



Wayne Cooperative
Insurance Company CLYDE, NEW YORK

Annual Report 2015

Financial highlights

At and for the year ended December 31,

	2011	2012	2013	2014	2015
Direct Written Premium	12,420,814	12,791,681	13,755,239	14,769,668	15,468,148
Net Earned Premium	11,137,712	11,258,237	11,620,446	12,756,345	13,631,901
Direct Losses Incurred	7,193,521	7,880,252	7,384,139	7,051,248	8,865,741
Net Losses Incurred	7,186,287	6,871,203	7,172,601	6,475,202	7,382,383
Net Loss Adjusting Services	399,391	241,147	427,614	288,164	384,184
Net Underwriting Gain	(582,785)	(332,538)	(788,834)	946,880	725,065
Total Other Income	201,024	197,532	243,188	258,975	240,309
Net Investment Gain/(Loss)	796,391	784,784	750,649	718,520	730,461
Realized Cap Gain/(Loss)	318,347	79,603	62,569	8,852	19,713
Net Income	653,789	729,381	267,572	1,933,227	1,715,548
Total Invested Assets	21,395,202	22,497,327	23,293,609	24,813,237	25,255,148
Total Admitted Assets	23,859,839	25,130,414	26,541,069	28,065,331	28,828,535
Policyholder Surplus	10,837,654	11,702,272	12,212,296	13,628,631	14,777,344
Policyholder Surplus Change	398,461	864,618	510,024	1,416,335	1,148,713
Return Analysis					
Net Yield on Invested Assets	3.81	3.60	3.31	3.05	3.02
Return on Average Equity	6.38	3.95	1.80	10.30	9.13
Return on Average Assets	2.81	1.80	0.87	4.83	4.48
Pre-tax Operating ROAE (%)	4.05	5.90	1.67	15.27	12.55
Ratio Analysis					
Net Loss Ratio	64.52	61.03	61.72	50.76	54.16
Net LAE Ratio	8.40	7.06	8.60	6.83	7.81
Net Loss & LAE Ratio	72.92	68.10	70.32	57.60	61.97
Net Commission Ratio	17.45	18.54	19.55	19.23	18.70
Salaries & Benefits	7.88	8.61	8.46	7.55	7.19
Taxes, Licenses & Fees	1.20	1.16	1.06	1.21	0.62
Admin & Other Expense Ratio	5.64	6.10	5.92	5.58	5.46
Expense Ratio	32.18	34.40	34.98	33.57	31.97
Combined Ratio	105.11	102.50	105.30	91.16	93.94
Operating Ratio	97.96	95.53	98.84	85.53	88.58
Net Leverage Ratio (NWP/Avg PHS)	109.10	103.64	98.49	105.46	103.26

To Wayne Policyholders:

I am pleased to report that Wayne Cooperative increased Policyholder Surplus for five (5) straight years. We have added \$1,148,713 (+8.43%) to policyholder surplus in 2015 and \$3,939,690 (+36.35%) over the last five years bringing our total Policyholder Surplus to \$14,777,344. Policyholder Surplus provides the financial stability that an insurance company needs to provide coverage at a stable rate over time.

Our Policyholder Surplus came from the following sources:

Change in Policyholder Surplus		
Income Statement	2014	2015
Underwriting Gain/(Loss)	946,880	725,065
Net Investment Income	718,520	730,461
Realized Gains/(Losses)	8,852	19,713
Other Income	258,975	240,309
Net Income Pre-Tax	1,933,227	1,715,548
Federal Corporate Income Tax	(635,512)	(482,590)
Net Income Post-Tax	1,297,715	1,232,958
Surplus Line Items		
Unrealized Gains/(Losses)	80,868	(94,060)
Chg in Net Deferred Tax	10,200	(6,100)
Chg in Non-admitted Assets	27,555	15,915
Other	(3)	0
Total Change	1,416,335	1,148,713

Our Net Underwriting Income continued to show positive results with gains of \$946,880 and \$725,065 in years 2014 and 2015 respectively.

