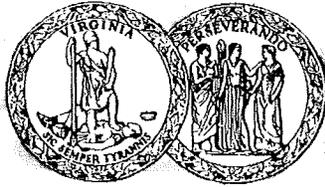


EXAMINATION REPORT
on
LOUDOUN MUTUAL INSURANCE COMPANY
WATERFORD, VIRGINIA
as of
DECEMBER 31, 2015

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
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<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Loudoun Mutual Insurance Company as of December 31, 2015, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 29th day of June, 2016

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 1, 2016

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, we have performed an examination of the financial condition, records and affairs of

LOUDOUN MUTUAL INSURANCE COMPANY
Waterford, Virginia

hereinafter referred to as the Company. The report thereon is submitted for your consideration.

SCOPE OF THE EXAMINATION

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2012. The current examination covers the three year period from January 1, 2013 through December 31, 2015.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company is a mutual assessment property and casualty insurer. The Company was chartered by an Act of the General Assembly of Virginia on March 12, 1849. The Company's business was originally limited to fire, lightning and extended coverage until it began issuing homeowners coverage subsequent to an amendment to its charter on November 13, 1961. According to its charter, the Company shall engage in and transact fire insurance and, when issued as a supplemental or comprehensive contract in connection with a fire insurance policy, issue, engage in and transact miscellaneous property insurance, water damage insurance, burglary and theft insurance, glass insurance, personal injury liability insurance, property damage liability insurance, marine insurance and contingent and consequential losses insurance.

MANAGEMENT AND CONTROL

The articles of incorporation provide that the business of the Company shall be managed by a board of not more than thirteen directors divided into three classes. Two classes shall consist of not more than four directors and one class of not more than five. Directors shall be elected to three year terms by the members at the annual meeting. Only one class of directors shall be up for election at each annual meeting. Vacancies are filled by the board with such directors serving until the end of the unexpired term. Only members of the Company may be elected to the board. No person who has reached the age of 75 years shall be elected a director. Any director who reaches age 75 shall immediately resign as a Director.

The bylaws stipulate that the Company shall have a chairman of the board who shall be elected at the annual meetings and who shall preside over the board and the executive committee. There shall be a vice chairman of the board who shall be elected at the annual meeting and who shall carry out the duties and functions of the chairman in his or her absence. The officers of the Company shall be elected by the board at each annual board meeting. The officers shall be a president, a secretary, a treasurer and such other officers as the board of directors may deem necessary. The president shall be a member of the board of directors. The treasurer and secretary may or may not be members of the board. Directors, officers and committees of the Company at December 31, 2015, were as follows:

Directors

Donald A. Butler

Principal Occupation

Owner
Virginia Property Group, Inc.
Winchester, Virginia

William C. Orndoff

Treasurer
Frederick County Virginia
Clearbrook, Virginia

Mary M. Finnell

Adjunct Professor/Lord Fairfax Community
College
Retired Co-Manager/Edward Jones Brokerage
Maurertown, Virginia

M. Byrd Inskeep

Partner
Battle Park Farms
Culpepper, Virginia

Marilyn A. Adams

Loan Officer
Farm Credit of Virginia
Purcellville, Virginia

Brian S. Montgomery

President
Warrenton Foreign Car, Inc.
Warrenton, Virginia

Richard C. Shickle

Retired - VP Administration and Finance
Shenandoah University
Winchester, Virginia

Christopher G. Shipe

President
Loudoun Mutual Insurance Company
Waterford, Virginia

Robert W. Smalley, Jr.

President
Smalley Packaging Co., Inc.
Berryville, Virginia

Samuel B. Welsh

Retired Dairy Farmer
Leesburg, Virginia

Officers

Richard C. Shickle
Robert W. Smalley, Jr.
Christopher G. Shipe

Chairman of the Board
Vice Chairman of the Board
President

Dorothea C. Rohde
 Kimberly A. Fry
 April O. Bridgeman
 Timothy J. Koppenhaver
 J. David King
 Todd E. Robertson

Corporate Secretary
 Treasurer
 Vice President and Claims Manager
 Vice President and Underwriting Manager
 Vice President and Marketing Manager
 Vice President and Chief Information Officer

Executive Committee

Donald A. Butler
 Christopher G. Shipe
 Mary M. Finnell

Richard C. Shickle, Chairman
 Robert W. Smalley, Jr.

