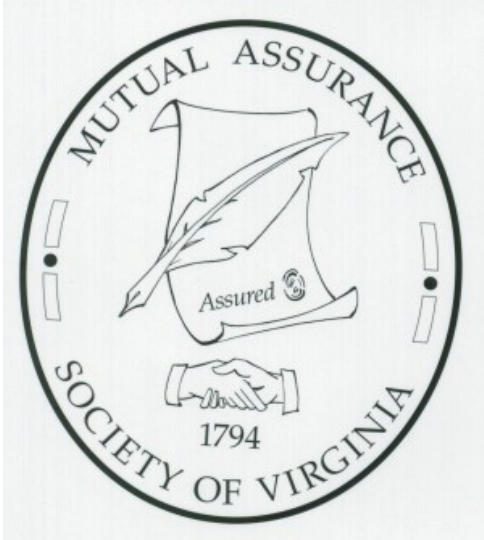


# 2009 ANNUAL REPORT



## MUTUAL ASSURANCE SOCIETY OF VIRGINIA

**Incorporated 1794**

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MUTUAL ASSURANCE SOCIETY OF VIRGINIA  
 STATEMENTS OF ADMITTED ASSETS, LIABILITIES  
 AND SURPLUS-STATUTORY BASIS-UNAUDITED  
 YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
<b>ADMITTED ASSETS</b>		
<b>Investments:</b>		
Bonds, at amortized cost	\$ 55,819,904	\$ 63,422,389
Common stocks, at fair value	132,691,907	100,924,338
Real estate	1,152,776	1,194,711
Cash/Short-term investments	<u>1,370,326</u>	<u>221,138</u>
 Total cash and invested assets	 191,034,913	 165,762,576
Accrued interest and dividends	1,096,255	1,284,054
Reinsurance recoverable	8,222	315,055
Other reinsurance recoverable	357,958	210,474
Federal taxes recoverable	300,000	2,425,000
Net deferred tax asset	-	542,801
EDP equipment	85,755	56,050
Other admitted assets	<u>476,899</u>	<u>482,274</u>
 Total Admitted Assets	 <u>\$ 193,360,002</u>	 <u>\$ 171,078,284</u>
 <b>LIABILITIES AND POLICYHOLDERS' SURPLUS</b>		
<b>Liabilities:</b>		
Unpaid losses	\$ 2,604,494	\$ 2,031,530
Loss adjustment expenses	529,481	286,019
Other expenses	1,582,188	1,395,684
Unearned premiums	3,937,322	3,260,087
Net deferred taxes	6,997,639	-
Other taxes	<u>76,372</u>	<u>67,304</u>
 Total liabilities	 <u>15,727,496</u>	 <u>7,040,624</u>
 <b>Policyholders' Surplus:</b>		
Net unrealized gains	18,020,571	2,423,573
Other policyholders' surplus	<u>159,611,935</u>	<u>161,614,087</u>
 Total Surplus	 <u>177,632,506</u>	 <u>164,037,660</u>
 Total Liabilities and Surplus	 <u>\$ 193,360,002</u>	 <u>\$ 171,078,284</u>

MUTUAL ASSURANCE SOCIETY OF VIRGINIA  
 STATEMENTS OF INCOME  
 STATUTORY BASIS-UNAUDITED  
 YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
<b>Underwriting Income:</b>		
Premiums earned	\$ 7,173,226	\$ 6,483,086
Less reinsurance	<u>3,829,004</u>	<u>3,689,784</u>
Net premiums earned	<u>3,344,222</u>	<u>2,793,302</u>
<b>Underwriting Expenses:</b>		
Losses	6,476,572	4,027,228
Loss adjustment expenses	1,708,653	1,166,848
Other underwriting expenses	<u>4,425,640</u>	<u>4,199,865</u>
Total underwriting expenses	<u>12,610,865</u>	<u>9,393,941</u>
Net Underwriting Loss	(9,266,643)	(6,600,639)
<b>Other Income:</b>		
Net investment income	5,875,898	6,602,328
Net realized capital (losses) gains, net of taxes	114,383	(7,714,883)
Other Income	<u>199,004</u>	<u>56,348</u>
Net (loss) income before taxes	(3,077,358)	(7,656,846)
Federal and foreign income tax (expense) benefit	<u>(203,527)</u>	<u>453,377</u>
Net (Loss) Income	<u>\$ (3,280,885)</u>	<u>\$ (7,203,469)</u>

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

Having peered into an economic abyss in early 2009, we are pleased that by year's end we saw evidence of a meaningful recovery. Although many still warn of a double-dip recession, the peace of mind that comes from even a partial recovery reinforces our ability to face whatever might lie ahead. The economy has demonstrated a level of resiliency sufficient to maintain our confidence in our investment goals. We continue to believe that, in the long term, equities represent the best opportunity for maximizing our investment returns, which inure to the benefit of our members. Notwithstanding the economic turmoil of 2009, our core operating results were good. There follows a brief overview of the year's operational and financial highlights.

