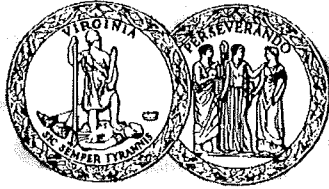


EXAMINATION REPORT
on
AUGUSTA MUTUAL INSURANCE COMPANY
Staunton, Virginia
as of
December 31, 2018

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Augusta Mutual Insurance Company as of December 31, 2018, 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 28th day of February 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
December 12, 2019

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Sir:

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

AUGUSTA MUTUAL INSURANCE COMPANY
Staunton, 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, 2015. The current examination covers the three-year period from January 1, 2016 through December 31, 2018.

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 was organized on June 4, 1870, and was first granted a charter by the Circuit Court of Augusta County on August 14, 1871. On September 22, 1906, the Company was granted a new charter with the name East Augusta Mutual Fire Insurance Company, Incorporated. This charter was amended on June 6, 1933, May 1, 1953 and January 24, 1964 to enlarge the territory of operations and to permit the insurance of more types of risks. The latter amendment also restated the articles of incorporation. The Company's name was changed to Augusta Mutual Insurance Company by charter amendment on December 6, 1977.

The purposes and powers of the Company according to the charter, as amended, are as follows:

The conduct of a mutual assessment fire insurance business, within the widest definition of Section 38.1-659, Code of Virginia of 1950, as amended from time to time.

The powers of this corporation are those permitted to a mutual assessment fire insurance company under Chapter 2 of Title 13.1 of the Code of Virginia, as amended from time to time.

On January 27, 1982, The Nelson County Mutual Fire Insurance Company merged into the Company. The State Corporation Commission (Commission) approved the merger effective January 27, 1982.

On February 25, 1993, Bedford Mutual Insurance Company, Inc. merged into the Company. The Commission approved the merger effective March 4, 1993.

On January 1, 1999, Albemarle Home Mutual Fire Insurance Company merged into the Company. The Commission approved the merger effective January 1, 1999.

MANAGEMENT AND CONTROL

Management of the Company is vested in a board of not less than seven and not more than fifteen directors, including the president and vice president, each of whom must be a member of the Company. All of the directors are elected by the members at

the annual meeting, with at least two directors elected each year. A quorum at any meeting shall consist of a majority of the members of the board.

The board may by resolution designate three or more of their members to constitute an executive committee which, to the extent provided in the resolution, has all powers of the board except for the power to levy assessments.

The bylaws of the Company provide that the officers shall be a president, a vice president, an executive vice president, one or more vice presidents, a secretary, a treasurer and, at the option of the board, such other officers as the board may designate. Their term of office is one year.

The Company's directors, officers and members of selective committees at December 31, 2018 were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
Richard P. Chaffin	Developer Forest, Virginia
George A. Coyner, II	Farmer Waynesboro, Virginia
Rebecca L. Earhart	Senior Planner Augusta County Verona, Virginia
Humes J. Franklin, III	Attorney Wharton, Aldhizer and Weaver, PLC. Fishersville, Virginia
David B. Hewitt	Farmer Swoope, Virginia
Keith W. Holland	Contractor Lexington, Virginia
Ashlie K. Howell	Branch Manager/Loan Officer Harrisonburg, VA
Steve R. Marshall	Insurance Agency, Agent Staunton, Virginia

Samuel F. McClure	Real Estate Appraiser Stonewall Appraisal Company Staunton, Virginia
Robert D. Thompson	Retired Fishersville, Virginia
Joseph F. Williams	Farmer Greenville, Virginia

Officers:

George A. Coyner, II	President
David B. Johnson	Executive Vice President
Robert D. Thompson	Vice President
Steven H. Rodgers	Vice President Underwriting
John W. Lasher	Vice President Claims
Eric T. Peifer	Secretary and Treasurer

Executive Committee

George A. Coyner, II, Chair
David B. Hewitt
Samuel F. McClure
Robert D. Thompson
David B. Johnson
Eric T. Peifer

Audit Committee

George A. Coyner, II, Chair
Humes J. Franklin, III
Keith W. Holland
Ashlie K. Howell
Steve R. Marshall
John W. Lasher
Robert D. Thompson

Investment Committee

Robert D. Thompson, Chair
Keith W. Holland
David B. Johnson
Samuel F. McClure
Eric T. Peifer
Joseph F. Williams

Human Resource Committee

Humes J. Franklin, III, Chair
George A. Coyner, II
Rebecca L. Earhart
Robert D. Thompson
Joseph F. Williams
Steve R. Marshall

Long Range Planning Committee

Richard P. Chaffin, Chair
George A. Coyner, II
Rebecca L. Earhart
Ashlie K. Howell
Samuel F. McClure
David B. Johnson
Eric T. Peifer

Proxy Committee

Rebecca L. Earhart
Humes J. Franklin, III
David B. Hewitt
Richard P. Chaffin
Eric T. Peifer

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed as a mutual assessment property and casualty insurer under Chapter 25 of Title 38.2 of the Code of Virginia and may operate throughout Virginia. The Company is licensed to write the following business:

Fire	Inland Marine
Miscellaneous Property	Liability Other Than Auto
Farm Multiple Peril	Automobile Liability
Homeowners Multiple Peril	Automobile Physical Damage
Commercial Multiple Peril	

Business is solicited by 350 to 400 agents and 75 to 85 corporate agencies. Commissions paid range from 10 to 26% of assessments, depending upon the type of services rendered.

