January 1, 2004 who became eligible for service-based contributions following the freeze of the defined-benefit plan as of December 31, 2015.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

Matching contributions and service-based contributions are vested to the employee on the following schedule:

	Vested Percentage
Years of service	
Less than two	0 %
Two	25 %
Three	50 %
Four	75 %
Five	100 %

Defined Benefit Pension Plan (the "Pension Plan")

The Pension Plan is qualified under Section 401(a) of the Code. The Pension Plan was amended in 2003 to exclude employees hired on or after January 1, 2004. Employees rehired on or after January 1, 2004, following a break in service of 12 months or more, are also excluded. Generally, benefits are based on length of service and the average of the highest earnings for five consecutive calendar years, or sixty months, whichever is greater. A participant is 100% vested after completion of five years of service.

Effective December 31, 2015, the Board of Directors adopted an amendment instituting a "hard freeze" of the Pension Plan so that no further benefits will accrue under the plan. As a result of this amendment, the benefit obligation was reduced by $22,676. All Pension Plan participants were enrolled in the Service-Based Contribution feature of the Savings Investment Plans (the "SIP") effective January 1, 2016.

Given the Pension Plan's freeze to future benefit accruals as of December 31, 2015, the amortization period for actuarial gains and losses was updated from the average future working lifetime of participants to the average life expectancy of participants effective January 1, 2016.

(dollars in thousands, except per share and share amounts)

Pension Plan Benefits

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	$ 213,872	$ 240,194
Service cost	-	3,163
Interest cost	7,169	8,088
Benefits paid	(8,302)	(7,862)
Plan amendment	-	(22,676)
Actuarial loss (gain)	3,881	(7,035)
Benefit obligation at end of year	216,620	213,872
Change in plan assets		
Fair value of plan assets at beginning of year	185,816	182,926
Actual return on plan assets	14,372	(2,248)
Employer contribution	-	13,000
Benefits paid	(8,302)	(7,862)
Fair value of plan assets at end of year	191,886	185,816
Funded status at end of year	$ (24,734)	$ (28,056)
Amounts recognized in the balance sheets consist of		
Noncurrent liabilities	$ (24,734)	$ (28,056)
Net amount recognized	$ (24,734)	$ (28,056)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of:		
Prior service cost	$ -	$ -
Net actuarial loss	58,977	56,659
Accumulated other comprehensive loss	$ 58,977	$ 56,659
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 216,620	$ 213,872
Accumulated benefit obligation	216,620	213,872
Fair value of plan assets	191,886	185,816

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

	2016	2015
Components of net periodic benefit cost (income) and other amounts recognized in other comprehensive loss		
Net periodic benefit cost		
Service cost	$ -	$ 3,163
Interest cost	7,169	8,088
Expected return on assets	(13,994)	(13,914)
Amortizations		
Prior service cost	-	1
Actuarial loss	1,185	6,493
Net periodic benefit cost (income)	$ (5,640)	$ 3,831
Curtailment	-	68
Total pension expense (income) included in Personnel expense on the Income Statements	$ (5,640)	$ 3,899
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (pretax)		
Net loss	$ 3,503	$ 9,127
Amortization of prior service cost	-	(1)
Plan amendment	-	(22,676)
Curtailment	-	(68)
Amortization of net actuarial loss	(1,185)	(6,493)
Total recognized in other comprehensive loss	2,318	(20,111)
Total recognized in net periodic benefit cost (income) and other comprehensive loss	$ (3,322)	$ (16,212)

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year is $1,309.

	2016	2015
Weighted-average assumptions used to determine benefit obligation at December 31		
Discount rate	3.90 %	4.08 %
Rate of compensation increase	N/A	N/A
Cost of living	3.50 %	3.50 %
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate - projected benefit obligation	4.08 %	3.55 %
Discount rate - interest cost	3.41 %	3.40 %
Rate of compensation increase	N/A	4.00 %
Expected return on plan assets	7.50 %	7.50 %
Cost of living	3.50 %	3.50 %

CCMC selects its discount rate by using the expected cash flows of future benefit payments applied against the full yield curve provided by the Citigroup Pension Liability Index.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

As of January 1, 2016, CCMC changed the approach to measuring service and interest costs as part of Pension Plan expense. For 2015, CCMC measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016, CCMC elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. This change results in a reduction of the discount rate from 4.08% to 3.41% that is used to determine the interest cost component of income for 2016 for the Pension Plan. The new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of CCMC's plan obligations nor the funded status of the plan.

