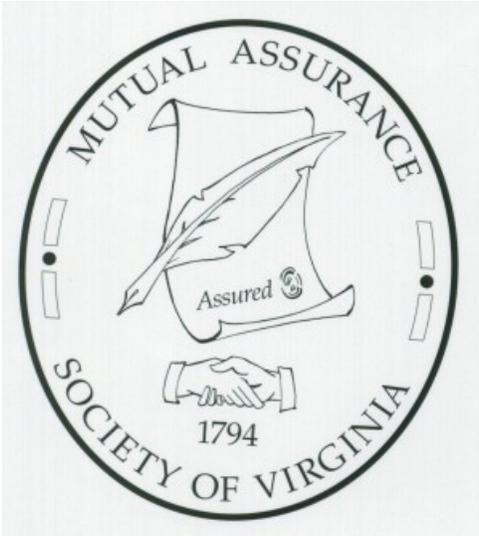


# 2016 ANNUAL REPORT



## MUTUAL ASSURANCE SOCIETY OF VIRGINIA

**Incorporated 1794**

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| MUTUAL ASSURANCE SOCIETY OF VIRGINIA          |                       |                       |
|---|-----------------------|-----------------------|
| STATEMENTS OF ADMITTED ASSETS, LIABILITIES    |                       |                       |
| AND POLICYHOLDERS' SURPLUS-UNAUDITED          |                       |                       |
| YEARS ENDED DECEMBER 31, 2016 AND 2015        |                       |                       |
|   | 2016                  | 2015                  |
| <b>ADMITTED ASSETS</b>                        |                       |                       |
| <b>Investments:</b>                           |                       |                       |
| Bonds, at amortized cost                      | \$ 93,187,662         | \$ 93,727,701         |
| Common stocks, at fair value                  | 172,476,474           | 158,992,806           |
| Real estate                                   | 981,094               | 885,779               |
| Cash and short-term investments               | 2,364,703             | 7,054,954             |
| Securities accounts receivable                | 2,498                 | -                     |
| Total cash and invested assets                | 269,012,431           | 260,661,240           |
| Accrued investment income                     | 1,123,270             | 1,162,696             |
| EDP equipment, net                            | 45,357                | 56,833                |
| Other admitted assets                         | 240,985               | 355,639               |
| Total Admitted Assets                         | <u>\$ 270,422,043</u> | <u>\$ 262,236,408</u> |
| <b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b> |                       |                       |
| <b>Liabilities:</b>                           |                       |                       |
| Losses  | \$ 4,968,339          | \$ 2,940,699          |
| Loss adjustment expenses                      | 1,009,966             | 648,351               |
| Other expenses                                | 800,246               | 733,588               |
| Unearned premiums                             | 5,351,861             | 4,679,500             |
| Net deferred taxes                            | 24,698,409            | 23,342,490            |
| Ceded reinsurance premiums                    | 153,821               | 317,902               |
| Deferred compensation                         | 1,049,199             | 1,051,948             |
| Liability for pension benefits                | 1,960,633             | 1,692,038             |
| Other taxes                                   | 111,968               | 100,933               |
| Total liabilities                             | 40,104,442            | 35,507,449            |
| <b>Policyholders' Surplus</b>                 | <b>230,317,601</b>    | <b>226,728,959</b>    |
| Total Liabilities and Surplus                 | <u>\$ 270,422,043</u> | <u>\$ 262,236,408</u> |

| MUTUAL ASSURANCE SOCIETY OF VIRGINIA                  |                       |                       |
|---|-----------------------|-----------------------|
| STATEMENTS OF INCOME-UNAUDITED                        |                       |                       |
| YEARS ENDED DECEMBER 31, 2016 AND 2015                |                       |                       |
|   | 2016                  | 2015                  |
| <b>Income:</b>  |                       |                       |
| Premiums earned                                       | \$ 10,385,558         | \$ 9,659,907          |
| Less reinsurance ceded                                | 4,095,922             | 3,845,937             |
| Net premiums earned                                   | 6,289,636             | 5,813,970             |
| Net investment income                                 | 6,884,050             | 6,921,763             |
| Realized capital gains, net of taxes                  | 3,991,094             | 10,224,600            |
| Other income  | 22,771                | 43,054                |
| Total income  | 17,187,551            | 23,003,387            |
| <b>Expenses:</b>                                      |                       |                       |
| Losses  | 12,658,166            | 9,299,226             |
| Loss adjustment expenses                              | 2,611,856             | 1,951,541             |
| Other underwriting expenses                           | 7,303,583             | 6,367,704             |
| Total expenses  | 22,573,605            | 17,618,471            |
| Net income before income taxes                        | (5,386,054)           | 5,384,916             |
| Provision for income tax benefit                      | (1,918,846)           | (2,566,560)           |
| Net income  | <u>\$ (3,467,208)</u> | <u>\$ 7,951,476</u>   |
| <b>STATEMENTS OF POLICYHOLDERS' SURPLUS-UNAUDITED</b> |                       |                       |
| <b>YEARS ENDED DECEMBER 31, 2016 AND 2015</b>         |                       |                       |
|   | 2016                  | 2015                  |
| Surplus, beginning of year                            | \$ 226,728,959        | \$ 229,082,131        |
| Net income  | (3,467,208)           | 7,951,476             |
| Unrealized gains, net of taxes                        | 5,386,139             | (10,636,840)          |
| Other surplus adjustments                             | 1,669,711             | 332,192               |
| Increase (decrease) in surplus                        | 3,588,642             | (2,353,172)           |
| Surplus, end of year                                  | <u>\$ 230,317,601</u> | <u>\$ 226,728,959</u> |