Investment Committee

William C. Orndoff, Chairman
 Mary M. Finnell
 Christopher G. Shipe

Kimberly A. Fry
 Richard C. Shickle
 Robert W. Smalley, Jr.

Audit Committee

Donald A Butler, Chairman
 M. Byrd Inskip
 Richard C. Shickle

Marilyn A. Adams
 C. William Orndoff

HR/Compensation Committee

Samuel B. Welsh, Chairman
 M. Byrd Inskip
 Brian S. Montgomery

Donald A. Butler
 Richard C. Shickle

Technology Committee

Brian S. Montgomery, Chairman
 Marilyn A. Adams
 Todd E. Robertson

Richard C. Shickle
 Samuel B. Welsh
 Christopher G. Shipe

Reinsurance Committee

Robert W. Smalley, Jr., Chairman
 Mary M. Finnell
 Richard Shickle

Kimberly A. Fry
 Christopher G. Shipe

Nominating and Governance Committee

Richard C. Shickle, Chairman
Brian S. Montgomery

Robert W. Smalley, Jr.
Samuel B. Welsh

TERRITORY AND PLAN OF OPERATION

The Company is licensed by the State Corporation Commission to operate as a mutual assessment property and casualty insurer throughout the Commonwealth of Virginia. Its business is concentrated in the northern, central and western regions of the state.

Policies are marketed through 131 independent agencies with 161 locations throughout Virginia which accept applications for fire insurance with optional standard coverages, homeowners insurance, farmowners, or small commercial lines. The agent inspects the property and applies rates from a schedule provided by the Company. The agent has the option of increasing the premium as much as 200% for certain higher risk properties. Final approval and authority for all policy issues rests with the underwriting staff. Agents have the authority to pay claims up to \$2,500, however, the adjudication of all claims is done by the home office and final approval rests with the claims department.

REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2015:

Ceded:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss First Excess Cover	Property	\$300,000	\$700,000 per risk; liability of reinsurer shall not exceed a total payment of net loss and adjustment expense of \$2,500,000 per occurrence
Excess of Loss Second Excess Cover	Property	\$1,000,000	\$3,000,000 per risk; liability of reinsurer shall not exceed \$3,000,000 with respect to all net loss and adjustment expenses per occurrence
Excess of Loss First Excess Cover	Liability	\$200,000	\$800,000 per occurrence
Excess of Loss Second Excess Cover	Liability	\$1,000,000	\$1,000,000 per occurrence, subject to a limit of liability to the reinsurer of \$3,000,000 each loss occurrence
Excess of Loss	Property (Facultative)	\$2,000,000	10 times the Company's net retention plus the amount ceded to the Company's working reinsurance, subject to a minimum retention of \$50,000 and to a maximum cession of \$3,000,000 any risk
Excess of Loss	Casualty (Facultative)	\$1,000,000	\$1,000,000 each loss occurrence

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
Excess of Loss First Excess Cover	Property (Catastrophe)	\$2,500,000	\$2,500,000 of ultimate net loss in excess of company retention of \$2,500,000 any one loss occurrence
Excess of Loss Second Excess Cover	Property (Catastrophe)	\$5,000,000	\$5,000,000 of ultimate net loss in excess of company retention of \$5,000,000 any one loss occurrence
Excess of Loss Third Excess Cover	Property (Catastrophe)	\$10,000,000	\$10,000,000 of ultimate net loss in excess of company retention of \$10,000,000 any one loss occurrence
Fourth Property Catastrophe Excess	Property (Catastrophe)	\$20,000,000	\$20,000,000 of ultimate net loss in excess of company retention of \$40,000,000 any one loss occurrence
Fifth Property Catastrophe Excess	Property (Catastrophe)	\$40,000,000	\$10,000,000 of ultimate net loss in excess of company retention of \$20,000,000 any one loss occurrence
Quota Share and Excess of Loss (Umbrella Facultative)	Liability	5% of first \$1,000,000 each loss occurrence	95% of first \$1,000,000 each loss occurrence and up to 100% of the next \$4,000,000 each loss occurrence

The Company also offers optional identity theft coverage on all its homeowners, mobile homeowners, and farmowners policies through The Hartford Steam Boiler Inspection and Insurance Company (Hartford). The Company cedes 100% of the premium and 100% of the liability under the identity theft coverage to Hartford.

