

The original filing completed on 2/26/2016 omitted Page 14 Notes to Financial Statement PDF. This amended filing includes Page 14 Notes to Financial Statement PDF



PROPERTY AND CASUALTY COMPANIES—ASSOCIATION EDITION

ANNUAL STATEMENT
For the Year Ended December 31, 2015
OF THE CONDITION AND AFFAIRS OF THE

WESTERN RESERVE MUTUAL CASUALTY COMPANY

NAIC Group Code	0207	NAIC Company Code	26131	Employer's ID Number	34-0613930
(Current Period)		(Prior Period)			
Organized under the Laws of	Ohio		State of Domicile or Port of Entry		Ohio
Country of Domicile	United States				
Incorporated/Organized	06/29/1937		Commenced Business		07/30/1937
Statutory Home Office	1685 Cleveland Road				Wooster, OH, US 44691-0036
(Street and Number)				(City or Town, State, Country and Zip Code)	
Main Administrative Office	1685 Cleveland Road		Wooster, OH, US 44691-0036		330-262-9060
(Street and Number)		(City or Town, State, Country and Zip Code)		(Area Code) (Telephone Number)	
Mail Address	1685 Cleveland Road				Wooster, OH, US 44691-0036
(Street and Number or P.O. Box)				(City or Town, State, Country and Zip Code)	
Primary Location of Books and Records	1685 Cleveland Road		Wooster, OH, US 44691-0036		330-262-9060
(Street and Number)		(City or Town, State, Country and Zip Code)		(Area Code) (Telephone Number)	
Internet Web Site Address	www.wrg-ins.com				
Statutory Statement Contact	Joseph Earl Wilford				330-262-9060-2437
(Name)				(Area Code) (Telephone Number) (Extension)	
joe_wilford@wrg-ins.com				330-264-7822	
(E-Mail Address)				(Fax Number)	

OFFICERS

Name	Title	Name	Title
KEVIN W. DAY	PRESIDENT AND SECRETARY - CHIEF EXECUTIVE OFFICER	MICHAEL A. SHUTT	VICE PRESIDENT AND TREASURER -CHIEF FINANCIAL OFFICER

OTHER OFFICERS

GREGORY A. BRUNN	VICE PRESIDENT-CHIEF MARKETING & UNDERWRITING OFFICER	GARY W. GWINN	VICE PRESIDENT-CHIEF CLAIMS OFFICER
GREGORY J. OWEN	VICE PRESIDENT-CHIEF INFORMATION OFFICER		

DIRECTORS OR TRUSTEES

KEVIN W. DAY	JEFFREY P. HASTINGS	RONALD E. HOLTMAN	JOHN P. MURPHY
C. MICHAEL REARDON	EDDIE L. STEINER	FLOYD A. TROUTEN III	KENNETH L. VAGNINI

State of Ohio
 ss
 County of Wayne

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

KEVIN W. DAY
 PRESIDENT AND SECRETARY -CHIEF
 EXECUTIVE OFFICER

Subscribed and sworn to before me
 this 26th day of February, 2016

MICHAEL A. SHUTT
 VICE PRESIDENT AND TREASURER -CHIEF
 FINANCIAL OFFICER

a. Is this an original filing? Yes [] No [X]
 b. If no:
 1. State the amendment number 1
 2. Date filed 02/26/2016
 3. Number of pages attached 14

Lauresa Durham, Notary Public
 July 30, 2016

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies and Going Concern

A. Accounting Practices

The financial statements of Western Reserve Mutual Casualty Insurance Company (WRMCC) are presented on the basis of accounting principles prescribed or permitted by the Ohio Department of Insurance.

The Ohio Department of Insurance recognizes only statutory accounting practices prescribed or permitted by the State of Ohio for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under Ohio Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the State of Ohio.

The financial statements of the Company are presented solely on the basis of accounting principles prescribed by the Ohio Department of Insurance. As such, there are no increases or decreases to net income or surplus on a statutory accounting basis as shown by the reconciliation below:

	State of Domicile	2015	2014
<u>NET INCOME</u>			
(1) WRMCC state basis (Page 4, Line 20, Columns 1 & 2)	Ohio	\$ 4,704,943	\$ 9,619,842
(2) State Prescribed Practices that increase/(decrease) NAIC SAP:		—	—
(3) State Permitted Practices that increase/(decrease) NAIC SAP:		—	—
(4) NAIC SAP (1-2-3=4)		<u>\$ 4,704,943</u>	<u>\$ 9,619,842</u>
<u>SURPLUS</u>			
(5) WRMCC state basis (Page 3, Line 37, Columns 1 & 2)	Ohio	\$ 106,625,394	\$ 106,201,929
(6) State Prescribed Practices that increase/(decrease) NAIC SAP:		—	—
(7) State Permitted Practices that increase/(decrease) NAIC SAP:		—	—
(8) NAIC SAP (5-6-7=8)		<u>\$ 106,625,394</u>	<u>\$ 106,201,929</u>

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

Premiums are earned over the terms of the related policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata methods for direct business and are based on reports received from ceding companies for reinsurance.

