2020 ANNUAL REPORT

Wayne Cooperative
Insurance Company

To Our Policyholders

It goes without saying that this past year has been a very challenging one. It was marked by so much chaos and uncertainty. Not only for us, but for everyone. We all had to continuously adapt to a rapidly changing environment.

While it would be easy to list all of the struggles and difficulties faced, we want to look back and remember some of the great things that were accomplished.

PUBLIC & POLICYHOLDER WEBSITE

In March 2020, we launched a new public website that gave our company a new look and feel.

More importantly, we also released a new policyholder website that gives you many new features and capabilities, including the following:

- additional policy information;
- ability to add all policies to a single account;
- invoice history with capability to view/print your invoice(s);
- cart to pay multiple invoices at checkout;
- option to save payment method(s);
- option to enroll in two-factor authentication via app, email, or SMS; and
- online claim reporting.

CLAIMXPERIENCE

To ensure your safety, as well as the safety of our employees, we began to restrict non-essential corporate travel during the pandemic.

To limit the need for in-person inspections and increase claim settlement efficiencies, we implemented a virtual adjusting software: ClaimXperience.

The software helps streamline the claim process and increase collaboration by giving you the ability to:

- share live video;
- upload photos and videos of damage;
- message your adjuster; and
- indicate your availability on a shared calendar.

In addition to improving claims efficiency, we expect that the increased collaboration will help lead to a positive claim experience.

2020 overview

Upon the declaration of a pandemic outbreak, many individuals and families began to face extreme financial hardships. It was important to us to be flexible to provide peace of mind and help reduce the burden.

We immediately took action by offering various payment assistance options to those facing a financial hardship due to COVID-19, including:

- additional payment plan options;
- adjustment of invoice due dates; and
- waiver of late fees.

Shortly after, the New York State Department of Financial Services issued an emergency regulation, 11 NYCRR 229 (Insurance Regulation 216), regarding insurer practices during the COVID-19 pandemic. In addition to the payment assistance options already being offered, we adhered to the provisions of the regulation by providing a grace period in which a policy could not be canceled or non-renewed and premium deferrals.

Although the regulation expired in July, we understood that the financial hardships weren't gone and we wanted to continue to offer our help.

Between March 20, 2020 and October 1, 2020, late fees were waived on all overdue premium payments. As can be seen in the graph below, finance charges in Q2 and Q3 2020 significantly declined due to the decrease in late fees.

Although late fee assessments resumed in October, we have continued to provide assistance to anyone facing a financial hardship due to COVID-19.

