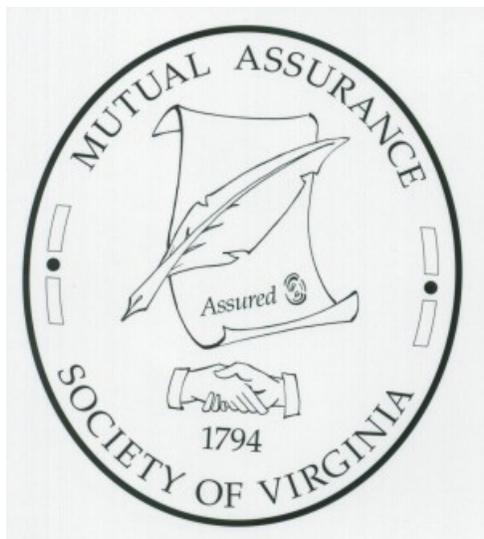


2017 ANNUAL REPORT



MUTUAL ASSURANCE SOCIETY OF VIRGINIA

Incorporated 1794

HOME OFFICE

4001 Fitzhugh Avenue
P.O. Box 6927
Richmond, VA 23230-0927
Telephone (804) 355-1794
Toll Free (800) 648-1794
Fax (804) 355-1971
www.mutual-assurance.com

MUTUAL ASSURANCE SOCIETY OF VIRGINIA
 STATEMENTS OF ADMITTED ASSETS, LIABILITIES
 AND POLICYHOLDERS' SURPLUS-UNAUDITED
 YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
ADMITTED ASSETS		
Investments:		
Bonds, at amortized cost	\$ 81,849,737	\$ 93,187,662
Common stocks, at fair value	206,031,841	172,476,474
Real estate	873,968	981,094
Cash and short-term investments	3,758,100	2,364,703
Securities accounts receivable	144,905	2,498
	<hr/>	<hr/>
Total cash and invested assets	292,658,551	269,012,431
Accrued investment income	967,144	1,123,270
EDP equipment, net	27,239	45,357
Other admitted assets	228,721	240,985
	<hr/>	<hr/>
Total Admitted Assets	<u>\$ 293,881,655</u>	<u>\$ 270,422,043</u>

**LIABILITIES AND
 POLICYHOLDERS' SURPLUS**

Liabilities:		
Losses	\$ 4,254,636	\$ 4,968,339
Loss adjustment expenses	909,569	1,009,966
Other expenses	1,162,436	800,246
Unearned premiums	6,058,723	5,351,861
Net deferred taxes	19,306,672	24,698,409
Ceded reinsurance premiums	588,622	153,821
Deferred compensation	1,066,758	1,049,199
Liability for pension benefits	2,379,972	1,960,633
Other taxes	126,365	111,968
	<hr/>	<hr/>
Total liabilities	35,853,753	40,104,442
Policyholders' Surplus	<u>258,027,902</u>	<u>230,317,601</u>
Total Liabilities and Surplus	<u>\$ 293,881,655</u>	<u>\$ 270,422,043</u>

MUTUAL ASSURANCE SOCIETY OF VIRGINIA
 STATEMENTS OF INCOME-UNAUDITED
 YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Income:		
Premiums earned	\$ 11,771,842	\$ 10,385,558
Less reinsurance ceded	<u>5,026,925</u>	<u>4,095,922</u>
Net premiums earned	6,744,917	6,289,636
Net investment income	6,765,523	6,884,050
Realized capital gains, net of taxes	3,073,920	3,991,094
Other income	<u>17,461</u>	<u>22,771</u>
Total income	<u>16,601,821</u>	<u>17,187,551</u>
Expenses:		
Losses	15,976,863	12,658,166
Loss adjustment expenses	2,516,836	2,611,856
Other underwriting expenses	<u>6,623,847</u>	<u>7,303,583</u>
Total expenses	<u>25,117,546</u>	<u>22,573,605</u>
Net loss before income taxes	(8,515,725)	(5,386,054)
Provision for income tax benefit	<u>(1,257,453)</u>	<u>(1,918,846)</u>
Net loss	<u>\$ (7,258,272)</u>	<u>\$ (3,467,208)</u>

STATEMENTS OF POLICYHOLDERS' SURPLUS-UNAUDITED
 YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Surplus, beginning of year	\$ 230,317,601	\$ 226,728,959
Net loss	(7,258,272)	(3,467,208)
Unrealized gains, net of taxes	35,949,244	5,386,139
Other surplus adjustments	<u>(980,671)</u>	<u>1,669,711</u>
Increase (decrease) in surplus	<u>27,710,301</u>	<u>3,588,642</u>
Surplus, end of year	<u>\$ 258,027,902</u>	<u>\$ 230,317,601</u>

President's Annual Message to the Members:

The Society and its members had a challenging year in 2017. Our 223rd year saw claims from two severe hail storms. Our net loss for the year was \$7.2 million. Following is a brief overview of our 2017 financial and operational highlights.

Admitted assets at December 31, 2017 were \$293.9 million, which represents an increase of \$23.4 million or 9% over 2016. This increase was driven by an increase in our equity portfolio. The Society's domestic investment portfolio, on a total return basis, increased 15.7% during 2017. This ranked as a 22nd percentile performance within our Indata Balanced Funds peer group. Indata is a broad compilation of professionally managed institutional portfolios. For the ninth 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 22.0% during 2017 as compared to the S&P 500 return of 21.8% and the Lipper Large Cap Core Equity Index return of 20.7%. Since January 1, 2000, our domestic equity portfolio has had a cumulative return of 168.1%, vs. the S&P 500 cumulative return of 158.1% and the referenced Lipper index cumulative return of 110.7%. The 5% of our equity portfolio allocated to international stocks, through two Vanguard index funds, returned 30.0% on a weighted average basis during the year. The fixed income portfolio returned 4.8% 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, seventeen out of eighteen years. Our cumulative fixed income performance over this time period of 191.3% compares to the cumulative return of the referenced Barclays indexes of 123.0% and 103.9%, respectively.

Gross premiums in force increased by 2.3% to \$42.4 million. As previously noted, our investment results for 2017 were very good. Operationally, we incurred claims from a winter storm and two hail storms. The Society is seeing a rise in incurred losses year over year. We maintained our base annual assessment rate of 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 \$7.2 million. Realized capital gains for 2017, net of taxes, amounted to \$3.0 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 5.5% on a state-wide basis for 2018. 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 \$3.3 million or 26% from 2016. The increase in incurred losses resulted from two significant hail storms. Losses incurred for 2017 were categorized as follows: 47% from windstorm or hail, 25% from water damage from plumbing, heating and air conditioning systems, 15% from fire, and 13% 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. 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, 2018

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

William E. Hardy (3)(B)
Partner
Harris, Hardy & Johnstone, P.C.

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

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 2020
- (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