Expenses incurred in connection with acquiring new insurance business, including such acquisition costs as sales commissions, are charged to operations as incurred. Expenses incurred are reduced for ceding allowances received or receivable.

In addition, the Company uses the following accounting policies:

- (1) Short—term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the interest method; U.S. Treasury Inflation—Indexed bonds are stated at amortized cost adjusted for unrealized inflation factor gains. Bonds rated at 3 or below by the NAIC are stated at the lower of cost or fair market value.
- (3) Common stocks are stated at market except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more are carried on the equity basis. In 2015, the Company recognized \$4.0 million of impairment realized losses all on common stocks. Fair values were determined from year-end market valuation.
- (4) Preferred stocks are stated in accordance with the guidance provided in SSAP No. 32.
- (5) The Company has no mortgage loans.
- (6) The Company has no loan—backed securities.
- (7) The Company carries investments in subsidiaries, Forward Agencies, Inc. and Western Reserve Financial Corporation, at statutory equity as reported on Schedule D; these assets are reported as nonadmitted on page 2, column 2.

NOTES TO FINANCIAL STATEMENTS

- (8) The Company has a minor ownership interest in a Limited Liability Company. The Company carries this interest based on the underlying audited GAAP equity of the investee.
- (9) The Company has no derivatives.
- (10) The Company does not utilize anticipated investment income in the premium deficiency calculation.
- (11) Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.
- (12) The Company has not modified its capitalization policy from the prior period.
- (13) The Company has no pharmaceutical rebate receivables.

D. Going Concern

Not applicable.

2. Accounting Changes and Corrections of Errors

Accounting changes adopted to conform to the provisions of the NAIC Accounting Practices and Procedures Manual are reported as changes in accounting principles. The cumulative effect of the changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all periods.

In accordance with SSAP No. 3 *Accounting Changes and Errors*, the Company recorded prior period adjustments in December 2015 and 2014, respectively, related to its nonqualified, unfunded directors' retirement plan. The adjustment made in December 2015 was to account for the termination of this plan and the adjustment made in December 2014 was to true-up the liability for the plan. The net impact to surplus in 2015 and 2014 was an increase of \$7,944 and a decrease of \$32,905, respectively.

3. Business Combinations and Goodwill

A. Statutory Purchase Method

Not applicable.

B. Statutory Merger

Not applicable.

C. Impairment Loss

Not applicable.

4. Discontinued Operations

Not applicable.

5. Investments

A. Mortgage Loans, including Mezzanine Real Estate Loans

Not applicable.

B. Debt Restructuring

Not applicable.

C. Reverse Mortgages

Not applicable.

D. Loan-Backed Securities

Not applicable.

E. Repurchase Agreements and/or Securities Lending Transactions

Not applicable.

NOTES TO FINANCIAL STATEMENTS

F. Real Estate

Not applicable.

G. Low-income Housing Tax Credits (LIHTC)

Not applicable.

H. Restricted Assets

Not applicable.

I. Working Capital Finance Investments

Not applicable.

J. Offsetting and Netting of Assets and Liabilities

Not applicable.

K. Structured Notes

Not applicable.

6. Joint Ventures, Partnerships and Limited Liability Companies

A. The Company has no investments in Joint Ventures, Partnerships, or Limited Liability Companies that exceed 10% of its admitted assets.

B. The Company did not recognize any impairment write down for its investments in Joint Ventures, Partnerships, or Limited Liability Companies during the statement periods.

7. Investment Income

The Company has no uncollectible accrued investment income.

8. Derivative Instruments

The Company has no derivative instruments.

9. Income Taxes

A. The components of the net deferred tax asset/(liability) at December 31, 2015 and December 31, 2014 are as follows:

1.

	12/31/2015		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
(a) Gross Deferred Tax Assets	\$ 8,395,655	\$ 1,629,618	\$ 10,025,274
(b) Statutory Valuation Allowance Adjustments	—	—	—
(c) Adjusted Gross Deferred Tax Assets (1a – 1b)	8,395,655	1,629,618	10,025,274
(d) Deferred Tax Assets Nonadmitted	—	—	—
(e) Subtotal Net Deferred Tax Asset (1c – 1d)	8,395,655	1,629,618	10,025,274
(f) Deferred Tax Liabilities	(472,176)	(6,723,616)	(7,195,792)
(g) Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) (1e – 1f)	<u>\$ 7,923,479</u>	<u>\$ (5,093,997)</u>	<u>\$ 2,829,482</u>