Financial results

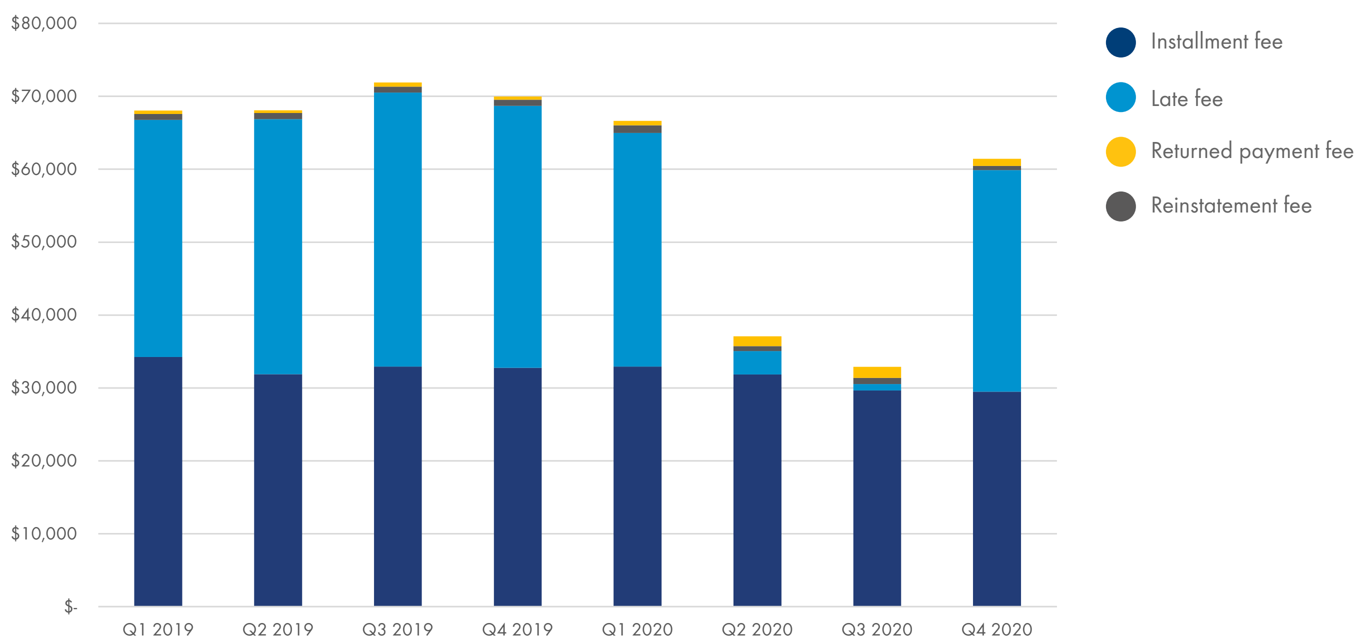
Direct written premium (DWP) continued to modestly grow in 2020, increasing $726,958 (3.98%) to $18,977,447. We also saw another year of significant growth in policyholder surplus (PHS) which increased $2,282,977 (10.45%) to $24,119,370.

Total policy count in 2020 grew by 0.80%. While the dwelling/farm fire, mobile homeowner, and landlord package lines experienced negative growth rates of -3.45%, -0.93%, and -0.72% respectively, the farmowner, homeowner, and commercial multi-peril lines positively grew at 0.06%, 3.82%, and 0.63% respectively. Our policy retention rate increased from 86.99% to 88.41%.

Premiums written increased amongst almost all lines of business, ranging from 0.07% to 9.67%. Only two lines, fire and liability, had premium decreases of -0.34% and -2.68% respectively.

With no rate changes in 2020, premium growth was a direct result of increased policy limits, endorsements added to current policies, and policy count growth.

FINANCE CHARGES BY QUARTER (2019-2020)



Since 2011, DWP has increased 52.79% from $12,420,814 to $18,977,447 and policyholder surplus has more than doubled from $10,837,654 to $24,119,370. After achieving a 1:1 ratio for DWP:PHS in 2017, we have continued to improve our gross leverage ratio (direct written premium/policyholder surplus) to 1:1.27, or 78.68.

Direct losses incurred totaled $8,924,850, a decrease of $197,743 (-2.17%) from 2019. Our reinsurance program provided for $452,484 in recoveries, 5.07% of total losses incurred. After reinsurance recoveries, net losses incurred totaled $8,472,366.

Reported claims declined 18.89% from 1,244 in 2019 to 1,009 in 2020. Total weather-related claims declined 36.93% from 723 in 2019 to 456 in 2020.

While most other claim types remained stable from year to year, fire-related claims increased 47.37% from 95 in 2019 to 140 in 2020.

We achieved a net underwriting gain of $1,095,002 that was augmented by investment and other income, resulting in another very strong pre-tax net income of $2,335,660.

