

2017

ANNUAL REPORT



Wayne Cooperative
Insurance Company



To Our Policyholders

In closing last year's annual report, I highlighted several projects that were currently in the works. These projects included implementation of a secure document management system throughout our departments, a secure cloud-based software solution for faster and more effective claims settlements, and a secure cloud-based document transfer process between us and our agents, policyholders, and our 3rd party business partners.

The secure document management system has now been fully implemented into our claims department. All claims files and processes are paperless which means that our Wayne Cooperative claims adjusters can do more from anywhere at any time. The system has also drastically transformed our underwriting department. With policies being stored in a paperless environment, we have been able to transform our processes and have become much more efficient.

Our claims department has also transitioned to using a cloud-based estimating system. Not only does it streamline the estimating process, saving us time

and allowing us to settle claims faster, but we have access to the most up-to-date pricing to ensure that our estimates and settlements are fair and accurate for our policyholders.

For the transfer of documents containing sensitive and private information, we have implemented the use of a secure cloud-based solution. These documents include items such as policy data and reports requested by our agents, claim reports submitted from independent adjusters, and information passed between us and outside attorneys. It's important to us that your information always remain private and secure.

Over the past year, we've been able to make great progress on a lot of projects we had planned for 2017 that have really changed the way we work.

In this year's report, I highlight the year that we've had with a supporting financial overview and how we're positioning and planning for the future.

2017 overview

We had a calm and quiet start to 2017. Reported claims in January had remained stable in comparison to previous years and there had even been a 47% decrease in February when compared to February 2016's reported total. And then came March.

On March 8, 2017, the Rochester area was hit with a windstorm catastrophe (CAT) event that left many in the community with no power and lots of property damage. It was nearly \$1.4 million in total incurred losses. I'm happy to say that 87% of the claims that were submitted due to the windstorm were adjusted by a Wayne Cooperative claims representative and were settled, on average, in 12 days.

Just days before that CAT event, a utility line failure caused our secondary office that houses the Claims Department to lose half of the power to the building. The Claims staff were quickly moved to our main location, forcing them to handle an overload of claims either from a temporary desk or remotely from the road. Having the CAT event occur while the office was experiencing a power outage was a true test of our Business Continuity Plan.

I'm proud of the way our staff was able to maneuver quickly and effectively to eliminate any business interruption, especially during a chaotic weather event

that left many policyholders needing assistance.

2017 started off as a bad year, but we turned it around. It was another good year for us and our financials really support that.