NOTES TO FINANCIAL STATEMENTS

	12/31/2014		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
(a) Gross Deferred Tax Assets	\$ 7,438,373	\$ 404,530	\$ 7,842,903
(b) Statutory Valuation Allowance Adjustments	—	—	—
(c) Adjusted Gross Deferred Tax Assets (1a – 1b)	7,438,373	404,530	7,842,903
(d) Deferred Tax Assets Nonadmitted	—	—	—
(e) Subtotal Net Deferred Tax Asset (1c – 1d)	7,438,373	404,530	7,842,903
(f) Deferred Tax Liabilities	(471,107)	(8,074,657)	(8,545,764)
(g) Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) (1e – 1f)	<u>\$ 6,967,266</u>	<u>\$ (7,670,127)</u>	<u>\$ (702,861)</u>
	Change		
	(7)	(8)	(9)
	(Col 1-4) Ordinary	(Col 2-5) Capital	(Col 7+8) Total
(a) Gross Deferred Tax Assets	\$ 957,282	\$ 1,225,088	\$ 2,182,370
(b) Statutory Valuation Allowance Adjustments	—	—	—
(c) Adjusted Gross Deferred Tax Assets (1a – 1b)	957,282	1,225,088	2,182,370
(d) Deferred Tax Assets Nonadmitted	—	—	—
(e) Subtotal Net Deferred Tax Asset (1c – 1d)	957,282	1,225,088	2,182,370
(f) Deferred Tax Liabilities	(1,069)	1,351,041	1,349,972
(g) Net Admitted Deferred Tax Asset/(Net Deferred Tax Liability) (1e – 1f)	<u>\$ 956,212</u>	<u>\$ 2,576,129</u>	<u>\$ 3,532,342</u>

	12/31/2015		
	(1)	(2)	(3)
	Ordinary	Capital	(Col 1+2) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$ 3,514,519	\$ —	\$ 3,514,519
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	1,951,452	—	1,951,452
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	1,951,452	—	1,951,452
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	XXX	XXX	15,360,174
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities.	2,929,684	1,629,619	4,559,303
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. (2(a) + 2(b) + 2(c))	<u>\$ 8,395,655</u>	<u>\$ 1,629,618</u>	<u>\$ 10,025,274</u>

NOTES TO FINANCIAL STATEMENTS

	12/31/2014		
	(4)	(5)	(6)
	Ordinary	Capital	(Col 4+5) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$ —	\$ —	\$ —
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	1,882,796	—	1,882,796
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	1,882,796	—	1,882,796
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	XXX	XXX	15,807,199
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities.	5,555,577	404,530	5,960,107
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. (2(a) + 2(b) + 2(c))	<u>\$ 7,438,373</u>	<u>\$ 404,530</u>	<u>\$ 7,842,903</u>
Change			
	(7)	(8)	(9)
	(Col 1-4) Ordinary	(Col 2-5) Capital	(Col 7+8) Total
(a) Federal Income Taxes Paid In Prior Years Recoverable Through Loss Carrybacks.	\$ 3,514,519	\$ —	\$ 3,514,519
(b) Adjusted Gross Deferred Tax Assets Expected To Be Realized (Excluding The Amount Of Deferred Tax Assets From 2(a) above) After Application of the Threshold Limitation (The Lesser of 2(b)1 and 2(b)2 Below)	68,655	—	68,655
1. Adjusted Gross Deferred Tax Assets Expected to be Realized Following the Balance Sheet Date.	68,655	—	68,655
2. Adjusted Gross Deferred Tax Assets Allowed per Limitation Threshold.	XXX	XXX	(447,025)
(c) Adjusted Gross Deferred Tax Assets (Excluding The Amount Of Deferred Tax Assets From 2(a) and 2(b) above) Offset by Gross Deferred Tax Liabilities.	(2,625,893)	1,225,089	(1,400,804)
(d) Deferred Tax Assets Admitted as the result of application of SSAP No. 101. (2(a) + 2(b) + 2(c))	<u>\$ 957,281</u>	<u>\$ 1,225,089</u>	<u>\$ 2,182,370</u>
2015 2014			
(a) Ratio Percentage Used To Determine Recovery Period And Threshold Limitation Amount.	15%	15%	
(b) Amount Of Adjusted Capital And Surplus Used To Determine Recovery Period And Threshold Limitation In 2(b) 2 Above.	\$102,401,159	\$105,381,328	

3.