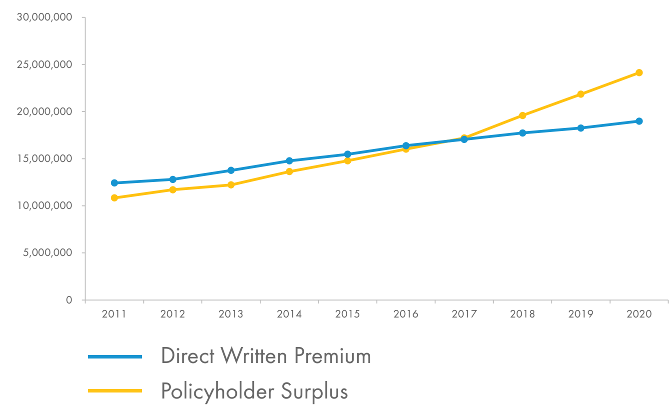
Total admitted assets increased $2,948,916 (7.42%) to $42,700,535. This growth can be attributed to the growth in bonds and common stocks. Total cash and invested assets increased $2,869,802 (8.07%) to $38,452,443.

Our investment portfolio consisted primarily of diversified high grade fixed income securities. The book value of the bond portfolio totaled $29,706,270. It was a $1,072,195 (3.74%) increase from 2019 and represents 77.25% of the total portfolio.

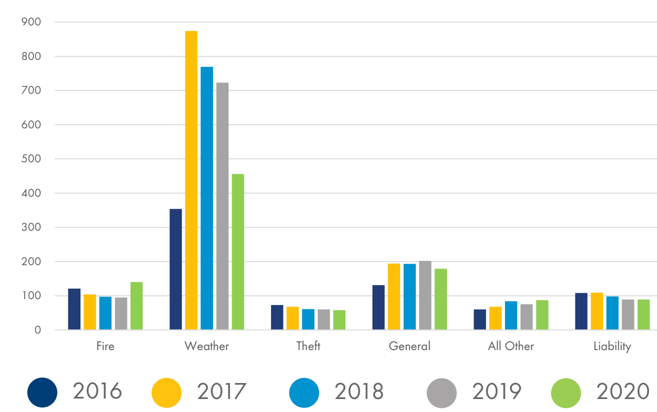
We returned a 2.83% net yield on our invested assets. U.S. Treasury short-term rates (2 Yr.) drastically decreased from 1.58% to 0.13% and long-term rates (10 Yr.) decreased from 1.92% to 0.93% year-over-year. Our net yield has continued to flatten out around 3% due to the challenging investment environment.

While other invested assets remained relatively stable, the equity portfolio of preferred and common stocks increased $1,181,006 (30.09%) to $5,106,328. In particular, common stocks increased $1,183,892 (31.39%) to $4,955,998 and grew to 12.89% of the total portfolio from 10.60%.

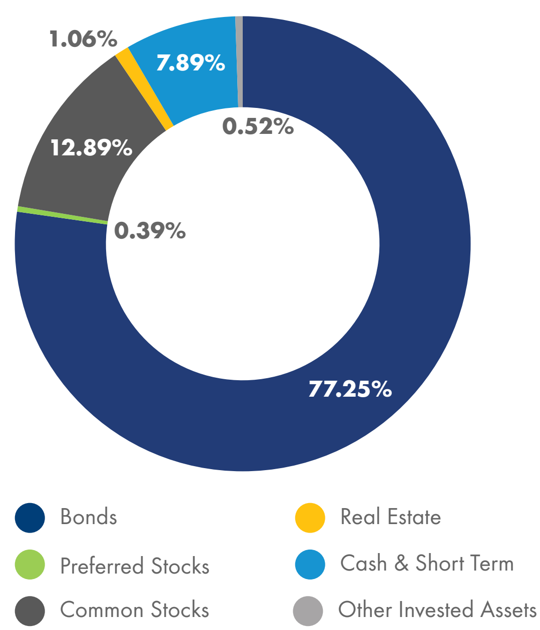
DWP VS. POLICYHOLDER SURPLUS (2011-2020)



REPORTED CLAIMS BY TYPE (2016-2020)