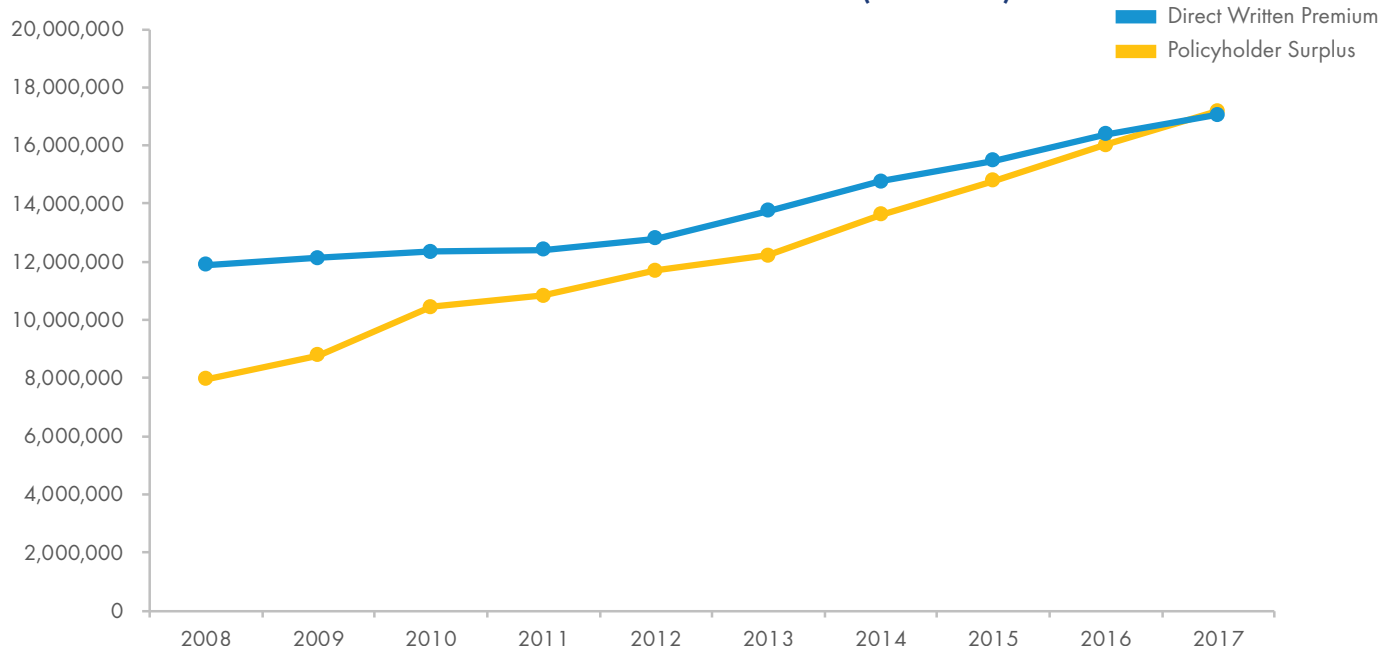
Financial results

In 2017, we continued to increase both direct written premium (DWP) and policyholder surplus (PHS). We target a 1:1 ratio for DWP:PHS to maximize our capacity and ensure our premiums do not grow too quickly in comparison to our surplus. It's very important that our policyholder surplus can withstand our probable maximum loss should we ever face a worst-case scenario. We have been working over the years to close the gap that has existed, achieving our goal this past year.

Direct written premium increased \$670,097 (4.09%) to \$17,045,510 and policyholder surplus increased \$1,180,711 (7.45%) to \$17,189,692 year-over-year.

While premiums written for the mobile homeowner and landlord lines of business decreased slightly, -2.45% and -0.61% respectively, all other lines of business showed growth rates ranging from 1.79% to 9.58%. As there were no rate changes in effect this past year, all premium increases were caused by natural growth through increased policy limits, endorsements, and policy counts.

DIRECT WRITTEN PREMIUM VS. POLICYHOLDER SURPLUS (2008-2017)



Total policy count in 2017 grew by 1.64%. Although the commercial, landlord, and mobile homeowner lines of business saw a modest decline, the dwelling fire line grew by 2.83%, the farmowner line by 1.09%, and the homeowner line by 4.71%. Our policy retention rate increased modestly from 86.13% to 86.26%.

Direct losses incurred totaled \$9,078,493, an increase of \$722,777 (8.65%) from 2016. Almost \$1.4 million of that total was incurred as a result of a single weather event in March 2017. Our reinsurance program provided for \$1,049,338 in recoveries, 11.56% of total losses incurred. After recoveries, net losses incurred totaled \$8,029,155.

Despite an increase in incurred losses, we still had a strong net underwriting gain of \$440,707, augmented by investment and other income, that resulted in pre-tax net income of \$1,646,307.

Total admitted assets increased \$3,235,370 (10.23%) to \$34,861,136. Much of this growth can be attributed to the growth in invested assets at book value. Invested assets increased \$3,073,809 (11.06%) to \$30,868,353.