NOTES TO FINANCIAL STATEMENTS

4. Impact of Tax-Planning Strategies

		12/31/2015	
		(1)	(2)
		Ordinary	Capital
(a) Determination Of Adjusted Gross Deferred Tax Assets And Net Admitted Deferred Tax Assets, By Tax Character As A Percentage.			
1.	Adjusted Gross DTAs Amount From Note 9A1(c)	\$ 8,395,655	\$ 1,629,619
2.	Percentage of Adjusted Gross DTAs By Tax Character Attributable To The Impact Of Tax Planning Strategies	0%	0%
3.	Net Admitted Adjusted Gross DTAs Amount from Note 9A1(e)	\$ 8,395,655	\$ 1,629,619
4.	Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because Of The Impact Of Tax Planning Strategies	0%	0%
		12/31/2014	
		(3)	(4)
		Ordinary	Capital
(a) Determination Of Adjusted Gross Deferred Tax Assets And Net Admitted Deferred Tax Assets, By Tax Character As A Percentage.			
1.	Adjusted Gross DTAs Amount From Note 9A1(c)	\$ 7,438,373	\$ 404,530
2.	Percentage of Adjusted Gross DTAs By Tax Character Attributable To The Impact Of Tax Planning Strategies	0%	0%
3.	Net Admitted Adjusted Gross DTAs Amount from Note 9A1(e)	\$ 7,438,373	\$ 404,530
4.	Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because of The Impact Of Tax Planning Strategies	0%	0%
		Change	
		(5)	(6)
		(Col 1-3) Ordinary	(Col 2-4) Capital
(a) Determination Of Adjusted Gross Deferred Tax Assets And Net Admitted Deferred Tax Assets, By Tax Character As A Percentage.			
1.	Adjusted Gross DTAs Amount From Note 9A1(c)	\$ 957,281	\$ 1,225,089
2.	Percentage of Adjusted Gross DTAs By Tax Character Attributable To The Impact Of Tax Planning Strategies	0%	0%
3.	Net Admitted Adjusted Gross DTAs Amount from Note 9A1(c)	\$ 957,281	\$ 1,225,089
4.	Percentage of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because Of The Impact Of Tax Planning Strategies	0%	0%
(b) Does the Company's tax-planning strategies include the use of reinsurance? Yes _____ No <u>X</u>			

B. The Company has no temporary differences for which deferred tax liabilities are not recognized.

NOTES TO FINANCIAL STATEMENTS

Current income taxes incurred consist of the following major components:

	(1) 12/31/2015	(2) 12/31/2014	(3) (Col 1-2) Change
1. Current Income Tax			
(a) Federal	\$ 2,979,119	\$ 791,638	\$ 2,187,481
(b) Foreign	\$ —	\$ —	\$ —
(c) Subtotal	\$ 2,979,119	\$ 791,638	\$ 2,187,481
(d) Federal income tax on net capital gains	\$ (417,831)	\$ 1,062,790	\$ (1,480,621)
(e) Utilization of operating loss carry-forwards	\$ —	\$ —	\$ —
(f) Other	\$ —	\$ —	\$ —
(g) Federal and foreign income taxes incurred	<u>\$ 2,561,288</u>	<u>\$ 1,854,428</u>	<u>\$ 706,860</u>
2. Deferred Tax Assets:			
(a) Ordinary			
(1) Discounting of unpaid losses	\$ 362,706	\$ 364,243	\$ (1,537)
(2) Unearned premium reserve	\$ 2,505,372	\$ 2,458,758	\$ 46,614
(3) Policyholder reserves	\$ —	\$ —	\$ —
(4) Investments	\$ —	\$ —	\$ —
(5) Deferred acquisition costs	\$ —	\$ —	\$ —
(6) Policyholder dividends accrual	\$ —	\$ —	\$ —
(7) Fixed Assets/prepaid expense	\$ 3,491,274	\$ 1,979,264	\$ 1,512,010
(8) Compensation and benefits accrual	\$ 317,153	\$ 571,167	\$ (254,014)
(9) Pension accrual	\$ 192,238	\$ 202,928	\$ (10,690)
(10) Receivables – nonadmitted	\$ 377,081	\$ 576,978	\$ (199,897)
(11) Net operating loss carry-forward	\$ —	\$ —	\$ —
(12) Tax credit carry-forward	\$ —	\$ 74,739	\$ (74,839)
(13) Other (including items <5% of total ordinary tax assets):			
(14) Salvage and subrogation anticipated	\$ 793,688	\$ 808,784	\$ (15,096)
(15) Software capitalized	\$ 311,675	\$ 364,907	\$ (53,232)
(16) Other	<u>\$ 44,468</u>	<u>\$ 36,605</u>	<u>\$ 7,862</u>
(99) Subtotal	<u>\$ 8,395,655</u>	<u>\$ 7,438,373</u>	<u>\$ 957,281</u>
(b) Statutory valuation allowance adjustment	\$ —	\$ —	\$ —
(c) Nonadmitted	\$ —	\$ —	\$ —
(d) Admitted ordinary deferred tax assets (2a99 – 2b – 2c)	<u>\$ 8,395,655</u>	<u>\$ 7,438,373</u>	<u>\$ 957,281</u>
(e) Capital:			
(1) Investments	\$ —	\$ 3,231	\$ (3,231)
(2) Net capital loss carry-forward	\$ —	\$ —	\$ —
(3) Real estate	\$ —	\$ —	\$ —
(4) Other (including items <5% of total capital tax assets):			
(5) Unrealized capital losses for impaired securities	\$ 1,622,818	\$ 401,299	\$ 1,221,519
(6) Other	<u>\$ 6,801</u>	<u>\$ —</u>	<u>\$ 6,801</u>
(99) Subtotal	<u>\$ 1,629,619</u>	<u>\$ 404,530</u>	<u>\$ 1,225,089</u>
(f) Statutory valuation allowance adjustment	\$ —	\$ —	\$ —
(g) Nonadmitted	\$ —	\$ —	\$ —
(h) Admitted capital deferred tax assets (2e99 – 2f – 2g)	<u>\$ 1,629,619</u>	<u>\$ 404,530</u>	<u>\$ 1,225,089</u>
(i) Admitted deferred tax assets (2d + 2h)	<u>\$ 10,025,274</u>	<u>\$ 7,842,903</u>	<u>\$ 2,182,370</u>
3. Deferred Tax Liabilities:			
(a) Ordinary:			
(1) Investments	\$ (209,993)	\$ (226,358)	\$ 16,366
(2) Fixed assets	\$ —	\$ —	\$ —
(3) Deferred and uncollected premium	\$ —	\$ —	\$ —
(4) Policyholder reserves	\$ —	\$ —	\$ —
(5) Other (including items <5% of total ordinary tax liabilities):			
(6) Accumulated amortization software	\$ (180,434)	\$ (166,940)	\$ (13,494)
(7) Other	<u>\$ (81,750)</u>	<u>\$ (77,809)</u>	<u>\$ (3,941)</u>
(99) Subtotal	<u>\$ (472,176)</u>	<u>\$ (471,107)</u>	<u>\$ (1,069)</u>
(b) Capital:			
(1) Investments	\$ —	\$ —	\$ —
(2) Real estate	\$ —	\$ —	\$ —
(3) Other (including items <5% of total capital tax liabilities):			
(4) Unrealized capital gains	\$ (6,723,616)	\$ (8,074,657)	\$ 1,351,041
(99) Subtotal	<u>\$ (6,723,616)</u>	<u>\$ (8,074,657)</u>	<u>\$ 1,351,041</u>
(c) Deferred tax liabilities (3a99 + 3b99)	<u>\$ (7,195,792)</u>	<u>\$ (8,545,764)</u>	<u>\$ 1,349,972</u>
4. Net deferred tax assets/liabilities (2i – 3c)	<u>\$ 2,829,482</u>	<u>\$ (702,861)</u>	<u>\$ 3,532,342</u>