All applications for insurance are submitted to the Company's underwriter and if the risk is accepted, a term type of policy is issued. The usual term for a homeowners, mobile homeowners, farmowners or commercial policy is one year. Some short-term policies are issued (usually six months or less) on livestock and builders' risks. Additional coverages are available to the Company's members by endorsement to fire or homeowners policies containing the standard provisions provided for by the Code of Virginia.

Assessments are generally levied and payable annually in advance. Installment plans are available and include semi-annual, quarterly and 10-pay. 10-pay is only available for customer's paying via ACH. Assessments rates vary according to classification of risks, subject however, to a minimum charge of \$100 on personal policies and \$200 to \$400 on commercial policies.

Losses are adjusted in the Staunton area by salaried personnel of the Company and by independent adjusters. An independent adjuster is employed to adjust claims outside of the Staunton area.

REINSURANCE

As of December 31, 2018, the Company was reinsured under the following excess of loss reinsurance agreements through the reinsurance intermediary, Beach Re Limited. These agreements are described briefly as follows:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limit of Liability</u>
First Excess of Loss (Section A)	Property	\$120,000	\$380,000 in excess of \$120,000, each and every loss, any one risk; subject to an occurrence limitation of \$760,000
First Excess of Loss (Section B)	Casualty	\$120,000	\$380,000 in excess of \$120,000, each and every loss occurrence
First Excess of Loss (Section C)	Property and Casualty	\$120,000	\$120,000 each and every loss occurrence in excess of \$120,000 each and every loss occurrence
Second Excess of Loss	Property	\$500,000	\$500,000 each and every loss, any one risk, excess of \$500,000 each and every loss, any one risk; subject to an occurrence limitation of \$1,000,000
Second Excess of Loss	Casualty	\$500,000	\$500,000 in excess of \$500,000, each and every loss occurrence
Property Per Risk	Property	\$1,000,000 subject to underlying excess of loss coverage	\$1,500,000 each loss, each and every risk, excess of \$1,000,000 each loss, each and every risk; subject to an occurrence limit of \$3,000,000

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limit of Liability</u>
First Property Catastrophe Excess of Loss	Property per Occurrence	\$750,000	\$250,000 ultimate net loss each and every loss occurrence in excess of \$750,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$250,000 in respect of any one loss occurrence
Second Property Catastrophe Excess of Loss	Property per Occurrence	\$1,000,000 subject to underlying excess of loss coverage	\$3,000,000 ultimate net loss each and every loss occurrence in excess of \$1,000,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$3,000,000 in respect of any one loss occurrence
Third Property Catastrophe Excess of Loss	Property per Occurrence	\$4,000,000 subject to underlying excess of loss coverage	\$10,000,000 ultimate net loss each and every loss occurrence in excess of \$4,000,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$10,000,000 in respect of any one loss occurrence
Fourth Property Catastrophe Excess of Loss	Property per Occurrence	\$14,000,000 subject to underlying excess of loss coverage	\$3,000,000 ultimate net loss each and every loss occurrence in excess of \$14,000,000 ultimate net loss each and every loss occurrence; subject to a limit of liability of \$3,000,000 in respect of any one loss occurrence

Type of Agreement	Business Covered	Company's Retention	Reinsurers' Limit of Liability
Umbrella Quota Share	Personal, Farm and Commercial Umbrella	5% of the first \$1,000,000 subject only to excess of loss reinsurance	95% of the Company's net liability of the first \$1,000,000 and 100% of \$1,000,000 in excess of \$1,000,000 for each policy

All of the above agreements contain an insolvency clause and a guarantee of the intermediary's credit.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from examination reports, reflect the growth of the Company in the ten-year period ending December 31, 2018:

<u>Year</u>	<u>Admitted</u>			<u>Other</u> <u>Underwriting</u> <u>Expenses</u>	<u>Net</u> <u>Underwriting</u> <u>Gains or (Losses)</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>		
2009	\$24,797,419	\$7,235,411	\$17,562,008	\$3,227,635	\$469,125
2010	25,991,701	7,027,851	18,963,850	3,058,309	1,020,609
2011	26,053,381	6,876,918	19,176,463	3,188,921	(371,714)
2012	26,769,167	6,837,353	19,931,814	3,241,724	(466,683)
2013	28,553,547	7,217,536	21,336,011	3,320,934	544,840
2014	29,589,691	7,528,925	22,060,766	3,516,604	204,488
2015	30,279,710	8,008,185	22,271,525	3,588,209	647,034
2016	32,324,402	9,106,953	23,217,449	3,650,838	255,064
2017	33,762,581	8,718,688	25,043,893	3,863,690	565,839
2018	32,224,445	10,186,102	22,038,343	3,961,445	(3,290,643)