Pension Plan Assets
Fair value, asset allocations and target allocations at December 31 are as follows:

	2016		2015		2016
	Fair Value	Allocation	Fair Value	Allocation	Target Allocation
Asset category					
Equity funds					
Domestic					
Large cap	$ 35,109	18%	$ 33,355	18%	17 %
Small/mid-cap	10,378	5%	10,142	5%	5 %
International	16,774	9%	24,022	13%	13 %
Total equity funds	62,261	32%	67,519	36%	35 %
Fixed income					
US Government Agencies	$ 17,913	9%	$ -		10%
Fixed income funds					
Domestic					
Long duration bond fund	78,424	41%	89,072	48%	39 %
Intermediate duration bond fund	1,969	1%	-		1 %
High-yield	4,832	3%	4,738	3%	3 %
International					
Emerging markets debt	3,123	1%	3,213	1%	2 %
Total fixed income funds	88,348	46%	97,023	52%	45 %
Real Estate fund	22,355	12%	20,242	11%	10 %
Cash and accrued income	1,009	1%	1,032	1%	0 %
	$ 191,886	100%	$ 185,816	100%	90 %

US Government agencies are in Level 1 of the fair value hierarchy; See Note 4 for a description of Levels in the fair value hierarchy.

Equity, Fixed Income funds, and Real Estate fund investments are measured at Net Asset Value (NAV) of the units held by the Plan at year-end. The NAV, as provided by the trustee of the fund is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probably that the fund will sell the investment for an amount different than the reported NAV. Were the Plan to initiate a full redemption of the Real Estate fund, the issuer reserves the right to require sixty-five business days' notification in order to ensure that securities liquidation will be carried out in an ordinary business manner.

Investment Policies, Strategies and Target Asset Allocations
The CCMC Board of Directors has delegated authority for setting, monitoring, and adjusting the investment policy with respect to investment funds of the Pension Plan to the Pension Plan Committee ("Committee"). The Committee selects and retains investment managers who are responsible for managing the Pension Plan assets in accordance with the objectives and guidelines set forth in the Pension Plan's Investment Policy Statement ("IPS"). Investment managers are expected to comply with all laws, regulations, and standards of ethical conduct.

Investment guidelines and the Pension Plan's asset allocation targets are based upon long-term perspectives, so that interim fluctuations in investment markets should be viewed with appropriate perspective. Consistent with the desire for adequate asset diversification, the IPS is based upon the expectation that the volatility (the standard deviation of returns) of the total Pension Plan assets will be similar to that of the investment market.

The target asset allocation is designed to provide an optimal asset mix for the portfolio, which emphasizes diversification and maximizes return for relative risk. The IPS also sets guidelines to minimize investment risk by disallowing certain transactions or investments in certain securities. Transactions that would jeopardize the tax-exempt status of the Pension Plan are not allowed. Performance objectives are set by the IPS for each asset category listed above, and are reviewed at least annually by the Committee to determine if the established objectives are appropriate.

The expected return on Pension Plan assets is an assumption primarily determined by the investment strategy adopted to meet the objectives of the Pension Plan. This assumption is developed from investment manager capital market projections which include future returns by asset category, expected volatility of returns and correlation among asset classes. Consideration is also given to the expenses of active management. Judgment is applied to the quantitative measures derived from the capital market projections to arrive at the selected return on Pension Plan assets assumption. A change in the asset allocation could significantly impact the expected rate of return on plan assets.

Cash Flows
Contributions
CCMC contributed $13,000 to the Pension Plan in 2015. No contributions were made in 2016. CCMC does not expect to contribute to the Pension Plan for 2017.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, are expected to be paid:

	Pension Benefits
2017	$ 9,776
2018	10,282
2019	10,834
2020	11,215
2021	11,506
Years 2022–2026	62,095
	$ 115,708

Supplemental Executive Retirement Plan and Excess Plan (the "SERP and Excess Plans")

The SERP and Excess Plans cover employees with earnings and/or benefits which exceed the limitations set out in the Pension Plan and/or the Code. Benefits are based on formulas similar to those of the Pension Plan.

The Excess Plan was frozen effective December 31, 2015. Effective January 1, 2016, CCMC adopted a new Service-Based Contribution Excess Benefit Plan (the "SBC Excess Plan") to cover earnings and/or benefits that exceed the limits imposed by the Code for the Service-Based Contribution feature of the Savings Investment Plans (the "SIP"). Benefits for the new SBC Excess Plan are based on the formula used for the SIP. CCMC accrued $170 for the contribution to the plan in 2016.

Given the SERP & Excess Plans' freeze to future benefits accruals as of December 31, 2015, the amortization period for actuarial gains and losses has been updated from the average future working lifetime of participants to the average life expectancy of participants effective January 1, 2016.

(dollars in thousands, except per share and share amounts)

SERP and Excess Benefits

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	$ 51,050	$ 55,112
Service cost	-	191
Interest cost	1,555	1,865
Benefits paid	(3,324)	(3,323)
Plan amendment	-	(1,292)
Actuarial loss (gain)	672	(1,503)
Benefit obligation at end of year	49,953	51,050
Change in plan assets		
Employer contributions	3,324	3,323
Benefits paid	(3,324)	(3,323)
Fair value of plan assets at end of year	-	-
Funded status at end of year	$ (49,953)	$ (51,050)
Amounts recognized in the balance sheets consist of		
Current liabilities	$ (3,413)	$ (3,357)
Noncurrent liabilities	(46,540)	(47,693)
Net amount recognized	$ (49,953)	$ (51,050)
Amounts recognized in accumulated other comprehensive loss (pretax) consist of		
Net actuarial loss	$ 17,211	$ 17,130
Accumulated other comprehensive loss	$ 17,211	$ 17,130
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	$ 49,953	$ 51,050
Accumulated benefit obligation	$ 49,953	$ 51,050