NOTES TO FINANCIAL STATEMENTS

C. The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. Among the more significant book to tax adjustments were the following:

	<u>12/31/2015</u>	<u>Effective Tax Rate</u>
Provision computed at statutory rate	\$ 2,470,519	34.0%
Tax exempt interest	(276,900)	(3.8%)
Dividends received deduction	(197,192)	(2.7%)
Change in deferred tax on nonadmitted assets	(1,312,113)	(18.1%)
Other	(304,089)	(4.2%)
Total	<u>\$ 380,225</u>	<u>5.2%</u>
 Federal and foreign income taxes incurred	 \$ 2,979,119	 41.0%
Tax on capital gains (losses)	(417,831)	(5.8%)
Change in net deferred income taxes	(2,181,063)	(30.0%)
Total statutory income taxes	<u>\$ 380,225</u>	<u>5.2%</u>

D. Carry-forwards, recoverable taxes, and IRC §6603 deposits:

- (1) As of December 31, 2015, the Company had no net operating loss or net capital loss carry-forwards available for tax purposes.

As of December 31, 2015, the Company had no alternative minimum tax (AMT) credit carry-forwards.

- (2) As of December 31, 2015, the Company had federal income taxes incurred available for recoupment in the event of future net losses in the amount of \$4,580,848.

- (3) The Company has no deposits reported as admitted assets under IRC §6603 as December 31, 2015.

E. The Company files an individual federal income tax return.

10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

- A. Not applicable.
- B. Not applicable.
- C. Not applicable.
- D. At December 31, 2015 and 2014 there were intercompany receivables of \$32,910 and \$32,283, respectively, due from its Subsidiaries and Affiliates. The intercompany balances due from and/or due to its Subsidiaries and Affiliates are reimbursed quarterly on an as made basis.
- E. Not applicable.
- F. The Company (WRMCC) participates in a pooling agreement with Lightning Rod Mutual Insurance Company, (LRMIC) and Sonnenberg Mutual Insurance Company (SMIC), whereby net premiums, losses, underwriting expenses and related balance sheet amounts (except premiums receivable) are shared on a 40% / 55% / 5% basis, respectively. LRMIC assumes 100% of the business from WRMCC and SMIC and cedes 40% to WRMCC and 5% to SMIC.
- G. The Company owns 50% of Forward Agencies, Inc., an insurance agency. The stock is carried at \$268,789 (unaudited statutory basis) as reported in Schedule D, Part 2, Section 2. In accordance with SSAP No. 97, this subsidiary has been non-admitted.
- H. Not applicable.
- I. Not applicable.
- J. Not applicable.
- K. Not applicable.
- L. The Company owns 40% percent of Western Reserve Financial Corporation, an inactive holding company. The stock is carried at \$27,539 (unaudited statutory basis) as reported in Schedule D, Part 2, Section 2. In accordance with SSAP No. 97, this subsidiary has been non-admitted.

