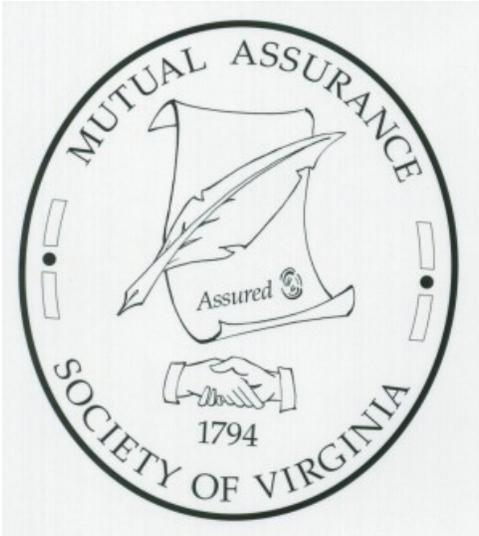


# 2014 ANNUAL REPORT



## MUTUAL ASSURANCE SOCIETY OF VIRGINIA

**Incorporated 1794**

### HOME OFFICE

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MUTUAL ASSURANCE SOCIETY OF VIRGINIA		
STATEMENTS OF ADMITTED ASSETS, LIABILITIES		
AND POLICYHOLDERS' SURPLUS-UNAUDITED		
YEARS ENDED DECEMBER 31, 2014 AND 2013		
	2014	2013
<b>ADMITTED ASSETS</b>		
<b>Investments:</b>		
Bonds, at amortized cost	\$ 75,101,685	\$ 61,918,561
Common stocks, at fair value	189,615,113	183,985,132
Real estate	883,931	882,160
Cash and short-term investments	1,471,485	4,270,866
Total cash and invested assets	267,072,214	251,056,719
Accrued investment income	1,170,432	1,038,228
EDP equipment, net	79,481	139,539
Other admitted assets	313,629	484,895
Total Admitted Assets	\$268,635,756	\$252,719,381
<b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b>		
<b>Liabilities:</b>		
Losses	\$ 2,429,313	\$ 1,973,074
Loss adjustment expenses	531,744	586,900
Other expenses	715,179	541,821
Unearned premiums	4,479,443	4,816,147
Net deferred taxes	27,379,620	24,181,596
Ceded reinsurance premiums	152,184	115,116
Deferred compensation	1,069,756	1,146,899
Minimum pension liability	1,664,260	539,939
Other taxes	1,132,126	101,374
Total liabilities	39,553,625	34,002,866
<b>Policyholders' Surplus</b>	229,082,131	218,716,515
Total Liabilities and Surplus	\$268,635,756	\$252,719,381

MUTUAL ASSURANCE SOCIETY OF VIRGINIA		
STATEMENTS OF INCOME-UNAUDITED		
YEARS ENDED DECEMBER 31, 2014 AND 2013		
	2014	2013
<b>Income:</b>		
Premiums earned	\$ 9,762,120	\$ 9,663,169
Less reinsurance ceded	3,835,740	3,602,483
Net premiums earned	5,926,380	6,060,686
Net investment income	6,696,225	5,734,902
Realized capital gains, net of taxes	8,288,130	5,686,551
Other income	22,462	24,178
Total income	20,933,197	17,506,317
<b>Expenses:</b>		
Losses	7,466,879	4,867,777
Loss adjustment expenses	1,678,640	1,449,023
Other underwriting expenses	5,777,632	5,519,053
Total expenses	14,923,151	11,835,853
Net income before income taxes	6,010,046	5,670,464
Provision for income tax benefit	(2,861,124)	(2,826,231)
Net income	\$ 8,871,170	\$ 8,496,695
<b>STATEMENTS OF POLICYHOLDERS' SURPLUS-UNAUDITED</b>		
<b>YEARS ENDED DECEMBER 31, 2014 and 2013</b>		
	2014	2013
Surplus, beginning of year	\$ 218,716,515	\$ 189,409,458
Net income	8,871,170	8,496,695
Unrealized gains, net of taxes	3,423,832	22,583,891
Other surplus adjustments	(1,929,386)	(1,773,529)
Increase in surplus	10,365,616	29,307,057
Surplus, end of year	\$ 229,082,131	\$ 218,716,515

## **President's Annual Message to the Members:**

The Society and its members enjoyed another successful year in 2014. Our 220<sup>th</sup> year saw no natural disasters impacting Virginia and produced a robust investment market that generated net realized gains of \$8.3 million and net unrealized gains of \$3.4 million. Our net income for the year was \$8.9 million. Following is a brief overview of our 2014 financial and operational highlights.

Admitted assets at December 31, 2014 were \$268.6 million, which represents an increase of \$15.9 million or 6% over 2013. This increase was driven by recovering equity markets and a significant increase in our fixed income portfolio. The Society's domestic investment portfolio, on a total return basis, increased 11.8% during 2014. This ranked as a 10<sup>th</sup> percentile performance among our Indata Balanced Funds peer group. Indata is a broad compilation of professionally managed institutional portfolios. For the sixth consecutive year, our performance ranked within the first quartile among this peer group. Our domestic equity portfolio, comprising 94% of our total equity portfolio, returned 13.5% during 2014 as compared to the S&P 500 return of 13.7% and the Lipper Large Cap Core Equity Index return of 11.3%. Since January 1, 2000, our domestic equity portfolio has a cumulative return of 93.1% vs. the S&P 500 cumulative return of 86.6% and the referenced Lipper index cumulative return of 59.5%. The 6% of our equity portfolio allocated to international stocks, through two Vanguard index funds, returned a negative 3.0% on a weighted average basis during the year. The fixed income portfolio returned 8.2% for the year, as compared to the Barclays Intermediate Government/Corporate Index return of 3.1% and the Barclays Intermediate Treasury Index return of 2.6%. Since January 1, 2000, our fixed income portfolio has beaten the first referenced Barclays index, which is our primary benchmark, fourteen out of fifteen years. Our cumulative fixed income performance over this time period of 154.1% compares to the cumulative return of the referenced Barclays indexes of 111.7% and 97.2%, respectively. Our ten-year fixed income performance ranks as the top performer among our Indata Balanced Funds - Bond Portion peer group.