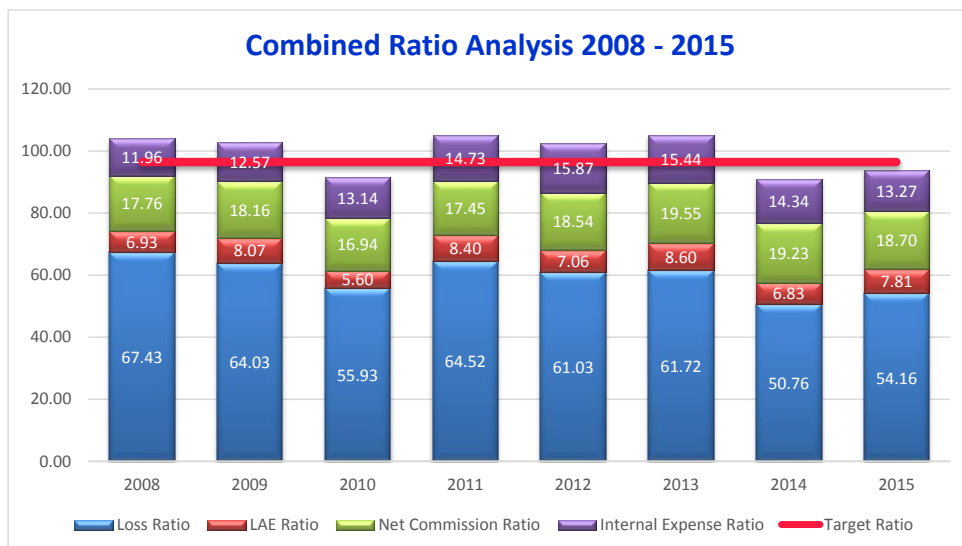
The table below summarizes some factors which explain the range of values between years.

Description	+/-	Amount
<i>Direct Written Premium Growth</i>	+	\$ 698,480
<i>Direct Losses Incurred (Reduction)</i>	-	(1,814,493)
<i>Reinsurance Loss Recoveries Increase</i>	+	907,312
<i>Unearned Premium Reserve Growth (drag on earnings)</i>	-	(317,495)
<i>Reinsurance Ceding Rate (Reduction) (10.0. to 9.30)</i>	+	38,109
<i>Net Loss Adjusting Expense Increase</i>	-	(96,020)

I am especially pleased to report that the Net Underwriting Gain of \$725,065 was augmented by other revenue sources of \$990,483 which resulted in a pre-tax Net Income of \$1,715,548. The table below provides the detail of the other revenue sources:

Other Revenue Sources	2014	2015
Finance Charges & Other Income	258,975	240,309
Net Investment Income	718,520	730,461
Realized Capital Gains/(Losses)	8,852	19,713
Total Other Revenue	986,347	990,483

Management targets a Combined Ratio (CR) of 96.5%. The table to the right provides an eight year history of the Combined Ratio and its component ratios. The most recent year's CR is 93.94% slightly above last year's 91.16% and under our target CR.



Our top-line Direct Written Premium grew by 4.73% (+698,480) in 2015 from \$14,769,668 to \$15,468,148. The Home/Mobile Homeowner premium increased by 5.97% (+312,187) as a result of modest policy count increases as well as inflation impacting the exposure limits insured providing additional premium. All other lines showed modest premium growth rates ranging from +.06% to 5.25%. New submissions increased by 8.23% over the previous year with 5,312 policies received in 2015. Our policy retention ratio has stabilized with only a minor slippage from 86.58% to 86.39%.

