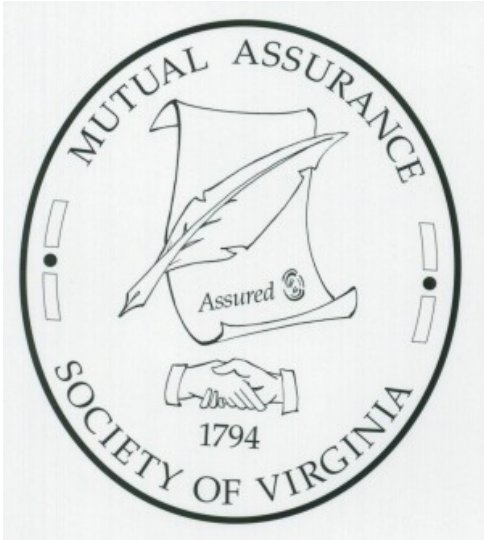


2018 ANNUAL REPORT



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, 2018 and 2017

| | 2018 | 2017 |
|---------------------------------|-----------------------|-----------------------|
| ADMITTED ASSETS | | |
| Investments: | | |
| Bonds, at amortized cost | \$ 81,094,054 | \$ 81,849,737 |
| Common stocks, at fair value | 185,179,289 | 206,031,841 |
| Real estate | 814,206 | 873,968 |
| Cash and short-term investments | 1,648,980 | 3,758,100 |
| Securities accounts receivable | - | 144,905 |
| | <hr/> | <hr/> |
| Total cash and invested assets | 268,736,529 | 292,658,551 |
| Accrued investment income | 971,452 | 967,144 |
| EDP equipment, net | 56,609 | 27,239 |
| Other admitted assets | 1,558,319 | 228,721 |
| | <hr/> | <hr/> |
| Total Admitted Assets | <u>\$ 271,322,909</u> | <u>\$ 293,881,655</u> |

**LIABILITIES AND
 POLICYHOLDERS' SURPLUS**

| | | |
|--------------------------------|-----------------------|-----------------------|
| Liabilities: | | |
| Losses | \$ 3,160,964 | \$ 4,254,636 |
| Loss adjustment expenses | 744,907 | 909,569 |
| Other expenses | 714,273 | 1,162,436 |
| Unearned premiums | 7,006,651 | 6,058,723 |
| Net deferred taxes | 13,937,207 | 19,306,672 |
| Ceded reinsurance premiums | 165,676 | 588,622 |
| Deferred compensation | 1,067,152 | 1,066,758 |
| Liability for pension benefits | 2,012,693 | 2,379,972 |
| Other liabilities | 448,748 | 126,365 |
| | <hr/> | <hr/> |
| Total liabilities | 29,258,271 | 35,853,753 |
| Policyholders' Surplus | <u>242,064,638</u> | <u>258,027,902</u> |
| | <hr/> | <hr/> |
| Total Liabilities and Surplus | <u>\$ 271,322,909</u> | <u>\$ 293,881,655</u> |

MUTUAL ASSURANCE SOCIETY OF VIRGINIA
 STATEMENTS OF INCOME-UNAUDITED
 YEARS ENDED DECEMBER 31, 2018 and 2017

| | 2018 | 2017 |
|--------------------------------------|---------------------|-----------------------|
| Income: | | |
| Premiums earned | \$ 13,261,688 | \$ 11,771,842 |
| Less reinsurance ceded | <u>5,620,333</u> | <u>5,026,925</u> |
| Net premiums earned | 7,641,355 | 6,744,917 |
| Net investment income | 6,594,566 | 6,765,523 |
| Realized capital gains, net of taxes | 6,449,440 | 3,073,920 |
| Other income | <u>17,876</u> | <u>17,461</u> |
| Total income | <u>20,703,237</u> | <u>16,601,821</u> |
| Expenses: | | |
| Losses | 14,275,985 | 15,976,863 |
| Loss adjustment expenses | 2,331,039 | 2,516,836 |
| Other underwriting expenses | <u>7,768,532</u> | <u>6,623,847</u> |
| Total expenses | <u>24,375,556</u> | <u>25,117,546</u> |
| Net loss before income taxes | (3,672,319) | (8,515,725) |
| Provision for income tax benefit | <u>(3,044,558)</u> | <u>(1,257,453)</u> |
| Net loss | <u>\$ (627,761)</u> | <u>\$ (7,258,272)</u> |

