

Report of Examination of

Washington Mutual Insurance Association
Wooster, Ohio

As of December 31, 2011

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Columbus, Ohio

July 2, 2012

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Washington Mutual Insurance Association

an Ohio domiciled, mutual protective association, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2007. The Department’s current examination covers the period of January 1, 2008 through December 31, 2011.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Gregory T. Buehler	Director of Training and Development, Buehler Food Markets, Inc.
Tod J. Carmony	Chairman, President and Chief Executive Officer The Company
Elizabeth F. McCoy	Retired
Scott L. Preising	Certified Public Accountant, Frank, Seringer & Chaney, Inc.
Donald A. Ramseyer	Owner, Don Ramseyer Potato Farms, LLC
Morris Stutzman	Attorney, Logee, Hostetler, Stutzman & Lehman, LLC
David E. Tschantz	Vice President and Treasurer, The Company

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Constitution:

Name	Title
Tod J. Carmony	President
David E. Tschantz	Vice President and Treasurer
Morris Stutzman	Secretary
Timothy J. Suppes	Vice President
Norman H. Lewis	Vice President

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company owns 100% of Washington Mutual Insurance Agency, Inc. In 2009, the Company entered into an affiliation agreement with Wayne Mutual Insurance Company (“Wayne Mutual”), an Ohio domiciled, mutual, property & casualty insurer.

Territory and Plan of Operations

The Company is licensed to operate only in the State of Ohio. The Company writes property coverage through an independent agency distribution system.

Reinsurance

A Loss Portfolio Transfer Contract was signed in 2009 as part of the affiliation agreement between the Company and Wayne Mutual which transferred all of the Company’s net losses to Wayne Mutual.

In addition, at the time of the affiliation with Wayne Mutual, the Company entered into a quota share reinsurance transaction with Wayne Mutual whereby Wayne Mutual assumed 100% of the Company’s retained losses and loss adjustment expenses in return for 100% of the Company’s direct premiums adjusted for ceded premiums on excess treaties. As part of this 100% quota share agreement, the Company is paid a 30% ceding commission.

The Company did not assume any reinsurance.

Financial Statements

The financial condition and the results of its operations for the year ending December 31, 2011 as reported and filed by the Company with the Department are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011**

Bonds	\$ 991,072
Preferred stocks, common stocks, and mutual funds	6,611
Cash	<u>516,597</u>
Subtotal, cash and invested assets	<u>1,514,280</u>
Investment income due and accrued	9,555
Assessments or premiums in the course of collection	489,475
Deferred premiums, agents' balances and installments	1,233,448
Amounts recoverable from reinsurers	44,481
Current federal income tax recoverable	6,400
Net deferred tax asset	50,367
Electronic data processing equipment and software	<u>2,207</u>
Total assets	<u>\$ 3,350,213</u>
Commissions due and payable to agents	\$ 271,397
Other expenses	75,324
Advance premium	45,088
Ceded reinsurance premiums payable	2,266,960
Payable to parent, subsidiaries and affiliates	<u>153,747</u>
Total liabilities	<u>2,812,516</u>
Surplus	<u>537,697</u>
Total liabilities and surplus	<u>\$ 3,350,213</u>

**Statement of Income
For the Year Ending December 31, 2011**

Underwriting Income

Gross assessments/premiums earned	\$ 6,478,346
Deduct premiums for reinsurance ceded	<u>6,478,346</u>
Net assessments/premiums earned	<u>0</u>

Deductions

Other underwriting expenses incurred	<u>362,205</u>
Net underwriting loss	<u>(362,205)</u>

Investment Income

Net investment income earned	<u>46,247</u>
Net investment gain	<u>46,247</u>

Other Income

Finance and service charges not included in premiums	112,459
Management fees	14,400
Supplemental premium commissions	193,425
Other income	<u>1,837</u>
Total other income	<u>322,121</u>

Net income, before federal income taxes	6,163
Federal income taxes incurred	<u>19,628</u>
Net loss	<u><u>\$ (13,465)</u></u>

Surplus Account

Surplus as regards policyholders, December 31, 2010	\$ 538,316
Net loss	(13,465)
Changes in net unrealized capital gains or losses	1,056
Change in net deferred income tax	17,452
Change in nonadmitted assets	<u>(5,662)</u>
Change in surplus as regards policyholders for the year	<u>(619)</u>
Surplus as regards policyholders, December 31, 2011	<u><u>\$ 537,697</u></u>

Statement of Changes in the Capital and Surplus Account

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Capital and surplus, beginning of the year	\$ 538,316	\$ 722,793	\$ 650,084	\$ 1,841,778
Net income (loss)	(13,465)	(90,324)	195,452	(1,101,364)
Change in net unrealized cap. gains (losses)	1,056	(41,112)	(31,551)	(85,774)
Change in net deferred income tax	17,452	(19,824)	(78,791)	54,873
Change in nonadmitted assets	<u>(5,662)</u>	<u>(33,217)</u>	<u>(12,401)</u>	<u>(59,429)</u>
Change in surplus during the year	<u>(619)</u>	<u>(184,477)</u>	<u>72,709</u>	<u>(1,191,694)</u>
Capital and surplus, end of the year	<u>\$ 537,697</u>	<u>\$ 538,316</u>	<u>\$ 722,793</u>	<u>\$ 650,084</u>

Notes to Financial Statements

Investments

At December 31, 2011, the Company's investments in the Bank of America and Morgan Stanley securities exceeded those allowable under ORC Section 3939.01. In May 2012, the Company took the necessary steps to become compliant with ORC 3939.01. A loss of \$1,093.60 was recognized as a result of the transactions to become compliant with the investment statute.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2011, and is summarized as follows:

Total Admitted Assets	<u>\$ 3,350,213</u>
Liabilities	\$ 2,812,516
Surplus	<u>537,697</u>
Total Liabilities and Surplus	<u>\$ 3,350,213</u>

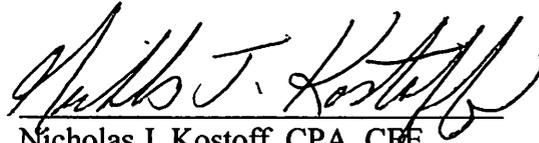
Subsequent Events

There have been no events subsequent to the examination date which would have a material effect on the financial condition of the Company.

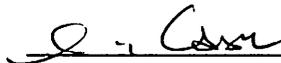
Acknowledgement

In addition to the undersigned, Louis Radecky, CPA (inactive), CFE; David Finkler, CPA, CFE; Jeffrey Ferris, CFE, CISA, AES; Thomas Botsko, ACAS, MAAA; and Bradley Schroer of the Department participated in this examination.

Respectfully,



Nicholas J. Kostoff, CPA, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2011.

Nicholas J. Kostoff 7/6/12
Examiner-In-Charge Date

[Signature] 7/6/12
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 6 day of July, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires MAY 22, 2017

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 6 day of July, 2012.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
My Commission Expires MAY 22, 2017