



2022

ANNUAL REPORT

Western Reserve Group

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PRESIDENT'S MESSAGE

The year 2022 will go down in the record books as one of the most challenging years for the property and casualty industry. Unprecedented and rapid inflation, labor market challenges, declines in asset markets, and higher than average weather events combined to make this one of the most difficult markets in recent history. Western Reserve Group (Group) was well prepared for these unique challenges as we entered 2022 in the strongest financial position in our company's history. This strength serves as our foundation, and we stand ready to assist and protect our policyholders when the unexpected occurs.



The year was also a time of transition as Kevin Day, the Group's long-time President and CEO, announced his retirement effective at the end of the year. Kevin successfully served as President and CEO since 2013. Over that time, the Group increased its gross written premiums from \$188.3 million to \$269.3 million and increased its policyholders' surplus from \$229.0 million to \$334.0 million. Led by Kevin's passion and vision, the Group solidified its commitment to investing in new technology and brought the company together on a single campus with our new corporate headquarters located in Wooster, Ohio. Kevin will continue to provide valuable guidance and counsel as a member of the Group's Board of Directors.

In 2022, our profitability, like most of the industry, was significantly impacted by the extraordinary conditions and we ended the year with an unprecedented 113.3% combined ratio and a decline in our policyholders' surplus. Inflation and above average weather events combined to significantly increase loss costs. We also experienced headwinds on the asset side of our balance sheet as the S&P 500 was down 18% for the year. 2022 was the worst year for bonds and stocks together since 2008 and the third worst since 1974. On a positive note, the Group's premium growth was +9.3%, finishing the year at \$269.3 million, an all-time high. We continued to experience strong growth in our Commercial Lines and Farm books of business, achieving a growth rate of 11.5% and 12.2%, respectively. The growth in these profit centers aligns with our long-term strategy of a more balanced book of business.

We remain committed to our transformation journey and continue to focus on ways to promote the ease of doing business. Our major technology initiative has been challenging, as well as rewarding, and we are excited to deploy a major release in the coming months. The expectation is to introduce the next phase of our new policy administration and billing platforms for all Commercial Lines in late 2023. This investment will help us keep pace with industrywide technology advancements and provide a solid foundation to help the Group prepare for future growth.

The Group remains financially strong and prepared to serve our members well into the future. Our disciplined strategy has served us well as we have been rated "A" (Excellent) by A.M. Best for over 60 years. This financial strength allows us to continue to invest in our future, but more importantly, it provides a source of security for our policyholders and a stable market for our agents. The security and safety you depend on from the Group remain very strong.

Despite the year's challenges, we enter 2023 with an optimistic outlook for the future and are excited to build on our recent initiatives. Together with a strong financial foundation and a commitment to core values, we will continue to grow and prosper so that we can always be there when our policyholders need us most. On behalf of our Board of Directors and management team, I wish to express sincere appreciation to our employees and agents who, by their dedication and partnership, provide an outstanding experience for our policyholders. Finally, thank you, our policyholders, for placing your trust in us to serve your insurance needs. We are proud to be your insurer of choice.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg A. Brunn".

Greg A. Brunn
President & CEO

ABOUT WESTERN RESERVE GROUP

Western Reserve Group (Group), working with professional independent agents, has provided the highest quality property/casualty insurance products, competitive pricing, and exemplary service to hundreds of thousands of policyholders.

Headquartered in Wooster, Ohio, the Group is supported by approximately 300 associates and over 3,600 licensed agents from nearly 725 locations.

The Group consists of Western Reserve Mutual Casualty Company, Lightning Rod Mutual Insurance Company, and Sonnenberg Mutual Insurance Company, three Ohio-domiciled property/casualty insurance companies.

As a regional carrier doing business exclusively in Ohio and Indiana, the Group has developed extensive expertise and understands the unique needs that exist for our customers. Whether it be for auto, home, business, or farm, we have programs to protect them all.