11. Debt

Not applicable.

NOTES TO FINANCIAL STATEMENTS

12. Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans

A. Defined Benefit Plan

The Company has a non-qualified, unfunded, directors' retirement plan and a retiree healthcare plan. The retiree healthcare plan was closed to new participants. The directors' retirement plan was terminated July 1, 2015 with payout of vested benefit balances scheduled to occur in July 2016. The related liabilities and expenses are not material to the Company's financial position.

The Company also has a non-qualified voluntary deferred compensation plan for senior executive officers. The plan allows for deferral of payouts from the Annual Cash Bonus Plan and Performance Share Plan for Key Executives. As of December 31, 2015 and 2014, amounts held for these deferrals were \$1.6 million and \$2.3 million, respectively.

B. Investment Policies and Strategies

Not applicable.

C. Fair Value of Plan Assets

Not applicable.

D. Basis of Rates of Returns on Assets

Not applicable.

E. Defined Contribution Plans

The Company's employees are eligible to participate in a 401(k) plan sponsored by the Company after completion of three months of continuous service.

The Company matches a portion of employee contributions and may make additional discretionary contributions. The Company's contribution for the plan was \$6 million and \$1.3 million for 2015 and 2014, respectively. The fair value of the plan assets was \$29.5 million and \$28.5 million at December 31, 2015 and 2014, respectively.

F. Multiemployer Plans

Not applicable.

G. Consolidated/Holding Company Plans

Not applicable.

H. Postemployment Benefits and Compensated Absences

Not applicable.

I. Impact of Medicare Modernization Act on Postretirement Benefits (INT 04-17)

Not applicable.

13. Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations

(1) Not applicable.

(2) Not applicable.

(3) Not applicable.

(4) Not applicable.

(5) Not applicable.

(6) Not applicable.

(7) Not applicable.

(8) Not applicable.

(9) Not applicable.

(10) The portion of unassigned funds (surplus) represented by cumulative unrealized gains net of losses before tax is \$19.8 million and \$23.7 million at December 31, 2015 and 2014, respectively.

(11) Not applicable.

(12) Not applicable.

(13) Not applicable.

NOTES TO FINANCIAL STATEMENTS

14. Liabilities, Contingencies and Assessments

A. Contingent Commitments

Not applicable.

B. Assessments

In the ordinary course of business, the Company receives notification of potential assessments as a result of the insolvency of insurance companies. It is expected that the insolvencies will result in a retrospective-based guaranty fund assessment against the company. The liabilities for known potential assessments are not considered material to the financial position of the Company.

C. Gain Contingencies

Not applicable.

D. Claims Related Extra Contractual Obligation and Bad Faith Losses Stemming from Lawsuits

Various lawsuits against the Company have arisen in the course of the Company's business. Contingent liabilities arising from litigation are not considered material to the financial position of the Company.

E. Product Warranties

Not applicable.

F. Joint and Several Liabilities

Not applicable.

G. All Other Contingencies

Not applicable.

15. Leases

The Company's lease agreements are limited to office and electronic data processing equipment. Rent expense for the years ending December 31, 2015 and 2014 was not considered material to the Company's financial statements.

16. Information about Financial Instruments With Off-Balance-Sheet Risk and Financial Instruments With Concentrations of Credit Risk

Not applicable.

17. Sale, Transfer and Servicing of Financial Assets and Extinguishment of Liabilities

A. Transfers of Receivables Reported as Sales

Not applicable.

B. Transfer and Servicing of Financial Assets

Not applicable.

C. Wash Sales

Not applicable.

18. Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans

A. ASO Plans

Not applicable.

B. ASC Plans

Not applicable.

C. Medicare or Similarly Structured Cost Based Reimbursement Contract

Not applicable.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Not applicable.

NOTES TO FINANCIAL STATEMENTS

20. Fair Value Measurements

A. The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB ASC 820 (SFAS No. 157), *Fair Value Measurements*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1:

Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2:

Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3:

Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

(1) Fair Value Measurements at December 31, 2015:

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total
a. Assets at fair value:				
Perpetual Preferred Stock:				
Industrial and Misc	\$ —	\$ —	\$ —	\$ —
Total Perpetual Preferred Stocks	—	—	—	—
Common Stock:				
Mutual Funds	446,697	—	—	446,697
Industrial and Misc	51,413,770	—	115,247	51,529,017
Total Common Stocks	51,860,467	—	115,247	51,975,714
Other Invested Assets	—	6,380,912	—	6,380,912
Total assets at fair value	<u>\$ 51,860,467</u>	<u>\$ 6,380,912</u>	<u>\$ 115,247</u>	<u>\$ 58,356,626</u>
b. Liabilities at fair value:				
Not applicable.				