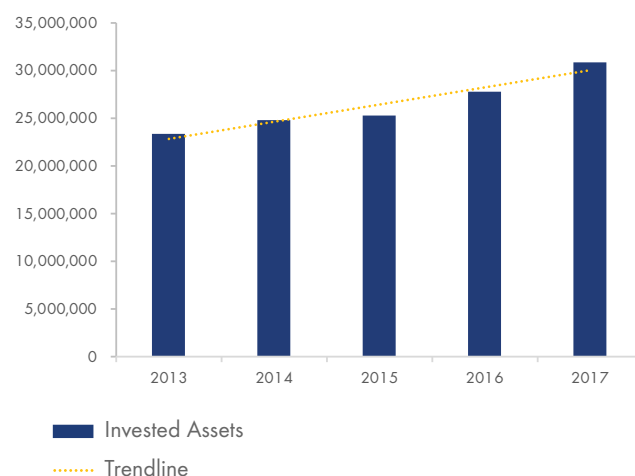
Our investment portfolio consisted primarily of diversified high grade fixed income securities. The book value of the bond portfolio totaled \$24,385,768. It was a \$1,025,892 (4.39%) increase from 2016 and represents 79.00% of the total portfolio.

As short-term interest rates were up, we took advantage of more short-term investments that substantially increased our cash balance. Cash and short-term investments increased by \$1,600,101 (113.82%) to \$3,005,873, representing 9.74% of the entire investment portfolio. This was a 4.68% segment increase from 2016.

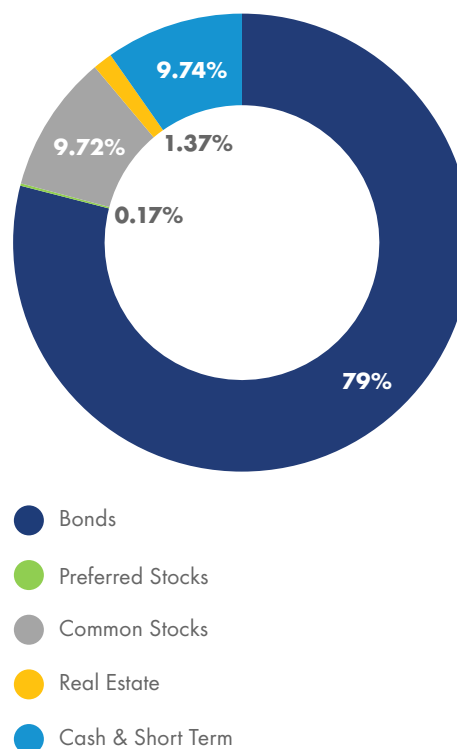
We returned a 2.89% net yield on our invested assets. While U.S. Treasury short-term rates (2 Yr.) increased from 1.20% to 1.89% year-over-year, long-term rates (10 Yr.) decreased from 2.45% to 2.40%. We've seen our net yield flattening out around 3% over the past several years which is reflective of the challenging investment environment.

The equity portfolio of preferred and common stocks increased \$463,426 (17.90%) to \$3,052,506, made up of 1.69% preferred stock and 98.31% common stock. Relative to the entire investment portfolio, the equity portfolio segment increased slightly from 9.31% to 9.89%.

TOTAL INVESTED ASSETS (2013-2017)