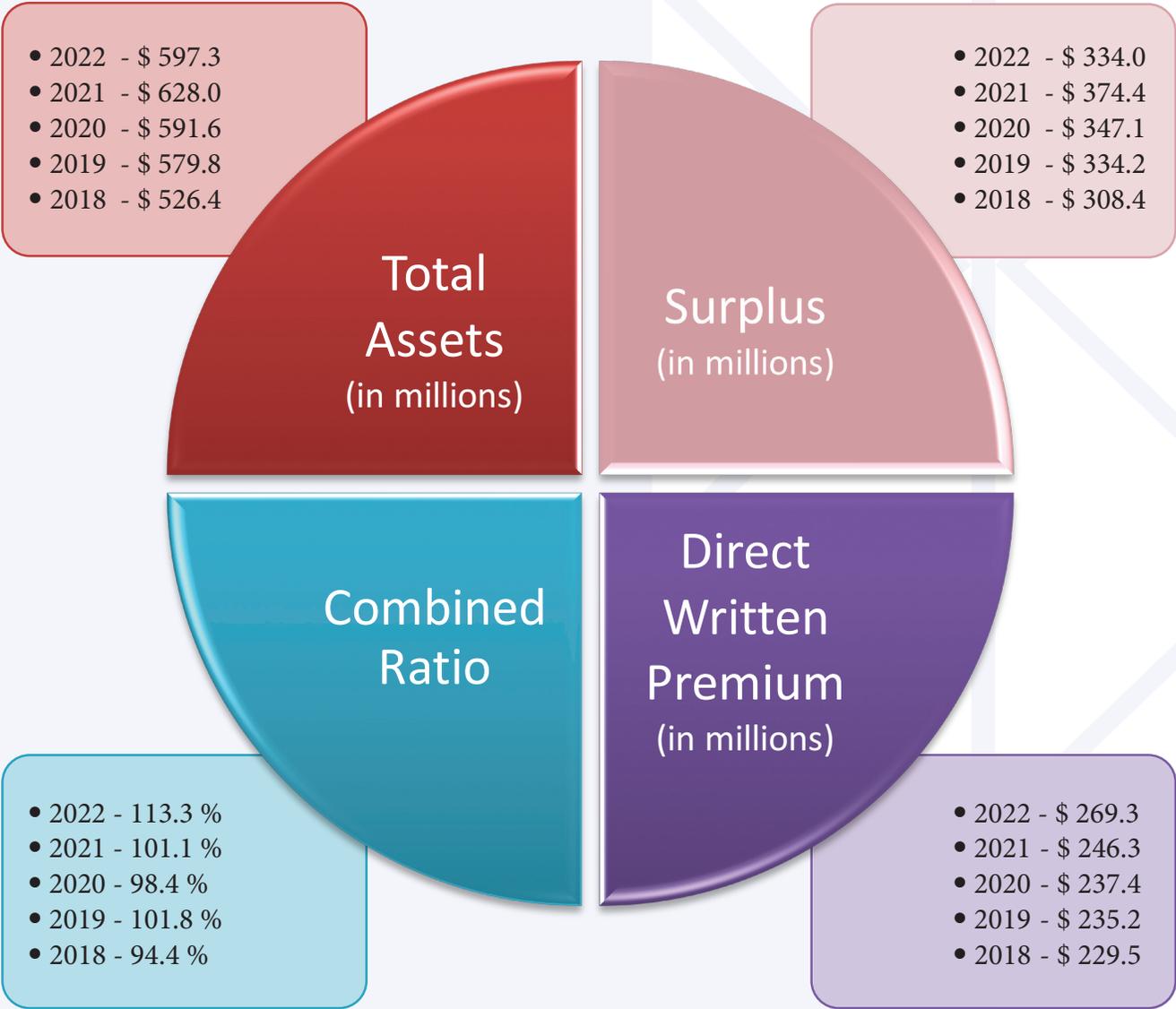


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FINANCIAL HIGHLIGHTS

Thanks to strong financial performance, loyal independent agents, and dedicated associates, Western Reserve Group is poised to deliver on its promise of protection while also investing in the future.