In addition, the Company offers Equipment Breakdown Coverage on farmowners and homeowners through Hartford. The Company cedes 100% of the premium and 100% of all losses under the equipment breakdown program to Hartford.

All reinsurance agreements contain an insolvency clause.

Assumed:

The Company assumes a small amount of reinsurance from the Regional Reciprocal Catastrophe Pool (RRCP), a pool of reinsurers, all who are a party to this agreement and all are licensed or qualified in Virginia.

The Company assumes a small amount of reinsurance from the National Association of Mutual Insurance Company's (NAMIC) as part of a retrocessional pool. The Company's participation allows it to have access to NAMIC's directors and officers and professional liability coverage.

GROWTH OF THE COMPANY

The following data, taken from annual statements filed with the Bureau of Insurance and the financial statements contained in examination reports, reflects the growth of the Company for the ten-year period ending December 31, 2015:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds</u>
2006	\$41,850,214	\$17,440,029	\$24,410,185
2007	48,128,284	19,146,646	28,981,638
2008	45,761,404	19,339,765	26,421,639
2009	49,333,625	20,554,115	28,779,510
2010	50,638,214	19,604,411	31,033,803
2011	51,977,708	20,033,711	31,943,997
2012	55,438,126	22,476,146	32,961,980
2013	64,989,917	26,197,928	38,791,989
2014	73,999,821	30,916,331	43,083,490
2015	79,807,006	34,492,842	45,314,164

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses</u>	<u>Other Underwriting Expenses</u>	<u>Gain or (Loss)</u>
2006	\$19,567,264	\$7,857,639	\$7,705,397	\$4,004,228
2007	21,629,884	10,135,571	8,486,696	3,007,617
2008	22,508,384	13,104,892	8,173,351	1,230,141
2009	23,263,837	13,515,145	8,493,690	1,255,002
2010	23,778,081	14,413,410	8,617,168	747,503
2011	24,530,341	14,464,546	8,843,634	1,222,161
2012	26,295,920	18,044,931	9,547,411	(1,296,422)
2013	30,433,616	13,440,796	11,664,056	5,328,764
2014	35,496,032	18,124,288	13,111,191	4,260,553
2015	40,102,989	20,673,596	15,029,979	4,399,414

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the company for the period ending December 31, 2015. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2015.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$44,867,725		\$44,867,725
Preferred stocks	1,185,092		1,185,092
Common stocks	16,609,761		16,609,761
Properties occupied by the company	794,042		794,042
Cash and short-term investments	8,403,816		8,403,816
Other invested assets	70,313	70,313	
Investment income due and accrued	329,543		329,543
Uncollected premiums and agents' balances in course of collection	1,865,063		1,865,063
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,988,581		3,988,581
Amounts recoverable from reinsurers	84,814		84,814
Federal income tax recoverable	270,000		270,000
Net deferred tax asset	1,504,169	112,085	1,392,084
Guaranty funds receivable or on deposit	1,372		1,372
Electronic data processing equipment and software	43,746	40,002	3,744
Furniture and equipment	2,329	2,329	
Aggregate write-ins for other than invested assets	<u>1,936,263</u>	<u>1,924,894</u>	<u>11,369</u>
Totals	<u><u>\$81,956,629</u></u>	<u><u>\$2,149,623</u></u>	<u><u>\$79,807,006</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,497,277
Loss adjustment expenses		563,800
Commissions payable, contingent commissions and other similar charges		2,067,394
Other expenses		261,460
Taxes, licenses and fees		593,718
Unearned premiums		24,879,278
Advance premiums		1,470,770
Ceded reinsurance premiums payable		730,495
Aggregate write-ins for liabilities		<u>428,650</u>
Total liabilities		\$34,492,842
Unassigned funds (surplus)	<u>\$45,314,164</u>	
Surplus as regards policyholders		<u>45,314,164</u>
Totals		<u><u>\$79,807,006</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$40,102,989
Deductions:	
Losses incurred	\$17,740,131
Loss adjustment expenses incurred	2,933,465
Other underwriting expenses incurred	15,029,979
Total underwriting deductions	\$35,703,575
Net underwriting gain	\$4,399,414