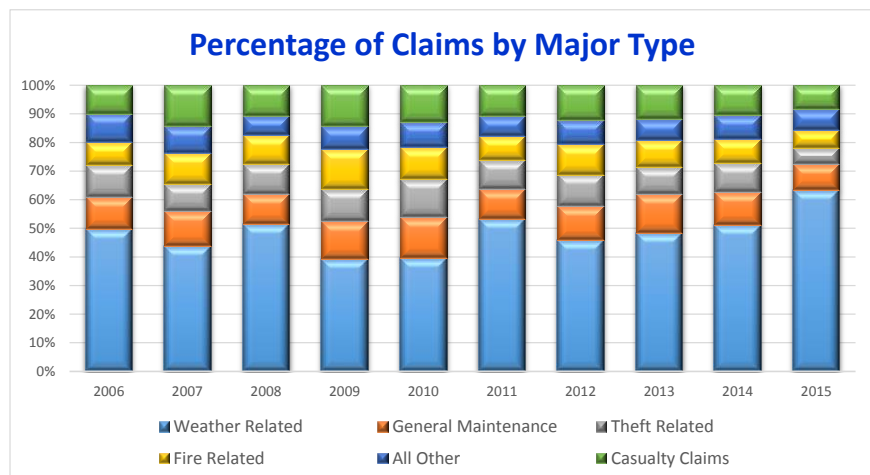
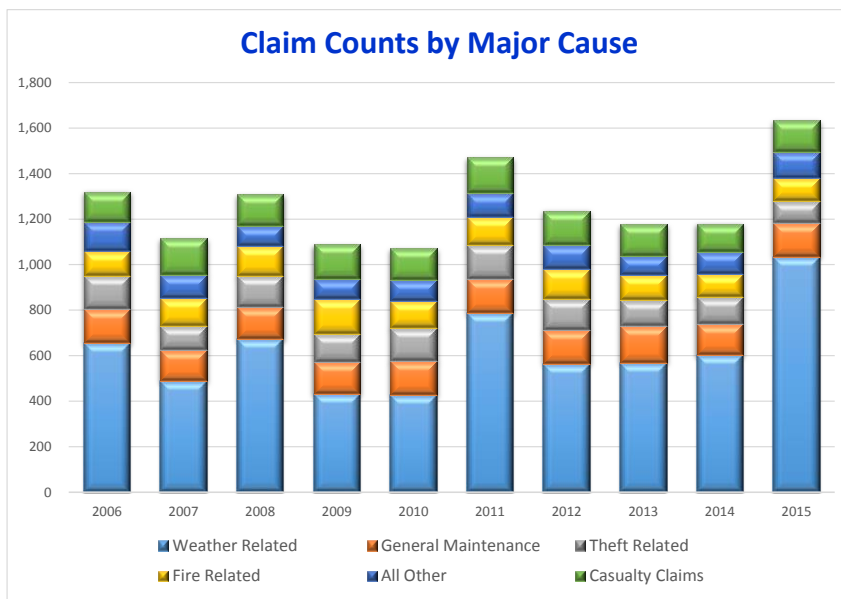
The table below reflects our policy count growth and retention ratio:

2015 Calendar Year Policy Count Growth & Retention									
Line of Business	Starting	New	Cancelled		Ending	Rates			
			New	Renewal		New Growth	New Cancel	Renewal Cancel	Retention Rate
Dwelling/Farm Fire	4,576	1,272	(252)	(837)	4,759	27.80	(19.81)	(18.29)	81.71
Farmowner	1,648	139	(9)	(127)	1,651	8.43	(6.47)	(7.71)	92.29
Homeowner	10,171	1,841	(212)	(1,206)	10,594	18.10	(11.52)	(11.86)	88.14
Mobile Homeowner	1,836	217	(29)	(248)	1,776	11.82	(13.36)	(13.51)	86.49
Commercial Multi-Peril	632	127	(17)	(95)	647	20.09	(13.39)	(15.03)	84.97
Landlords Package	7,257	1,716	(268)	(1,042)	7,663	23.65	(15.62)	(14.36)	85.64
Total	26,120	5,312	(787)	(3,555)	27,090	20.34	(14.82)	(13.61)	86.39

There were ten (10) new agencies appointed with three (3) appointments targeted in Western NY. There are currently 178 agency locations throughout Upstate NY representing Wayne Cooperative. The core four county area around the home office (Wayne, Monroe, Ontario & Cayuga) account for 42.7% of total agency locations. Expansion continues into the Central NY, North Country and Western NY areas for geographic diversification.

The Claims Department responded to 1,634 policyholder reported claims in 2015. This represents an increase of 38.6% (+455) over the previous year. The 2015 year started out quietly with only 76 reported claims in January. However, as the cold harsh winter weather arrived in mid-February to late March the number of claims increased quickly and substantially. Peak claim counts were reported in March 2015 with 460 and a total of 710 being reported in Quarter 1. The total Q1 claim counts were the highest we have experienced in the last ten (10) years. The average claim count for the previous three (3) years was 1,197. The reported claims in Q1 represented 59.3% of an entire year's worth of claims. Our claims staff handled 405 of the 460 (88.04%) claims reported in March 2015 using internal resources with the remaining 55 requiring outside support staffing. Our goal is to handle 90% of all claims using internal staff under normal circumstances. These were definitely not normal times.