Gross premiums in force increased by 4.8% to \$39.0 million and property insurance in force increased by 4.8% to \$17.9 billion. As previously noted, our investment results for 2014 were very good. Operationally, other than a bad winter and a few shock losses, we incurred no hurricanes, tropical storms or other severe weather events for the year. As a result, we maintained our base annual assessment rate of 15% for 2015. An additional assessment of 15% is applicable to secondary residences and an additional assessment of 10% is applicable to coastal properties located in designated territories. The Society had an after tax net income of \$8.9 million. Realized capital gains for 2014, net of taxes, amounted to \$8.3 million. The Society has been assigned a Financial Strength Rating of A+ (Superior) from A.M. Best Company and has been assigned a Financial Stability Rating of A" Unsurpassed from Demotech, Inc.

Real estate markets continue to improve with a steady increase in costs associated with residential construction. Based on residential construction cost indexes for Virginia, our insured property values are being increased 3.8% on a state-wide basis for 2015. If you feel your coverage needs to be adjusted, either upward or downward, we are always willing to re-inspect your property and re-evaluate the amount of coverage you need. After a major loss is the wrong time to question the adequacy of your insurance coverage.

Net losses incurred increased by \$2.6 million or 53% from 2013. The increase in incurred losses resulted from a significant increase in freezing pipes losses and fire losses. Losses incurred for 2014 were categorized as follows: 41% from water damage from plumbing, heating and air conditioning systems, 18% from fire, 15% from freezing pipes, 6% from windstorm or

hail, 6 % from personal liability, 4% from thefts, 4% from all risk coverage, and 6% from all other causes. The frequency and severity of water damage losses continues to rise and represents one of the most disruptive types of loss our members face. We strongly recommend that our members not leave their home while clothes washers, dishwashers or toilets are running. When such appliances fail or malfunction while no one is at home to remedy the situation, the nature and scope of damage to homes and the personal inconvenience to families can be enormous.

I would like to take this opportunity to remind our members that Identity Recovery Coverage is included on all homeowner policies at no extra cost to you no matter how often you talk to an identity recovery specialist. The services provided by our case management provider, Identity Theft 911, now include services such as email compromise assistance, social media compromise assistance, phishing assistance, system protection guidance, breach assistance and assisted living fraud support. I encourage you to take advantage of these services and to educate yourself on how to proactively protect your good name. Check out the ID Recovery link on our web site for the latest information from Identity Theft 911.

Annually, we also remind you of the optional property coverage endorsements that are available for purchase from the Society. These optional coverages include Equipment Breakdown Coverage, Water Damage-Sewers, Drains and Sumps-Increased Limits, Earthquake Coverage, Unscheduled Personal Property-Increased Special Limits and Scheduled Property. Call your agent or company representative if you wish to discuss adding any of these optional coverages to your policy.

Please remember that your policy forms and related endorsements are available for review or download from the Member Login section of our web site [www.mutual-assurance.com](http://www.mutual-assurance.com). Making your policy forms available online saves the cost of printing, handling and postage. It also contributes to the preservation of our natural resources and the protection of our environment. Of course, you always have the right to obtain, upon request and without charge, a paper copy of your policy forms and endorsements. As always, we appreciate the cooperation and support of the members of the Society and welcome any questions you may have about the Society or this Annual Report.

Sincerely,

Jeffrey S. Wrobel, Sr., CPCU, AU, AIT  
President  
April 1, 2015

## **BOARD OF DIRECTORS**

Mary C. Doswell (1)(2)(C)  
Senior Vice President, Retail and Alternative Energy Solutions  
Dominion Resources, Inc.

George C. Freeman III (3)(A)  
Chairman, President and Chief Executive Officer  
Universal Corporation

Julious P. Smith, Jr. (3)(B)  
Chairman Emeritus  
Williams Mullen

Richard T. Wheeler, Jr. (1)(2)(3)(B)  
Former Chairman, President and Chief Executive Officer  
Franklin Financial Corporation and  
Franklin Federal Savings Bank  
Chairman, TowneBank - Richmond

R. Gregory Williams (3)(C)  
Vice Chairman  
CCA Financial Services, LLC

Richard W. Wiltshire, Jr. (2)(B)  
Former President  
Home Beneficial Life Insurance Company

Coleman Wortham III (1)(2)(C)  
Chairman  
Davenport & Company LLC

Jeffrey S. Wrobel, Sr. (1)(2)(A)  
President  
Mutual Assurance Society of Virginia

- (1) Member of Executive Committee
- (2) Member of Investment Committee
- (3) Member of Audit Committee
- (A) Term Expires in 2016
- (B) Term Expires in 2017
- (C) Term Expires in 2015

## **OFFICERS AND MANAGERS**

Jeffrey S. Wrobel, Sr., CPCU, AU, AIT President  
Theresa C. Lewis, CPA, CFE, CGMA, Secretary-Treasurer  
Paul R. Davis, AIC, Vice President – Claims  
C. Lewis Marsh, CFA, CPA, FLMI, Vice President – Investments  
Jonathan D. Sisk, Vice President – Information Systems

## **GENERAL COUNSEL**

Williams Mullen, Richmond, Virginia