INVESTED ASSETS CONCENTRATION



\$17,045,510

Direct Written Premium

\$17,189,692

Policyholder Surplus

\$440,707

Net Underwriting Gain

\$34,861,136

Admitted Assets

\$1,646,307

Pre-Tax Net Income

96.30%

Combined Ratio

Financial highlights

AT AND FOR THE YEAR ENDED DECEMBER 31

	2013	2014	2015	2016	2017
Direct Written Premium	13,755,239	14,769,668	15,468,148	16,375,413	17,045,510
Net Earned Premium	11,620,446	12,756,345	13,631,901	14,172,040	14,884,541
Direct Losses Incurred	7,384,139	7,051,248	8,865,741	8,355,716	9,078,493
Net Losses Incurred	7,172,601	6,475,202	7,382,383	7,643,593	8,029,155
Net Loss Adjusting Services	427,614	288,164	384,184	423,858	555,494
Net Underwriting Gain/Loss	(788,834)	946,880	725,065	602,581	440,707
Total Other Income	243,188	258,975	240,309	290,452	341,723
Net Investment Gain/Loss	750,649	718,520	730,461	780,678	835,031
Realized Cap Gain/Loss	62,569	8,852	19,713	46,677	28,846
Net Income	267,572	1,933,227	1,715,548	1,720,388	1,646,307
Total Invested Assets	23,293,609	24,813,237	25,255,148	27,794,544	30,868,353
Total Admitted Assets	26,541,069	28,065,331	28,828,535	31,625,766	34,861,136
Policyholder Surplus	12,212,296	13,628,631	14,777,344	16,008,981	17,189,692
Policyholder Surplus Change	510,024	1,416,335	1,148,713	1,231,637	1,180,711

Return Analysis

Net Yield on Invested Assets	3.31	3.05	3.02	2.97	2.89
Return on Average Equity	1.80	10.30	9.13	7.32	6.85
Return on Average Assets	0.87	4.83	4.48	3.79	3.53
Pre-Tax Operating ROAE (%)	1.67	15.27	12.55	10.82	9.61

Ratio Analysis

Net Loss Ratio	61.72	50.76	54.16	53.93	53.94
Net LAE Ratio	8.60	6.83	7.81	8.24	9.10
Net Loss & LAE Ratio	70.32	57.60	61.97	62.17	63.05
Net Commission Ratio	19.55	19.23	18.70	19.30	19.59
Salaries & Benefits	8.46	7.55	7.19	7.37	7.57
Taxes, Licenses & Fees	1.06	1.21	0.62	0.71	0.85
Admin & Other Expense Ratio	5.92	5.58	5.46	5.14	5.25
Expense Ratio	34.98	33.57	31.97	32.52	33.26
Combined Ratio	105.30	91.16	93.94	94.69	96.30
Operating Ratio	98.84	85.53	88.58	89.18	90.69
Net Leverage Ratio (NWP/Avg PHS)	98.49	105.46	103.26	94.56	90.38



Product innovation

In June 2017, we launched a brand new Inland Flood Coverage product endorsement eligible on the homeowner, landlord, and farmowner lines of business. We were one of the first companies in New York State to offer this coverage. It's designed specifically for residences in lower-risk areas where floods are becoming more frequent.

Due to climate changes in the environment, we saw this as a great market opportunity. Heavy rainstorms, in normally dry areas, have become more severe and frequent in recent years. Properties that may not be in a designated flood zone are becoming more at risk.

While the National Flood Insurance Program (NFIP) does offer flood coverage, these policies are designed to meet federal regulations for homes in high-hazard flood zones. With higher limits, surcharges, and exclusions of common exposures, NFIP policies are not a good fit for low-to-moderate risk areas.

In addition, we created a new Added Water Damages (Water Backup) coverage with matching limits to be included with the Inland Flood Coverage. This ensures that our policyholders will have the coverage they need and prevents any coverage disputes.

Eyes on the future

We've made great strides to improve our operations over the last year that has allowed us to remain in a competitive position against our peers. However, in an industry that sees constant change, it's necessary for us to stay vigilant and aware of market and consumer trends.

"The projects we have planned get us excited about our future and where Wayne Cooperative can go."

With technology being a key driver in customer habits and preferences, one of the most important projects we have upcoming is the redevelopment of our public, policyholder, and agent websites. All websites will be completely redesigned to provide one consistent, updated look.

More importantly, we will be adding more data and documents to the policyholder and agent web portals to allow both parties greater access to policy information. We see digital as the future and recognize the need to have an instant, paperless option for important policy documents such as declarations pages and invoices.

Another key priority for us is the development of a new billing system that will allow us to provide more payment options to our policyholders. We need to work from the ground up to completely redevelop a new system that lets policyholders pay the way that they want to.

The projects we have planned get us excited about our future and where Wayne Cooperative can go. We're committed to always providing our best to both our policyholders and agents.