The tables below reflects a ten-year history of claim activity:

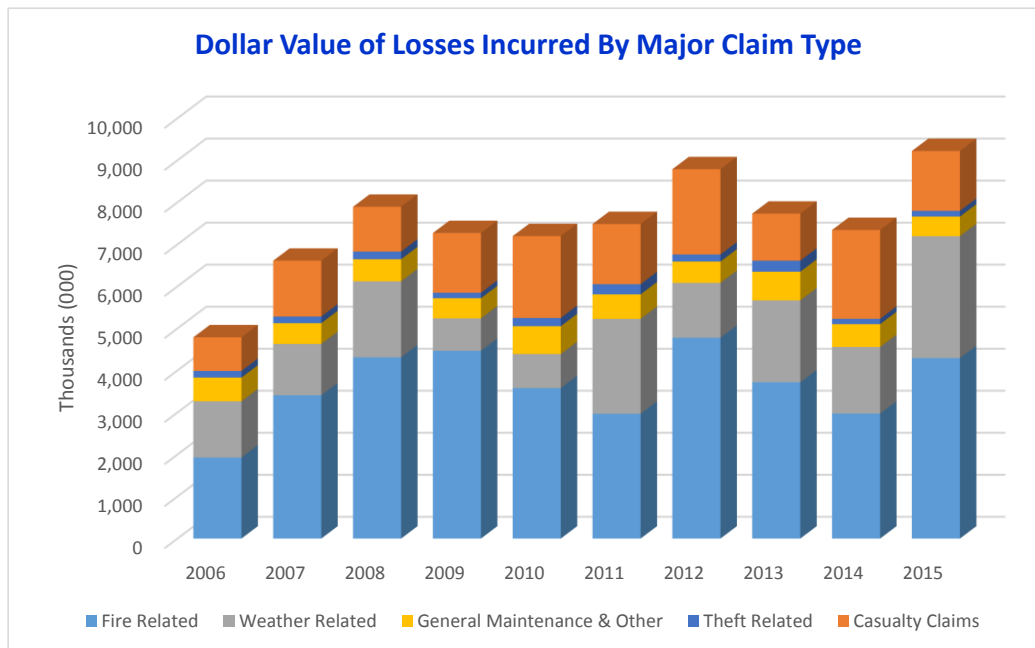


As the Direct/Ceded/Net Incurred Loss Table below indicates, direct losses incurred in 2015 were \$1,488,451 over the last four year average. Our reinsurance program provided significant financial support with 16.73% in recoveries of the total direct incurred loss dollars. Wayne recouped 97.67% in loss recoveries from each dollar ceded to the reinsurer.

Losses Incurred	Accounting Year					
	2011	2012	2013	2014	2015	Average
Direct Loss Incurred	7,193,521	7,880,252	7,384,139	7,051,248	8,865,741	7,674,980
Ceded Loss Recovery	7,234	1,009,049	211,538	576,046	1,483,358	657,445
Net Loss Incurred	7,186,287	6,871,203	7,172,601	6,475,202	7,382,383	7,017,535
Net Loss Retention Rate	99.90%	87.20%	97.14%	91.83%	83.27%	91.43%
Ceded Premium	1,239,161	1,385,067	1,641,527	1,476,582	1,518,752	1,452,218
Reinsurance Recovery Rate						
- Ceded Loss to Direct Loss	0.10%	12.80%	2.86%	8.17%	16.73%	8.57%
- Ceded Loss to Ceded Premium	0.58%	72.85%	12.89%	39.01%	97.67%	45.27%

Although Weather-related claims were the most frequent, Fire-related claims were the most costly. Fire-related claims incurred in 2015 accounted for \$4,072,561 (46.07%) followed by weather-related claims totaling \$2,819,569 (31.9%) of the \$8,839,041 in total case direct losses incurred. The top five (5) losses consisted of one (1) Casualty losses and four (4) Fire losses totaling \$1,508,292 in the aggregate with the largest recorded at \$502,500.

The table below reflects Direct Incurred Losses by claim type.



We track weather events affecting our bottom line. There seems to be a higher incidence of weather-related events in the most current years creating an impact in our service territory. Our writing

Weather Events 2015			
Event	Dates	Claims Reported	Incurred Losses
Severe Winter Weather	03/09 - 03/15	342	1,044,544
Severe Wind/Rain/Hail	06/10 - 06/12	21	124,990
Total		363	1,169,534

territory is principally the Finger Lakes region in Upstate NY and the North Country. The table to the left reflects the 2015 tracked storm events. The severe winter weather event loss incurred numbers for the 7-day period understate the magnitude of the direct losses experienced in Q1 of 2015. During the months

of February & March 2015, there were \$2,225,928 in winter-related claims incurred with \$1,055,266 in weight of ice & snow; \$860,460 in Ice Back-up; and \$177,768 in Freezing Pipes.

Our Claims Department settled or processed 89.3% of all claims submitted and used outside independent adjusters for 10.7%. We continue to find that our staff can provide superior and prompt service (24x7x365) to policyholders in need at the time of a claim whenever it occurs.