Fair Value Measurements at December 31, 2014:

Description for each class of asset or liability	(Level 1)	(Level 2)	(Level 3)	Total
a. Assets at fair value:				
Perpetual Preferred Stock:				
Industrial and Misc	\$ 309,528	\$ —	\$ —	\$ 309,528
Total Perpetual Preferred Stocks	309,528	—	—	309,528
Common Stock:				
Mutual Funds	9,537,083	—	—	9,537,083
Industrial and Misc	42,043,611	—	110,541	42,043,611
Total Common Stocks	51,580,694	—	110,541	51,691,235
Other Invested Assets	—	4,006,754	—	4,006,754
Total assets at fair value	<u>\$ 51,971,222</u>	<u>\$ 4,006,754</u>	<u>\$ 110,541</u>	<u>\$ 56,088,517</u>
b. Liabilities at fair value:				
Not applicable.				

STATEMENT AS OF DECEMBER 31, 2015 OF THE WESTERN RESERVE MUTUAL CASUALTY COMPANY

NOTES TO FINANCIAL STATEMENTS

(2) Fair Value Measurements in (Level 3) of the Fair Value Hierarchy:

	Beginning Balance at 01/01/2015	Transfers In/(out) Level 3	Total Gains/(Losses) Included in Net Income	Total Gains/(Losses) Included in Surplus	Purchases (Sales)	Ending Balance at 12/31/2015
a. Assets:						
Common Stock: Industrial and Misc	\$ 110,541	\$ —	\$ —	\$ 4,706	\$ —	\$ 115,247
b. Liabilities:						
Not applicable.						

(3) The Company's policy is to recognize transfers in and out as of the end of the reporting period.

(4) As of December 31, 2015, the reported fair value of the entity's investments categorized within Level 3 of the fair value hierarchy is comprised of an investment in NAMIC common stock.

B. Not applicable.

C. Fair Value of All Financial Instruments:

Type of Financial Instrument	Aggregate Fair Value	Admitted Assets	(Level 1)	(Level 2)	(Level 3)	Not Practicable (Carrying Value)
Bonds	\$ 100,774,332	\$ 97,880,477	\$ 7,899,932	\$ 92,874,400	\$ —	\$ —
Common Stock	51,975,714	51,975,714	51,860,466	—	115,248	—
Other Invested Assets	6,380,912	6,380,912	—	6,380,912	—	—

D. The Company has no assets for which it was not practicable to estimate fair value.

21. Other Items

A. Unusual or Infrequent Items

Not applicable.

B. Troubled Debt Restructuring: Debtors

Not applicable.

C. Other Disclosures

Not applicable.

D. Business Interruption Insurance Recoveries

Not applicable.

E. State Transferable and Non—Transferable Tax Credits

Not applicable.

F. Subprime Mortgage Related Risk Exposure

Not applicable.

22. Events Subsequent

Type I – Recognized Subsequent Events:

Subsequent events have been considered through February 26, 2016 for the statutory statement issued on February 26, 2016 for the year ending December 31, 2015. No Type I events were identified that would have a material effect on the financial condition of the Company.

Type II – Non-recognized Subsequent Events:

Subsequent events have been considered through February 26, 2016 for the statutory statement issued on February 26, 2016 for the year ending December 31, 2015. No Type II events were identified that would have a material effect on the financial condition of the Company.

NOTES TO FINANCIAL STATEMENTS

23. Reinsurance

- A. Unsecured Reinsurance Recoverables
Not applicable.
- B. Reinsurance Recoverable in Dispute
Not applicable.
- C. Reinsurance Assumed and Ceded
If the Company cancelled its umbrella reinsurance program, the return commission would not have a material impact on the financial condition of the Company.
- D. Uncollectible Reinsurance
Not applicable.
- E. Commutation of Ceded Reinsurance
Not applicable.
- F. Retroactive Reinsurance
Not applicable.
- G. Reinsurance Accounted for as a Deposit
Not applicable.
- H. Disclosures for the Transfer of Property and Casualty Run—off Agreements
Not applicable.
- I. Certified Reinsurer Rating Downgraded or Status Subject to Revocation
Not applicable.

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

Not applicable.