SELECTED FINANCIAL DATA

(IN THOUSANDS)
Years ended December 31

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>OPERATING DATA</u>					
Gross premiums written	\$269,261	\$246,279	\$237,424	\$235,216	\$229,499
Net premiums written	250,786	230,732	223,569	222,213	217,891
Premiums earned	238,948	225,976	222,180	219,150	215,588
Net underwriting (loss) gain	(35,676)	(4,010)	3,001	(5,073)	11,211
Investment income, net	7,543	6,303	8,798	11,045	9,934
Realized investment (loss) gains, net	(1,653)	4,041	1,579	59	5,300
Net (loss) income, pre-tax	(27,412)	8,795	16,039	8,908	29,170
Net (loss) income	(23,078)	8,867	14,857	8,434	24,442
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	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>BALANCE SHEET DATA</u>					
Cash and invested assets	\$514,951	\$565,113	\$530,476	\$518,126	\$463,601
Total assets	597,285	628,039	591,577	579,844	526,419
Surplus as regards policyholders	334,013	374,362	347,094	334,210	308,407
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	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<u>RATIOS</u>					
Loss ratio	70.2	56.5	51.9	60.1	51.5
Loss adjustment expense	10.3	10.4	11.3	9.1	9.9
Underwriting expense	32.8	34.2	35.2	32.6	33.0
Combined ratio	<u>113.3%</u>	<u>101.1%</u>	<u>98.4%</u>	<u>101.8%</u>	<u>94.4%</u>

COMBINED STATUTORY STATEMENTS OF INCOME

(IN THOUSANDS)
Years ended December 31

	<u>2022</u>	<u>2021</u>
<u>UNDERWRITING results:</u>		
Net premiums written	\$250,786	\$230,732
Increase in unearned premiums	(11,838)	(4,756)
Premiums earned	238,948	225,976
Losses and expenses incurred:		
Losses	167,810	127,670
Loss adjustment expenses	24,511	23,481
Underwriting expenses	82,303	78,835
Losses and expenses incurred	<u>274,624</u>	<u>229,986</u>
Net underwriting loss (gain)	<u>(35,676)</u>	<u>(4,010)</u>
<u>INVESTMENT income:</u>		
Interest	9,032	7,604
Dividends	3,672	3,540
Real estate income (primarily rent for own occupancy)	784	784
Realized (losses) gains on investments, net	(1,653)	4,041
Total investment income	11,835	15,969
Less: Investment expenses	5,945	5,625
Net investment income	<u>5,890</u>	<u>10,344</u>
Other income, net	2,374	2,461
(Loss) Income before federal income taxes	(27,412)	8,795
Federal income tax benefit	(4,334)	(72)
Net (loss) income	<u>\$(23,078)</u>	<u>\$8,867</u>

COMBINED STATUTORY STATEMENTS OF ADMITTED ASSETS, LIABILITIES AND SURPLUS

(IN THOUSANDS)

As of December 31

	<u>2022</u>	<u>2021</u>
<u>ADMITTED ASSETS</u>		
Bonds, at amortized cost	\$289,287	\$298,172
Common stocks, at market (cost \$76,098 and \$98,500, respectively)	157,582	203,552
Real estate, at cost (less accumulated depreciation of \$5,238 and \$4,219, respectively)	36,414	36,616
Cash and short-term investments	12,294	15,525
Other invested assets	<u>19,374</u>	<u>11,248</u>
Total cash and invested assets	<u>514,951</u>	<u>565,113</u>
Premiums in course of collection, net	64,442	56,701
Accrued investment income	2,661	2,438
Reinsurance recoverable on paid losses	1,048	202
Federal income tax recoverable	7,279	2,630
Deferred tax asset	5,854	-
Other assets	<u>1,050</u>	<u>955</u>
Total Admitted Assets	<u>\$597,285</u>	<u>\$628,039</u>
<u>LIABILITIES AND SURPLUS</u>		
Loss and loss adjustment expense	\$100,926	\$93,226
Unearned premiums	123,019	111,181
Ceded reinsurance balances payable	2,188	1,202
Amounts withheld for others	5,601	4,266
Commissions payable	7,602	8,105
Accrued expenses and taxes	10,381	12,957
FHLB advance	10,098	11,515
Deferred tax liability	-	8,111
Other liabilities	<u>3,457</u>	<u>3,114</u>
Total liabilities	263,272	253,677
Surplus	<u>334,013</u>	<u>374,362</u>
Total Liabilities and Surplus	<u>\$597,285</u>	<u>\$628,039</u>

