

Report of Examination of

Wayne Mutual Insurance Company
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

Wayne Mutual Insurance Company

an Ohio domiciled, mutual, property and casualty insurance company, hereinafter referred to as the “Company”.

Scope of Examination

The Department last examined the Company as of December 31, 2006. The Department’s current examination covers the period of January 1, 2007 to and including December 31, 2011.

The examination was conducted 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.

For all years under examination, the Certified Public Accounting firm of Buffamante, Whipple, Buttafaro, P.C. provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

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 serving in the designated position:

Name	Title
Tod J. Carmony	President and Chief Executive Officer
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 Wayne Insurance Agency, Inc. In 2009, the Company entered into an affiliation agreement with Washington Mutual Insurance Association (“Washington Mutual”), an Ohio domiciled mutual protective association.

Territory and Plan of Operations

The Company is licensed to operate only in the State of Ohio. The Company writes homeowners, farm owners, dwelling fire, private passenger auto, and commercial multiple peril coverages through an independent agency distribution system.

Reinsurance

A Loss Portfolio Transfer Contract was signed in 2009 as part of an affiliation agreement between the Company and Washington Mutual which transferred all of Washington Mutual’s net losses and net premiums to the Company. Washington Mutual received a ceding commission on the business transferred to the Company.

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

The largest net amount insured for the Company is \$200,000. Property excess of loss coverage is \$900,000 excess of \$200,000, subject to an occurrence limit of \$1,100,000. The first layer of Casualty excess of loss coverage is \$900,000 in excess of \$200,000. The next layer of Casualty excess of loss coverage is \$2,000,000 in excess of \$1,100,000. Property pro rata facultative reinsurance is maintained with maximum cession of \$750,000 (additional Facultative Capacity is available upon request). Excess catastrophe reinsurance covers \$16,000,000 in excess of a \$1,000,000 net loss for each occurrence. The Company participates in the Mutual Reinsurance Bureau Reciprocal Catastrophe Pool for the top \$5,000,000 of catastrophe cover. Also, under the excess of loss reinsurance is \$300,000 of coverage per occurrence for automobile physical damage which can be applied towards the \$1,000,000 retention. The Company maintains personal, farm and commercial umbrella liability facultative reinsurance covering up to \$5,000,000 after the Company’s retention of 5% of the first \$1,000,000.

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Premiums earned	\$ 28,168	\$ 24,333	\$ 20,924	\$ 16,763	\$ 16,529
Losses incurred	16,041	16,519	12,047	11,548	10,457
Loss adjustment exp. incurred	2,113	2,174	1,715	1,546	1,434
Underwriting expenses incurred	<u>8,851</u>	<u>7,987</u>	<u>8,125</u>	<u>5,978</u>	<u>5,964</u>
Net underwriting gain (loss)	<u>\$ 1,163</u>	<u>\$ (2,347)</u>	<u>\$ (963)</u>	<u>\$ (2,309)</u>	<u>\$ (1,326)</u>

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, 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
December 31, 2011

Bonds	\$ 20,358,604
Preferred stocks	344,033
Common stocks	6,438,000
Mortgage loans on real estate – first liens	63,790
Real estate - properties occupied by the company	415,662
Cash, cash equivalents, and short-term investments	<u>1,347,343</u>
Subtotal, cash and invested assets	28,967,432
Investment income due and accrued	228,452
Uncollected premiums and agents’ balances in course of collection	331,667
Deferred premiums, agents’ balances and installments not yet due	6,517,076
Amounts recoverable from reinsurers	29,587
Current federal income tax recoverable	25,296
Net deferred tax asset	1,058,927
Electronic data processing equipment and software	7,178
Receivables from parent, subsidiaries and affiliates	153,747
Deposit - others	<u>500</u>
Total admitted assets	<u><u>\$ 37,319,862</u></u>

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

Losses	\$ 4,789,716
Loss adjustment expenses	525,000
Commissions payable, contingent commissions and other charges	575,012
Other expenses	529,890
Taxes, licenses and fees	264,393
Unearned premiums	13,618,992
Advance premium	137,581
Ceded reinsurance premiums payable	151,705
Funds held by company under reinsurance treaties	37,977
Amounts withheld or retained by company for accounts of others	<u>(13,252)</u>
Total liabilities	20,617,014
Unassigned funds (surplus)	<u>16,702,848</u>
Total surplus and other funds	<u>16,702,848</u>
Total liabilities, surplus and other funds	<u>\$ 37,319,862</u>

Statement of Income
As of December 31, 2011

Premiums earned	\$ <u>28,167,886</u>
Losses incurred	16,040,770
Loss adjustment expenses incurred	2,113,546
Other underwriting expenses incurred	<u>8,850,600</u>
Total underwriting deductions	<u>27,004,916</u>
Net underwriting gain	<u>1,162,970</u>
Net investment income earned	739,112
Net realized capital gains	<u>250,016</u>
Net investment gain	<u>989,128</u>
Finance and service charges not included in income	485,652
NAMICO & other income	<u>41,837</u>
Total other income	<u>527,489</u>
Net income before federal income taxes	2,679,587
Federal income taxes incurred	<u>431,254</u>
Net income	<u>\$ 2,248,333</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Capital and surplus, beginning of the year	\$14,487	\$14,793	\$13,540	\$16,347	\$16,169
Net income (loss)	2,248	(839)	21	(754)	199
Change in net unrealized capital gains (losses)	(55)	428	621	(1,540)	(121)
Change in net deferred income tax	(8)	74	489	(112)	70
Change in non-admitted assets	26	36	120	(407)	38
Change in provision for reinsurance	5	(5)	2	6	(8)
Change in surplus during the year	<u>2,216</u>	<u>(306)</u>	<u>1,253</u>	<u>(2,807)</u>	<u>178</u>
Capital and surplus, end of the year	<u>\$16,703</u>	<u>\$14,487</u>	<u>\$14,793</u>	<u>\$13,540</u>	<u>\$16,347</u>

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Joseph L. Petrelli, ACAS, MAAA, of Demotech, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Petrelli prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2011 Annual Statement.

Thomas S. Botsko, ACAS, MAAA, Chief Property & Casualty Actuary of the Department, reviewed the actuarial report provided by Mr. Petrelli. Based on his review, Mr. Botsko determined that the loss and loss adjustment expense reserves presented in the Company's 2011 Annual Statement are reasonably stated.

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 Assets	<u>\$ 37,319,862</u>
Liabilities	20,617,014
Capital and Surplus	<u>16,702,848</u>
Total Liabilities, Capital and Surplus	<u>\$ 37,319,862</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, Jeffrey Ferris, AES, CFE, CISA; David Finkler, CPA, CFE; Louis Radecky, CPA (Inactive), CFE; 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

J. A. Cox 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~~
My Commission Expires

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~~
My Commission Expires