INVESTED ASSETS CONCENTRATION



$18,977,447

Direct Written Premium

$24,119,370

Policyholder Surplus

$1,095,002

Net Underwriting Gain

$42,700,535

Admitted Assets

$2,335,660

Pre-Tax Net Income

92.65%

Combined Ratio

Financial highlights

AT AND FOR THE YEAR ENDED DECEMBER 31

	2016	2017	2018	2019	**2020**
Direct Written Premium	16,375,413	17,045,510	17,723,270	18,250,489	**18,977,447**
Net Earned Premium	14,172,040	14,884,541	15,532,239	16,012,701	**16,584,507**
Direct Losses Incurred	8,355,716	9,078,493	7,869,594	9,122,593	**8,924,850**
Net Losses Incurred	7,643,593	8,029,155	7,090,445	8,664,108	**8,472,366**
Net Loss Adjusting Services	423,858	555,494	420,914	457,305	**422,667**
Net Underwriting Gain/Loss	602,581	440,707	2,024,184	493,142	**1,095,002**
Total Other Income	290,452	341,723	255,100	506,260	**194,711**
Net Investment Gain/Loss	780,678	835,031	959,203	1,045,046	**1,031,606**
Realized Cap Gain/Loss	46,677	28,846	25,095	13,419	**14,341**
Net Income	1,720,388	1,646,307	3,263,582	2,057,867	**2,335,660**
Total Invested Assets	27,794,544	30,868,353	33,444,858	35,582,641	**38,452,443**
Total Admitted Assets	31,625,766	34,861,136	37,355,067	39,751,619	**42,700,535**
Policyholder Surplus	16,008,981	17,189,692	19,581,855	21,836,393	**24,119,370**
Policyholder Surplus Change	1,231,637	1,180,711	2,392,163	2,254,538	**2,282,977**
Return Analysis					
Net Yield on Invested Assets	2.97	2.89	3.02	3.08	**2.83**
Return on Average Equity	7.32	6.85	13.55	7.92	**8.27**
Return on Average Assets	3.79	3.53	7.17	4.39	**4.56**
Pre-Tax Operating ROAE (%)	10.82	9.61	17.18	9.73	**10.39**
Ratio Analysis					
Net Loss Ratio	53.93	53.94	45.65	54.11	**51.09**
Net LAE Ratio	8.24	9.10	7.99	8.01	**7.72**
Net Loss & LAE Ratio	62.17	63.05	53.64	62.11	**58.80**
Net Commission Ratio	19.30	19.59	19.00	19.31	**19.53**
Salaries & Benefits	7.37	7.57	7.78	8.54	**8.57**
Taxes, Licenses & Fees	0.71	0.85	0.81	0.79	**0.76**
Admin & Other Expense Ratio	5.14	5.25	5.09	5.43	**4.99**
Expense Ratio	32.52	33.26	32.68	34.08	**33.85**
Combined Ratio	94.69	96.30	86.32	96.20	**92.65**
Operating Ratio	89.18	90.69	80.14	89.67	**86.43**
Net Leverage Ratio (NWP/Avg PHS)	94.56	90.38	84.04	77.78	**75.87**

Virtual volunteerism

Each fall, the Company selects a local organization for volunteer work to give employees the opportunity to give back as part of the Insurance Industry Charitable Foundation's Week of Giving.

Although we were unable to volunteer in person this past year, we wanted to find another service project that would give us the ability to continue giving back while ensuring everyone's safety.

OPERATION GRATITUDE

Operation Gratitude was founded in 2003 to help forge bonds between the American people and military members/first responders through volunteer service, acts of gratitude, and engagement. The organization sends over 300,000 care packages to service members, first responders, veterans, wounded heroes, and care givers each year.

Our employees helped to craft paracord "survival" bracelets, one of the staple items included in the care packages for service members and first responders. The bracelets are able to provide over seven feet of cord that can be used in an emergency situation such as building a makeshift shelter, creating a harness, or making a sling/splint.

The shift to working in a remote environment

COVID-19 drastically changed the way that we have had to operate. It forced us out of our comfort zone and propelled us to working in a new type of environment almost immediately. While it had its challenges, we embraced the opportunity to really see how much we were capable of.