25. Changes in Incurred Losses and Loss Adjustment Expense

Reserves as of December 31, 2014 were \$28.4 million. During 2015, \$13.1 million has been paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years are now \$14.5 million as a result of re-estimation of unpaid claims and claim adjusting expenses. Therefore, there has been a \$.8 million favorable prior year development from December 31, 2014 to December 31, 2015. Favorable development in auto physical damage, commercial auto liability, homeowner, farmowner, other property and other liability lines of insurance, were offset, in part, by unfavorable development in commercial multi-peril lines of insurance. The re-estimation is generally the result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims. The estimates are not affected by prior year loss development on retrospectively rated policies, as the Company does not write this type of policy.

NOTES TO FINANCIAL STATEMENTS

26. Intercompany Pooling Agreements

A.

	NAIC No.	Pool Share
Lightning Rod Mutual Insurance Company (Lead)	26123	55.0%
Western Reserve Mutual Casualty Company	26131	40.0%
Sonnenberg Mutual Insurance Company	10271	5.0%

- B. All transactions and balances in the underwriting accounts of the companies are pooled except premiums in the course of collection.
- C. All lines of business are subject to the intercompany pooling agreement. Cessions to non-affiliated reinsurers are prior to the cession of pooled business from the affiliated pool members to the lead entity.
- D. All pool members are subject to the same non-affiliated reinsurance treaties and have the contractual right of direct recovery per the terms of the reinsurance agreement.
- E. There are no discrepancies between the reinsurance schedules of the lead and other members of the pool.
- F. The Provision for Reinsurance (Schedule F, Part 7) and the write-off of uncollectible reinsurance is in accordance with the pool participation percentages.
- G. There were no balances due from or to the Company from the affiliated entities participating in the intercompany pool as of December 31, 2015.

27. Structured Settlements

Not applicable.

28. Health Care Receivables

Not applicable.

29. Participating Policies

Not applicable.

30. Premium Deficiency Reserves

1. Liability carried for premium deficiency reserves	\$	-
2. Date of most recent evaluation of this liability	12/31/2015	
3. Was anticipated investment income utilized in the calculation?	Yes () No (x)	

31. High Deductibles

Not applicable.

32. Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

The Company does not discount liabilities for unpaid losses nor unpaid loss adjustment expenses in calculating statutory surplus.

33. Asbestos/Environmental Reserves

- A. Does the Company have on the books, or has it ever written an insured for which you have identified a potential for the existence of a liability due to asbestos losses? Yes () No (x)
- B. Not applicable.
- C. Not applicable.

NOTES TO FINANCIAL STATEMENTS

D. Does the Company have on the books, or has it ever written an insured for which you have identified a potential for the existence of a liability due to environmental losses?

Yes (x) No ()

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
(1) Direct –					
1) Beginning reserves:	\$ 10	\$ 10	\$ 30	\$ 63	\$ 32
2) Incurred losses and loss adjustment expense:	20	28	69	28	—
3) Calendar year payments for losses and loss adjustment expenses:	<u>20</u>	<u>8</u>	<u>36</u>	<u>59</u>	<u>—</u>
4) Ending reserves:	<u>\$ 10</u>	<u>\$ 30</u>	<u>\$ 63</u>	<u>\$ 32</u>	<u>\$ 32</u>
(2) Assumed Reinsurance –					
1) Beginning reserves:	\$ —	\$ —	\$ —	\$ —	\$ —
2) Incurred losses and loss adjustment expense:	—	—	—	—	—
3) Calendar year payments for losses and loss adjustment expenses:	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
4) Ending reserves:	<u>\$ —</u>				
(3) Net of Ceded Reinsurance –					
1) Beginning reserves:	\$ 10	\$ 10	\$ 30	\$ 63	\$ —
2) Incurred losses and loss adjustment expense:	20	28	40	(63)	—
3) Calendar year payments for loss and loss adjustment expenses:	<u>20</u>	<u>8</u>	<u>7</u>	<u>—</u>	<u>—</u>
4) Ending reserves:	<u>\$ 10</u>	<u>\$ 30</u>	<u>\$ 63</u>	<u>\$ —</u>	<u>\$ —</u>

The Company's exposure to environmental losses arises from the sale of general liability insurance. The Company estimates the full impact of the environmental exposure by establishing full case basis reserves on all known losses and computing incurred but not reported losses based on previous experience. The Company's estimate of the environmental related losses for each of the five most recent years after intercompany pooling are displayed above.

E. State the amount of ending reserves for Bulk + IBNR included in D (Loss & LAE):

(1) Direct Basis:	\$ —
(2) Assumed Reinsurance Basis:	\$ —
(3) Net of Ceded Reinsurance Basis:	\$ —

F. State the amount of ending reserves for loss adjustment expenses included in D (Case, Bulk + IBNR):

(1) Direct Basis:	\$ —
(2) Assumed Reinsurance Basis:	\$ —
(3) Net of Ceded Reinsurance Basis:	\$ —

34. Subscriber Savings Accounts

Not applicable.

35. Multiple Peril Crop Insurance

Not applicable.

36. Financial Guaranty Insurance

Not applicable.