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

The Society and its members had a challenging year in 2016. Our 222<sup>nd</sup> year saw claims from Hurricane Matthew, a tornado and four other severe weather events. Our net loss for the year was \$3.5 million. Following is a brief overview of our 2016 financial and operational highlights.

Admitted assets at December 31, 2016 were \$270.4 million, which represents an increase of \$8.2 million or 3% over 2015. This increase was driven by an increase in our equity portfolio. The Society's domestic investment portfolio, on a total return basis, increased 8.8% during 2016. This ranked as a 10th percentile performance among our Indata Balanced Funds peer group. Indata is a broad compilation of professionally managed institutional portfolios. For the eighth consecutive year, our performance ranked within the first quartile among this peer group. Our domestic equity portfolio, comprising 95% of our total equity portfolio, returned 11.9% during 2016 as compared to the S&P 500 return of 12.0% and the Lipper Large Cap Core Equity Index return of 10.1%. Since January 1, 2000, our domestic equity portfolio has had a cumulative return of 119.8%, vs. the S&P 500 cumulative return of 111.8% and the referenced Lipper index cumulative return of 74.5%. The 5% of our equity portfolio allocated to international stocks, through two Vanguard index funds, returned 6.3% on a weighted average basis during the year. The fixed income portfolio returned 4.2% for the year, as compared to the Barclays Intermediate Government/Corporate Index return of 2.1% and the Barclays Intermediate Treasury Index return of 1.1%. Since January 1, 2000, our fixed income portfolio has beaten the first referenced Barclays index, which is our primary benchmark, sixteen out of seventeen years. Our cumulative fixed income performance over this time period of 170.4% compares to the cumulative return of the referenced Barclays indexes of 118.4% and 102.3%, respectively.

Gross premiums in force increased by 1.7% to \$41.4 million and property insurance in force increased by 1.6% to \$19.1 billion. As previously noted, our investment results for 2016 were very good. Operationally, we incurred claims from Hurricane Matthew, a tornado and 4 other severe weather events. The Society is seeing a rise in incurred losses year over year. As a result, we increased our base annual assessment rate to 20% for 2017. An additional assessment of 20% is applicable to secondary residences and an additional assessment of 12% is applicable to coastal properties located in designated territories. The Society had an after tax net loss of \$3.5 million. Realized capital gains for 2016, net of taxes, amounted to \$4.0 million. The Society has been assigned a Financial Strength Rating of A (Excellent) 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 3.6% on a state-wide basis for 2017. 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 \$3.4 million or 36% from 2015. The increase in incurred losses resulted from a significant increase in windstorm and fire losses. Losses incurred for 2016 were categorized as follows: 46% from windstorm or hail, 21% from water damage from plumbing, heating and air conditioning systems, 19% from fire, and 14% 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, toilets or dishwashers 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, CyberScout (formerly Identity Theft 911), include services such as email compromise assistance, social media compromise assistance, phish 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 CyberScout.

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, 2017

## **BOARD OF DIRECTORS**

Farhad Aghdami (3)(B)  
Managing Partner, Richmond Office  
Williams Mullen

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

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

Richard T. Wheeler, Jr. (1)(2)(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, LLC

Richard W. Wiltshire, Jr. (2)(3)(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 2019
- (B) Term Expires in 2017
- (C) Term Expires in 2018

## **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  
Lisa Eckart, CPCU, CISR, Vice President - Underwriting  
C. Lewis Marsh, CFA, CPA, FLMI Vice President – Investments  
Jonathan D. Sisk, Vice President – Information Systems

## **GENERAL COUNSEL**

Williams Mullen, Richmond, Virginia