"I am proud of how everyone has pulled together during this once in a lifetime (or two lifetimes) event."

At the beginning of the pandemic, we quickly transitioned to having half of our staff working remotely to help maintain social distancing for the health and safety of all employees. A limited in-office staff was maintained only for those operations that could not be performed remotely. Various processes that relied upon paper were adapted to a paperless environment to allow operations to continue seamlessly.

Without being able to see each other face-to-face on a daily basis, regular virtual meetings became crucial. These meetings helped ensure that our entire staff remained on the same page and gave us the ability to act quickly during a time when we needed to be very agile.

A year ago, the idea that so many of our employees would be working remotely full-time would have seemed crazy. However, we quickly embraced it and haven't turned back.

Back together under one roof

For a number of years, the claims staff had been working at a secondary office location because we had simply outgrown our main office and needed more space.

Many cubicles and offices began to sit empty when we transitioned to remote work. As we now had enough space, the claims staff was moved to the main office.

We were very happy to be able to have employees back together under one roof and expect that change to create more operational efficiencies.

In this together

We learned a lot from 2020. Perhaps most importantly, we learned how much we can still grow and accomplish when we continue to work together, even in the face of an extreme hardship. For that, I thank our dedicated employees, independent agents, policyholders, Board of Directors, and all of our business partners.

This company looked very different a year ago and I expect that it will look very different a year from now as well. During such a difficult time, we're so thankful to be able to grow and adapt to what is becoming a new normal.

JEFFREY W. RICE
President & Chief Executive Officer

Corporate Officers

JEFFREY W. RICE
President & Chief Executive Officer

THOMAS J. LISENO
Vice President Underwriting &
Vice President Investment Management

LAURA M. HARRIS
Vice President Consumer Affairs &
Agency Marketing & Underwriter

MARSH J. HANCOCK
Executive Vice President & Vice President Claims

BRYAN J. RICE
Vice President Information Technology &
Chief Technology Officer

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

KENNETH E. DISANTO
Owner - Brickoven Restaurant
Director since 1996

BRADLEY E. KEEM
Owner - Keem Appeals
Director since 2016

MICHAEL J. PALUMBOS
Owner - Family Wealth & Legacy
Director since 2010

WAYNE V. RICE*
Retired President & CEO - Wayne Cooperative Ins. Co.
Director since 1979

RICHARD A. WADSWORTH
Teacher Assistant & Auditor - Gananda School District
Director since 1994

MICHAEL A. VIRTS
Self-Employed - Real Estate Sales/Development
Director since 2013

CLAIR J. BRITT, JR.
Executive Officer - Lyons National Bank
Director since 2007

JANE E. HUBBS
Retired Manager - Rochester Community Savings Bank
Director since 1987

GRETTA B. MILES
Controller - Carrols Corporation
Director since 2018

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

WILLIAM M. THOMPSON, SR.
Retired Owner - Jackson Hewitt
Director since 1992

MELANIE L. WICKHAM
Partner - Pick 'n Patch LLC & RR Events LLC
Director since 2011

*Chairman of the Board

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Bradley Keem
Wayne Rice
Michael Virts
Melanie Wickham

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Clair J. Britt, Jr.
Gretta Miles
William Thompson*
Richard Wadsworth
Melanie Wickham

COMPENSATION COMMITTEE
Robert Brisky
Kenneth DiSanto*
Jane Hubbs
Michael Virts
Richard Wadsworth

FINANCE COMMITTEE
Clair J. Britt, Jr.*
Kenneth DiSanto
Gretta Miles
Michael Palumbos
Wayne Rice

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Clair J. Britt, Jr.
Kenneth DiSanto
Jane Hubbs
Bradley Keem*
Michael Palumbos
William Thompson

EXECUTIVE COMMITTEE
Clair J. Britt, Jr.
Kenneth DiSanto
Jane Hubbs
Wayne Rice*
William Thompson

*Committee Chair