INVESTMENT INCOME

Net investment income earned	\$103,510
Net realized capital gains	382,456
Net investment gain	\$485,966

OTHER INCOME

Net loss from agents or premium balances charged off	(\$45,548)
Finance and service charges not included in premiums	216,194
Aggregate write ins for miscellaneous income	465
Total other income	\$171,111
Net income before federal income taxes	\$5,056,491
Federal income taxes incurred	1,240,000
Net income	\$3,816,491

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Surplus as regards policyholders, December 31, previous year	<u>\$32,961,980</u>	<u>\$38,791,989</u>	<u>\$43,083,490</u>
Net income	\$4,060,396	\$3,266,408	\$3,816,491
Change in net unrealized capital gains or (losses)	2,279,727	(40,599)	(2,332,582)
Change in net deferred income tax	(556,701)	394,762	758,540
Change in nonadmitted assets	(188,623)	(1,169,425)	(356,909)
Aggregate write-ins for gains and losses in surplus	<u>235,210</u>	<u>1,840,355</u>	<u>345,134</u>
Change in surplus as regards policyholders for the year	<u>\$5,830,009</u>	<u>\$4,291,501</u>	<u>\$2,230,674</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$38,791,989</u></u>	<u><u>\$43,083,490</u></u>	<u><u>\$45,314,164</u></u>

CASH FLOW
Cash From Operations

Premiums collected net of reinsurance	\$42,512,724
Net investment income	1,720,901
Miscellaneous income	171,111
Total	<u>\$44,404,736</u>
Benefit and loss related payments	\$17,934,815
Commissions, expenses paid and aggregate write-ins for deductions	17,594,054
Federal income taxes paid	1,680,788
Total	<u>\$37,209,657</u>
Net cash from operations	<u>\$7,195,079</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$9,988,410
Stocks	13,537,240
Miscellaneous proceeds	628,326
Total investment proceeds	<u>\$24,153,976</u>
Cost of investments acquired (long-term only):	
Bonds	\$10,846,294
Stocks	16,476,937
Miscellaneous applications	609,871
Total investments acquired	<u>\$27,933,102</u>
Net cash from investments	<u>(\$3,779,126)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	<u>\$379,882</u>
Net cash from financing and miscellaneous sources	<u>\$379,882</u>
Net change in cash and short-term investments	<u><u>\$3,795,835</u></u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

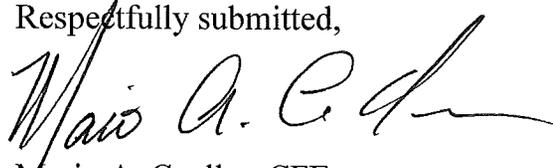
Cash and short-term investments:	
Beginning of year	\$4,607,980
End of year	8,403,816
Net change in cash and short-term investments	<u><u>\$3,795,836</u></u>

ACKNOWLEDGEMENT

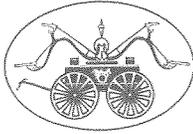
The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

In addition to the undersigned, T. Bradford Earley, CFE, Jennifer K. Blizzard, CFE and Benjamin B. MacKercher participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is written in a cursive style with a long horizontal flourish at the end.

Mario A. Cuellar, CFE
Senior Insurance Examiner
Commonwealth of Virginia

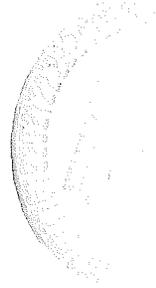


LOUDOUN MUTUAL

INSURANCE COMPANY

June 3, 2016

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance
PO Box 1157
Richmond, VA 23218



RE: Loudoun Mutual Insurance Company,
Examination Report as of December 31, 2015

Dear Mr. Smith:

This letter is to acknowledge the receipt and our agreement with the draft examination report submitted for our review.

Please provide us with 12 copies of the final examination report so that we may provide a copy to each of the Loudoun Mutual Directors and maintain several on file for future use.

We would like to note and express our appreciation for the professionalism demonstrated by the Examiners while they were onsite here at Loudoun Mutual. The manner in which the Commonwealth of Virginia conducts the examinations of property and casualty insurance companies is a model that other states should emulate.

If there are any further questions, comments, or concerns, please feel free to contact me.

Sincerely,

Christopher G. Shipe AIT, CPCU
President/CEO