Admitted assets at December 31, 2009 were \$193.3 million, which represents an increase of \$22.2 million or 13% over 2008. The Society's investment portfolio, on a total return basis, increased 20.1% during 2009. We achieved this strong performance by maintaining our heavy equity allocation in spite of the sheer terror gripping the markets early in the year. Our equity portfolio is defensive in nature, designed to outperform in flat or declining markets. In 2009, the equity portfolio returned 25.8%, representing 97% of the S&P 500 return of 26.5%. Our equity portfolio has outperformed the S&P 500 over the last 3 years and 5 years, and has outperformed this index by 337 basis points over the last decade. The fixed income portfolio returned 9.7% for the year, eclipsing the Barclays Intermediate Government/Corporate Index return of 5.2% and the Barclays Intermediate Treasury Index return of negative 1.4%. For the decade, our fixed income portfolio has outperformed those indexes by 1,976 basis points and 2,695 basis points, respectively.

Operating results were negatively impacted by January freeze losses, November wind losses from the combined Nor'easter/Ida remnants and two large losses including the first "burned to the ground" total loss in the 29 years I have been working at the Society. Property insurance in force increased by 5.9% to \$15.6 billion and perpetual gross premiums in force increased by 5.6% to \$33.6 million. Due to the partial recovery in our equity investments by the end of 2009, the Society's base annual assessment rate for 2010 was decreased to 12%. An additional assessment of 12% is applicable to coastal properties because of their impact on our catastrophe reinsurance costs and an additional assessment of 12% is applicable to secondary residences because of the frequency of non-occupancy of such residences. To further mitigate the rising cost of our excess of loss reinsurance, we have increased our retention per loss to \$400,000 for 2010. This represents a 14% increase over our 2009 retention. An after tax net loss of \$3.2 million represents a decrease of \$3.9 million or 54% from 2008. Realized capital gains for 2009, net of taxes, amounted to \$114,383. The Society wisely had no exposure to either mortgages or mortgage-backed securities in 2008 or 2009. Currently, the Society is rated A+ (Superior) by A.M. Best Company, Oldwick, New Jersey and A"(Double Prime) by Demotech, Inc., Dublin, Ohio.

As noted last year, real estate markets remain depressed and continue to experience declining market values. Please remember that your home's insurable value is based on its estimated replacement cost, i.e. reconstruction cost, and not on its market value. Even in a declining housing market you should not relate a decline in market value to the amount of insurance you should have on your home. Based on construction cost indexes provided to us by Marshall-Swift/Boeckh, we have elected to make no inflation guard adjustment for 2010 in all areas of the state except in the 3-digit zip codes 233-237, for which the adjustment will be 2%. This decision was based in part on the inflation guard factors we used over the course of the last three years versus current construction cost trends. 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.

Net losses incurred increased by \$2.4 million or 61% over 2008. Except for the remnants of Ida, no hurricanes impacted Virginia in 2009. In addition to the freeze losses and the wind losses previously noted, the frequency and severity of other losses deteriorated slightly for the year. Losses from water damage from plumbing, heating and air conditioning systems remained the number one cause of loss for 2009 representing 25% of all losses incurred. Other losses incurred were as follows: 18% from windstorms, 16% from fire, 12% from freezing pipes, 9% from all risk coverage, 6% from thefts, 3% from the weight of ice and snow and 11% from all other causes.

Several enhancements are being made this year to our Identity Recovery Coverage Endorsement with no additional premium. The most significant enhancement is the addition of coverage for fraud losses resulting from ID theft, credit and debit card fraud, check forgery, counterfeit cash and miscellaneous fraud events. A miscellaneous fraud event is defined as an intentional and criminal deception to induce you to part with something of value. The addition of the fraud coverage greatly increases the value of this optional coverage and we hope you will consider adding it to your policy. Other optional coverage endorsements you should consider include Equipment Breakdown Coverage, Water Damage-Sewers, Drains and Sumps-Increased Limits, Earthquake Coverage, Unscheduled Personal Property-Increased Special Limits and Scheduled Property.

Please remember that 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 in this manner saves the cost of printing, handling and postage and contributes to the preservation of our natural resources and the protection of our environment. 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,

L. Gerald Roach, CPCU, FLMI, CFE  
President

April 1, 2010

**BOARD OF DIRECTORS**

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

O. H. Parrish, Jr. (3)(C)  
Retired President-Regional Banking  
Crestar Bank

L. Gerald Roach (1)(2)(A)  
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Mutual Assurance Society of Virginia

Julious P. Smith, Jr. (1)(2)(B)  
Chairman and Chief Executive Officer  
Williams Mullen

Richard T. Wheeler, Jr. (3)(B)  
Chairman, President and Chief Executive Officer  
Franklin Federal Savings Bank

J. F. Williams III (1)(3)(A)  
Chairman Emeritus  
Harrison & Bates, Incorporated

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

Coleman Wortham III (1)(2)(C)  
President and Chief Executive Officer  
Davenport & Company LLC

- (1) Member of Executive Committee
- (2) Member of Investment Committee
- (3) Member of Audit Committee
- (A) Term Expires in 2010
- (B) Term Expires in 2011
- (C) Term Expires in 2012

**OFFICERS AND MANAGERS**

L. Gerald Roach, CPCU, FLMI, CFE, President  
John S. Case, Secretary-Treasurer  
Jeffrey S. Wrobel, Sr., CPCU, AIT, API, Executive Vice President  
Paul R. Davis, AIC, Claims Manager  
C. Lewis Marsh, CFA, CPA, Investment Manager

**GENERAL COUNSEL**

Williams Mullen, Richmond, Virginia