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

	2016	2015
Components of net periodic benefit cost and other amounts recognized in other comprehensive income		
Net periodic benefit cost		
Service cost	$ -	$ 191
Interest cost	1,555	1,865
Amortization of net actuarial loss	591	2,102
Net periodic benefit cost, included in Personnel expense on the Income Statements	2,146	4,158
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pretax)		
Net loss (gain)	672	(1,503)
Plan amendment	-	(1,292)
Amortization of net actuarial loss	(591)	(2,102)
Total recognized in other comprehensive income	81	(4,897)
Total recognized in net periodic benefit cost and other comprehensive income	$ 2,227	$ (739)

The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $616.

	2016	2015
Actuarial Assumptions		
Weighted-average assumptions used to determine benefit obligation at December 31		
Discount rate	3.71 %	3.87 %
Rate of compensation increase	N/A	N/A
Cost of living	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost		
Discount rate - projected benefit obligation	3.87 %	3.40 %
Discount rate - interest cost	3.13 %	3.40 %
Rate of compensation increase	N/A	variable
Cost of living	3.50 %	3.50 %

CCMC selects its discount rate by using the expected cash flows of future benefit payments applied against the full yield curve provided by the Citigroup Pension Liability Index.

As of January 1, 2016, CCMC changed our approach to measuring service and interest costs as part of SERP and Excess plans expense. For 2015, CCMC measured service and interest costs utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. For 2016, CCMC elected to measure service and interest costs by applying the specific spot rates along that yield curve to the plans' liability cash flows. This change results in a reduction of discount rate from 3.71% to 3.13% that is used to determine the interest cost component of expense for SERP and Excess plans. The new approach provides a more precise measurement of service and interest costs by aligning the timing of the plan's liability cash flows to the corresponding spot rates on the yield curve. This change does not affect the measurement of the plan obligations nor the funded status of the plan.

(dollars in thousands, except per share and share amounts)

Cash Flows

Contributions

Since the plan is unfunded, no contributions are made. However, benefit payments are treated as contributions.

Expected Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	SERP and Excess Benefits
2017	$ 3,413
2018	3,389
2019	3,425
2020	3,413
2021	3,363
Years 2022–2026	16,396
	$ 33,399

Accumulated Other Comprehensive Income ("AOCI")

The AOCI amounts related to employee retirement benefit plans recognized in the balance sheets, on an after-tax basis, were $50,283 and $48,700 at December 31, 2016 and 2015, respectively.

The following table summarizes the after-tax AOCI on employee retirement benefit plans:

	Pension Plan	SERP & Excess Plans	SERP & Excess Plans(1)	Total
AOCI balances, at December 31, 2014	$ 50,668	$ 1,209	$ 13,328	$ 65,205
2015 activity				
Pension accounting charges	(13,273)			(13,273)
SERP & Excess Plans(1)		(1,209)	(2,023)	(3,232)
Total 2015 activity	(13,273)	(1,209)	(2,023)	(16,505)
AOCI balances, at December 31, 2015	37,395	-	11,305	48,700
2016 activity				
Pension accounting charges	1,530			1,530
SERP & Excess Plans(1)			53	53
Total 2016 activity	1,530	-	53	1,583
AOCI balances, at December 31, 2016	$ 38,925	$ -	$ 11,358	$ 50,283

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AND SHARE AMOUNTS)

(1) These SERP and Excess Plan adjustments are excluded from the adjusted book value calculation (Note 9). They represent the cumulative difference between the accumulated benefit obligation and accrued benefit liability in the balance sheets.

The following table summarizes the after-tax GAAP pension accounting charges (credits) utilized in the adjusted book value calculation (Note 9):

AOCI balance related to pension plan at December 31, 2014	$	51,877
Pension accounting credits in 2015		(14,482)
AOCI balance related to pension plan at December 31, 2015		37,395
Pension accounting charges in 2016		1,530
AOCI balance related to pension plan at December 31, 2016	$	38,925

12. Concentration of Credit Risk

CCMC's financial instruments exposed to concentration of credit risk consist of cash equivalents. CCMC maintains its cash accounts primarily with banks. Cash balances are insured by the Federal Deposit Insurance Company ("FDIC") up to $250 per depositor. CCMC had cash on deposit with four banks at December 31, 2016 and 2015 that exceeded the balance insured by the FDIC in the amount of $7,641 and $11,345, respectively. CCMC has not experienced any losses related to these balances, and management believes its credit risk to be minimal.

13. Subsequent Events

CCMC has evaluated subsequent events through April 10, 2017, which is the date that the financial statements were available to be issued.

Carl B. (Beau) Brown, CPCU
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Chairman of the Board
Chief Executive Officer

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President
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Kenneth G. Berry
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Contact Wells Fargo Bank for CCMC shareholder services, including address changes, dividend issues, and share balance information:

Write: Wells Fargo Bank Minnesota, N.A.
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