As Wayne is and always has been a mutual insurance company, management and the Board of Directors are ever mindful of providing policy coverage but more importantly superior claims service at a reasonable price. We know that every dollar our policyholder earns is precious. The table to the right reflects the major use of premium dollars:

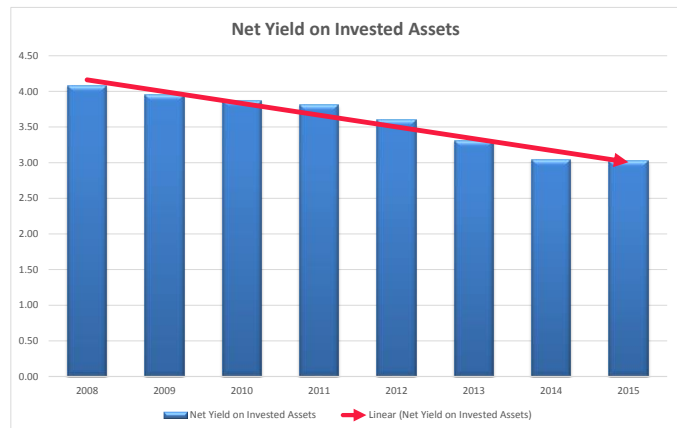
For every \$100 premium dollars earned in 2015, we incurred \$9.55 for Reinsurance Costs; \$48.99 in Losses; \$7.07 in Loss Adjusting Expenses; \$17.31 in Net Agency Commissions and \$12.29 in Underwriting Operating Expenses. This resulted in an underwriting gain as outlined in the table on the right.

	2014	2015
DIRECT PREMIUMS EARNED	100.00	100.00
EXPENSES		
Reinsurance Costs	10.37	9.55
Loss & Loss Adjusting Expenses		
Net Losses	45.49	48.99
Net Loss Adjusting Expenses		
- Net Outside Adjustment Costs	2.02	2.55
- In-House Adjustment Costs	4.10	4.52
Total Loss Adjustment	6.13	7.07
Total Loss & Loss Adjustment	51.62	56.06
Underwriting Expenses		
Net Agency Commissions	17.96	17.31
Salary, Payroll Tax & Benefits	7.05	6.66
Operations	5.21	5.05
Taxes, Licenses & Fees	1.13	0.58
Total Underwriting Expenses	31.35	29.59
Net Underwriting Gain/(Loss)	6.66	4.80

Invested assets (at book value) increased by \$441,911 (+1.78%) in 2015. Over the last five (5) years, we have increased our invested assets (book value) by \$3,859,946 (+18.04%) from \$21,395,202 to \$25,255,148. The investment portfolio consists primarily of diversified high grade fixed income securities (83.4%). This allocation has been consistent over the last few years (high of 84.0% and a low of 79.7%). Though the Book Value of the bond portfolio totaled \$21,073,816 the fair market value totaled \$21,390,244 resulting in an unrealized gain of \$316,428. This unrealized gain is an off-balance sheet gain and not recognized in our policyholder surplus.

We balanced capital gains with capital losses within the portfolio and reinvested funds. The net yield on our invested assets continues to go lower as larger coupon bonds mature or are called and replaced with lower returning securities as exhibited by Net Yield on Invested Assets:

Interest rates continue to remain at historical lows with a small increase in interest rate levels. The short term interest rates (2 Yr.) going up 40 bps from 0.66% to 1.06% while longer-term rates (10 Yr.) increasing by 11 bps from 2.07% to 2.28% as of 12/31/2015. Like all financial institutions and pension plans, it has been an extremely challenging time period.



Everyone at Wayne continues to strive to better our operations and that is no different in 2016. We are looking at accomplishing even more in the coming year.

Some of the projects in the works include the following:

- Advancement in our Secure Agency/Policyholder Web Portal(s) to provide more information to our agency representatives and our policyholders.
- Implementation of a secure document management system in our underwriting operations to increase efficiencies
- Review cloud-based software solutions for quicker, more effective claims settlements
- Streamline policy issuance
- Development of a better billing model including additional payment methods

In closing, I want to thank all those that have contributed to our successes this year. In addition, I am personally grateful to the perspectives that our Board brings to the table, our agency representatives who provide a local face for the Wayne Cooperative policyholder, our employees' dedication and effort, and our business partners. It takes a team effort to truly succeed in today's marketplace.

Respectfully Submitted,

Jeffrey W. Rice,
President/CEO