STATEMENTS OF POLICYHOLDERS' SURPLUS-UNAUDITED
 YEARS ENDED DECEMBER 31, 2018 and 2017

| | 2018 | 2017 |
|--------------------------------|-----------------------|-----------------------|
| Surplus, beginning of year | \$ 258,027,902 | \$ 230,317,601 |
| Net loss | (627,761) | (7,258,272) |
| Unrealized gains, net of taxes | (16,726,032) | 35,949,244 |
| Other surplus adjustments | <u>1,390,529</u> | <u>(980,671)</u> |
| Increase (decrease) in surplus | <u>(15,963,264)</u> | <u>27,710,301</u> |
| Surplus, end of year | <u>\$ 242,064,638</u> | <u>\$ 258,027,902</u> |

President's Annual Message to the Members:

The Society and its members had an improved year in 2018 but still not without its challenges. Our 224th year saw claims from several events. Our net loss for the year was \$0.6 million. Following is a brief overview of our 2018 financial and operational highlights.

Admitted assets at December 31, 2018 were \$271.3 million, which represents a decrease of \$22.6 million or 8% over 2017. This decrease was driven by a decrease in our equity portfolio. The Society's domestic investment portfolio, on a total return basis, declined 2.0% during 2018. This ranked as a first quartile performance within our Indata Balanced Funds peer group. Indata is a broad compilation of professionally managed institutional portfolios. For the tenth consecutive year, our performance ranked within the first quartile among this peer group. Our domestic equity portfolio, comprising 95% of our total equity portfolio, declined 4.2% during 2018 as compared to the S&P 500 return of negative 4.4% and the Lipper Large Cap Core Equity Index return of negative 5.6%. Since January 1, 2000, our domestic equity portfolio has had a cumulative return of 156.7%, vs. the S&P 500 cumulative return of 146.8% and the referenced Lipper index cumulative return of 98.9%. The 5% of our equity portfolio allocated to international stocks, through two Vanguard index funds, declined 14.5% on a weighted average basis during the year. The fixed income portfolio returned 3.0% for the year, as compared to the Barclays Intermediate Government/Corporate Index return of 0.9% and the Barclays Intermediate Treasury Index return of 1.4%. Since January 1, 2000, our fixed income portfolio has beaten the first referenced Barclays index, which is our primary benchmark, eighteen out of nineteen years. Our cumulative fixed income performance over this time period of 199.9% compares to the cumulative return of the referenced Barclays indexes of 125.0% and 106.8%, respectively.

Gross premiums increased by 15.8% to \$49.1 million. Operationally, we incurred claims from several storms. The Society is seeing a rise in incurred losses year over year. We increased our base annual assessment rate to 25% for 2019. An additional assessment of 25% 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 \$0.6 million. Realized capital gains for 2018, net of taxes, amounted to \$6.5 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 6.3% on a state-wide basis for 2019. 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 decreased by \$1.7 million or 11% from 2017. While the frequency of loss events increased in 2018, the severity of loss events decreased. Storm activity in 2018 resulted from a winter storm in January, a nor'easter in March, a windstorm in April, rainstorm in May, and Hurricane Michael in October. In addition, the Society did incur losses from Hurricane Florence in September. Losses incurred for 2018 were categorized as follows: 31% from windstorm or hail, 19% from water damage from plumbing, heating and air conditioning systems, 17% from frozen pipes, 11% from fire, and 24% 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, 2019

BOARD OF DIRECTORS

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Managing Partner, Richmond Office
Williams Mullen

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Former Senior Vice President, Dominion Energy Solutions
Dominion Resources, Inc.

George C. Freeman III (1)(2)(A)
Chairman, President and Chief Executive Officer
Universal Corporation

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Harris, Hardy & Johnstone, P.C.

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Executive Managing Director
Harris Williams

R. Gregory Williams (1)(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 2021

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