DIRECTORS AND OFFICERS



(L to R) (seated): Kevin W. Day, Ronald E. Holtman
(L to R) (standing) C. Michael Reardon,
Kenneth L. Vagnini, John P. Murphy,
Jeffrey P. Hastings, Eddie L. Steiner, Floyd Trouten
Not pictured: Greg A. Brunn

DIRECTORS:

Kevin W. Day
President / CEO of Western
Reserve Group

Ronald E. Holtman
Retired (formerly a Partner in law firm of
Logee, Hostetler, Stutzman & Lehman),
Chairman of the Board of
Western Reserve Group

C. Michael Reardon
Chairman and President, United
Titanium

Kenneth L. Vagnini
Retired President of
The Gerstenslager Company

John P. Murphy
Retired (formerly President/
CEO and Secretary of Western
Reserve Group)

Jeffrey P. Hastings
Attorney and Counselor at Law, Vice
Chairman of the Board of Western
Reserve Group

Eddie L. Steiner
President and CEO, CSB
Bancorp Inc.

Floyd A. Trouten
Director, Barnes Wendling CPAs Inc.

Greg A. Brunn
Executive Vice President (COO)



(L to R): Mike Shutt, Greg Brunn, Kay Risner, Kevin Day,
William Galonski, Leo Genders

EXECUTIVE LEADERSHIP:

Michael A. Shutt
Vice President - Finance, Treasurer &
Chief Financial Officer (CFO)

Greg A. Brunn
Executive Vice President (COO)

Kay Risner
Vice President - Insurance Operations
(CUO)

Kevin W. Day
President - Chief Executive Officer (CEO)

William J. Galonski
Vice President - Claims, Chief Claims
Officer (CCO)

Leonard S. Genders
Vice President - IT, Chief Information
Officer (CIO)



(L to R) (seated): Nick Foore, Dave Jarrett,
Chantel Meshew, Michele Young, Jennifer Winter,
Dave Chandler

(L to R) (standing): Terry Rhodes, Rich Ullom,
Chris Racz, David Freetage, Steven Johnson,
Jimmy Williams, Matt Sells, Adrian Besancon

ASSISTANT VICE PRESIDENTS:

Nick Foore
Assistant Vice President, Strategic
Development

Dave Jarrett
Assistant Vice President, Legal Counsel

Chantel Meshew
Assistant Vice President, ERM

Michele Young
Assistant Vice President, Business
Operations

Jennifer Winter
Assistant Vice President, Human
Resources

Dave Chandler
Assistant Vice President, Claims Casualty

Terry Rhodes
Assistant Vice President, Personal Lines
Underwriting

Rich Ullom
Assistant Vice President, IT Compliance,
Security & Audit

Chris Racz
Assistant Vice President, Controller

David Freetage
Assistant Vice President, IT Application
Services

Steven Johnson
Assistant Vice President, Sales & Marketing

Jimmy Williams
Assistant Vice President,
Commercial/Farm Underwriting

Matt Sells
Assistant Vice President, Auto Property
Damage & Property

Adrian Besancon
Assistant Vice President, Investments



OUR MISSION

To fulfill promises made to our policyholders by providing comprehensive insurance through partnerships with independent insurance agents, while providing an excellent customer experience backed by secure business practices and a strong capital position.



Western Reserve Mutual Casualty Company
Lightning Rod Mutual Insurance Company
Sonnenberg Mutual Insurance Company