Community focus

As a local company in a small community, it's important to us to give back and get involved in the communities we both work and live in. Through donations, sponsorships and participation, we support many local events and organizations throughout New York State.

In 2014, we developed a biennial fundraising program in which we choose a local charity cycling event to participate in, supporting both local and national non-profit charitable organizations. We reach out to our agency representatives, business associates, family and friends to raise donations. Most recently, in 2016, six Wayne Cooperative employees participated in the Finger Lakes Tour de Cure in Watkins Glen, NY and collectively raised \$11,487 to donate to the American Diabetes Association. We really look forward to our next fundraising effort that will take place in Summer 2018.

Additionally, in 2015, we began participating in the Insurance Industry Charitable Foundation's Week of Giving. The Week of Giving is an eight-day insurance industry initiative that promotes volunteer service. Each year, we select a local non-profit organization and give employees the opportunity to volunteer time to provide their service. Last year we had six employees volunteer for a day at Sojourner House, a shelter for homeless women and children.

It takes a team

I'm personally grateful to every individual that has contributed to our successes over the past year: each of our employees for their continued dedication and hard work, our agents that represent us and provide a local face to our policyholders, every policyholder that we are given the opportunity to insure, our Board of Directors for their valuable insight and perspectives, and all of our business partners.



JEFFREY W. RICE

President & Chief Executive Officer

Corporate Officers

JEFFREY W. RICE

President & Chief Executive Officer

MARSH J. HANCOCK

Executive Vice President & Vice President Claims

THOMAS J. LISENO

Vice President Underwriting &
Assistant Vice President Investment Management

BRYAN J. RICE

Vice President Information Technology
Chief Technology Officer & Chief Information Security Officer

Board of Directors

ROBERT F. BRISKY

Owner - Park Lane, Finger Lakes Garage Door
Director since 1994

CLAIR J. BRITT, JR.

Executive Officer - Lyons National Bank
Director since 2007

KENNETH E. DISANTO

Owner - Brickoven Restaurant
Director since 1996

JANE E. HUBBS

Retired Manager - Rochester Community Savings Bank
Director since 1987

BRADLEY E. KEEM

Associate Attorney - D.J. & J.A. Cirando, Esqs.
Director since 2016

MICHAEL J. PALUMBOS

Owner - Family Wealth & Legacy
Director since 2010

JEFFREY W. RICE

President & CEO - Wayne Cooperative Ins. Co.
Director since 1985

WAYNE V. RICE*

Retired President & CEO - Wayne Cooperative Ins. Co.
Director since 1979

WILLIAM M. THOMPSON, SR.

Owner - Jackson Hewitt
Director since 1992

RICHARD A. WADSWORTH

Teacher Assistant - Gananda School District
Director since 1994

MELANIE L. WICKHAM

Executive Secretary - Empire State Potato Growers, Inc.
Proprietor/Manager - Pick 'n Patch
Director since 2011

MICHAEL A. VIRTIS

Self-Employed - Real Estate Sales/Development
Director since 2013

*Chairman of the Board

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Bradley Keem
Wayne Rice*
Michael Virts
Richard Wadsworth
Melanie Wickham

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Robert Brisky
Kenneth DiSanto*
Jane Hubbs
Michael Palumbos
Michael Virts

RISK COMMITTEE

Kenneth DiSanto
Bradley Keem
Jeffrey Rice*
Wayne Rice
William Thompson
Melanie Wickham

*Committee Chair

AUDIT COMMITTEE

Robert Brisky
Clair J. Britt, Jr.
Kenneth DiSanto
William Thompson*
Richard Wadsworth

FINANCE COMMITTEE

Clair J. Britt, Jr.
Michael Palumbos
Jeffrey Rice
Wayne Rice*
Melanie Wickham

EXECUTIVE COMMITTEE

Robert Brisky
Kenneth DiSanto
Jane Hubbs
Wayne Rice*
William Thompson