

2016. 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 \$1.8 million or 25% from 2014. The increase in incurred losses resulted from a significant increase in freezing pipe losses and water damage losses. Losses incurred for 2015 were categorized as follows: 41% from water damage from plumbing, heating and air conditioning systems, 30% from freezing pipes, 8% from fire, 6% from windstorm or hail, 5% from all risk coverage, 3% from thefts, and 7% 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, 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. 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, 2016

BOARD OF DIRECTORS

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Partner
Williams Mullen

Mary C. Doswell (1)(2)(C)
Senior Vice President, Dominion Energy Solutions
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Coleman Wortham III (1)(2)(C)
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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 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
C. Lewis Marsh, CFA, CPA, FLMI, Vice President – Investments
Jonathan D. Sisk, Vice President – Information Systems
Lisa Eckart, CPCU, Underwriting Manager

GENERAL COUNSEL

Williams Mullen, Richmond, Virginia

2015 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, 2015 AND 2014**

	2015	2014
ADMITTED ASSETS		
Investments:		
Bonds, at amortized cost	\$ 93,727,701	\$ 75,101,685
Common stocks, at fair value	158,992,806	189,615,113
Real estate	885,779	883,931
Cash and short-term investments	<u>7,054,954</u>	<u>1,471,485</u>
Total cash and invested assets	260,661,240	267,072,214
Accrued investment income	1,162,696	1,170,432
EDP equipment, net	56,833	79,481
Other admitted assets	<u>355,639</u>	<u>313,629</u>
Total admitted assets	<u>\$ 262,236,408</u>	<u>\$ 268,635,756</u>
LIABILITIES AND POLICYHOLDERS' SURPLUS		
Liabilities:		
Losses	\$ 2,940,699	\$ 2,429,313
Loss adjustment expenses	648,351	531,744
Other expenses	733,588	715,179
Unearned premiums	4,679,500	4,479,443
Net deferred taxes	23,342,490	27,379,620
Ceded reinsurance premiums	317,902	152,184
Deferred compensation	1,051,948	1,069,756
Minimum pension liability	1,692,038	1,664,260
Other taxes	<u>100,933</u>	<u>1,132,126</u>
Total liabilities	35,507,449	39,553,625
Policyholders' Surplus	<u>226,728,959</u>	<u>229,082,131</u>
Total Liabilities and Surplus	<u>\$ 262,236,408</u>	<u>\$ 268,635,756</u>

**MUTUAL ASSURANCE SOCIETY OF VIRGINIA
STATEMENTS OF INCOME-UNAUDITED
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Income:		
Premiums earned	\$ 9,659,907	\$ 9,762,120
Less reinsurance ceded	<u>3,845,937</u>	<u>3,835,740</u>
Net premiums earned	5,813,970	5,926,380
Net investment income	6,921,763	6,696,225
Realized capital gains, net of taxes	10,224,600	8,288,130
Other income	<u>43,054</u>	<u>22,462</u>
Total income	<u>\$ 23,003,387</u>	<u>\$ 20,993,197</u>
Expenses:		
Losses	\$ 9,299,226	\$ 7,466,879
Loss adjustment expenses	1,951,541	1,678,640
Other underwriting expenses	<u>6,367,704</u>	<u>5,777,632</u>
Total expenses	<u>17,648,471</u>	<u>14,923,151</u>
Net income before income taxes	5,384,916	6,010,046
Provision for income tax benefit	<u>(2,566,560)</u>	<u>(2,861,124)</u>
Net income	<u>\$ 7,951,476</u>	<u>\$ 8,871,170</u>

**STATEMENTS OF POLICYHOLDERS' SURPLUS-UNAUDITED
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
Surplus, beginning of year	\$ 229,082,131	\$ 218,716,515
Net income	7,951,476	8,871,170
Unrealized gains, net of taxes	(10,636,840)	3,423,832
Other surplus adjustments	<u>332,192</u>	<u>(1,929,386)</u>
Increase (decrease) in surplus	<u>(2,353,172)</u>	<u>10,365,616</u>
Surplus, end of year	<u>\$ 226,728,959</u>	<u>\$ 229,082,131</u>

President's Annual Message to the Members:

The Society and its members enjoyed another successful year in 2015. Our 221st year saw two significant winter freeze events and produced a robust investment market that generated net realized gains of \$10.2 million. Our net income for the year was \$7.9 million. Following is a brief overview of our 2015 financial and operational highlights.

Admitted assets at December 31, 2015 were \$262.2 million, which represents a decrease of \$6.4 million or 2% over 2014. This decrease was driven in part by increased insured losses. The Society's domestic investment portfolio, on a total return basis, increased 1.9% during 2015. This ranked as a 23rd percentile performance among our Indata Balanced Funds peer group. Indata is a broad compilation of professionally managed institutional portfolios. For the seventh consecutive year, our performance ranked within the first quartile among this peer group. We were fortunate to have reduced our equity exposure to our minimum mandated level during the 2nd quarter of 2015, as the stock market was peaking. Our domestic equity portfolio, comprising 95% of our total equity portfolio, returned 1.8% during 2015 as compared to the S&P 500 return of 1.4% and the Lipper Large Cap Core Equity Index return of negative 0.6%. Since January 1, 2000, our domestic equity portfolio has had a cumulative return of 96.5%, vs. the S&P 500 cumulative return of 89.2% and the referenced Lipper index cumulative return of 58.5%. The 5% of our equity portfolio allocated to international stocks, through two Vanguard index funds, returned a negative 6.5% on a weighted average basis during the year. The fixed income portfolio returned 2.1% for the year, as compared to the Barclays Intermediate Government/Corporate Index return of 1.1% and the Barclays Intermediate Treasury Index return of 1.2%. Since January 1, 2000, our fixed income portfolio has beaten the first referenced Barclays index, which is our primary benchmark, fifteen out of sixteen years. Our cumulative fixed income performance over this time period of 159.5% compares to the cumulative return of the referenced Barclays indexes of 113.9% and 100.2%, respectively.

Gross premiums in force increased by 7.1% to \$40.7 million and property insurance in force increased by 4.4% to \$18.8 billion. As previously noted, our investment results for 2015 were very good. Operationally, we incurred no hurricanes, tropical storms or other severe weather events for the year beyond a winter storm and a few shock losses. However, the Society is seeing a rise in incurred losses year over year. As a result, we increased our base annual assessment rate to 17% for 2015. An additional assessment of 17% is applicable to secondary residences and an additional assessment of 12%, up from 10%, is applicable to coastal properties located in designated territories. The increase in the coastal assessment is due to rising reinsurance costs. The Society had an after tax net income of \$7.9 million. Realized capital gains for 2015, net of taxes, amounted to \$10.2 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⁺ (A Double Prime) 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 1% on a state-wide basis for