<u>Year</u>	<u>Premiums</u> <u>Earned</u>	<u>Loss and Loss</u> <u>Adjustment Expenses</u>	<u>Other</u> <u>Underwriting</u> <u>Expenses</u>	<u>Net</u> <u>Underwriting</u> <u>Gains or (Losses)</u>
2010	7,846,594	3,767,676	3,058,309	1,020,609
2011	7,672,321	4,855,114	3,188,921	(371,714)
2012	7,530,228	4,755,187	3,241,724	(466,683)
2013	7,524,848	3,659,074	3,320,934	544,840
2014	7,935,892	4,214,800	3,516,604	204,488
2015	8,611,326	4,376,083	3,588,209	647,034
2016	9,214,692	5,308,790	3,650,838	255,064
2017	9,206,256	4,776,727	3,863,690	565,839
2018	9,355,018	8,684,216	3,961,445	(3,290,643)

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the Company for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2018.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$12,147,867		\$12,147,867
Common stocks	13,736,011		13,736,011
Property occupied by the company	681,572		681,572
Cash and short-term investments	3,240,316		3,240,316
Investment income due and accrued	73,614		73,614
Uncollected premiums and agents' balances in the course of collection	133,624		133,624
Deferred premiums, agents' balances and installments booked but deferred and not yet due	802,244		802,244
Amounts recoverable from reinsurers	361,217		361,217
Current federal income tax recoverable	556,119		556,119
Net deferred tax asset	329,093		329,093
Electronic data processing equipment and software	162,768		162,768
Furniture and equipment	62,525	62,525	
Totals	<u>\$32,286,970</u>	<u>\$62,525</u>	<u>\$32,224,445</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$3,064,098
Loss adjustment expenses		104,003
Commissions payable, contingent commissions and other similar charges		409,273
Other expenses		57,037
Taxes, licenses and fees		119,901
Unearned premiums		5,891,903
Advance premium		285,016
Ceded reinsurance premiums payable		<u>254,871</u>
Total liabilities		\$10,186,102
Unassigned funds (surplus)	<u>22,038,343</u>	
Surplus as regards policyholders		<u>22,038,343</u>
Totals		<u><u>\$32,224,445</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$9,355,018</u>
Deductions:	
Losses incurred	\$7,285,734
Loss adjustment expenses incurred	1,398,482
Other underwriting expenses incurred	<u>3,961,445</u>
Total underwriting deductions	<u>\$12,645,661</u>
Net underwriting gain	<u>(\$3,290,643)</u>

INVESTMENT INCOME

Net investment income earned	\$453,178
Net realized capital gains	<u>143,387</u>
Net investment gain	<u>\$596,565</u>
Net income before federal income taxes	(\$2,694,078)
Federal income taxes incurred	<u>(544,235)</u>
Net income	<u>(\$2,149,843)</u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Surplus as regards policyholders, December 31, previous year	<u>\$22,271,525</u>	<u>\$23,217,449</u>	<u>\$25,043,893</u>
Net income	\$406,944	\$824,254	(\$2,149,843)
Change in net unrealized capital gains or (losses)	507,753	1,105,429	(1,063,775)
Change in net deferred income tax	7,583	(95,713)	226,287
Change in nonadmitted assets	<u>23,644</u>	<u>(7,526)</u>	<u>(18,219)</u>
Change in surplus as regards policyholders for the year	<u>\$945,924</u>	<u>\$1,826,444</u>	<u>(\$3,005,550)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$23,217,449</u></u>	<u><u>\$25,043,893</u></u>	<u><u>\$22,038,343</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$9,708,180
Net investment income	1,024,417
Total	<u>\$10,732,597</u>
Benefit and loss related payments	\$6,832,503
Commissions, expenses paid and aggregate write-ins for deductions	4,882,969
Federal income taxes paid	220,094
Total	<u>\$11,935,566</u>
Net cash from operations	<u>(\$1,202,969)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$5,266,572
Stocks	1,329,754
Total investment proceeds	<u>\$6,596,326</u>
Cost of investments acquired (long-term only):	
Bonds	\$5,459,013
Stocks	931,461
Other invested assets	38,500
Total investments acquired	<u>\$6,428,974</u>
Net cash from investments	<u>\$167,352</u>
Net change in cash and short-term investments	<u>(\$1,035,617)</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$4,275,933
End of year	3,240,316
Net change in cash and short-term investments	<u>(\$1,035,617)</u>

ACKNOWLEDGMENT

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, Mario A. Cuellar, CFE and T. Bradford Earley, CFE, CPCU, AIAF participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Jennifer K. Blizzard". The signature is written in a cursive style with a large initial "J".

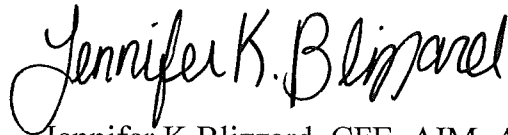
Jennifer K. Blizzard, CFE, AIM, AIAF
Insurance Principal Financial Analyst

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Jennifer K. Blizzard, CFE, AIM, AIAF
Insurance Principal Financial Analyst



AUGUSTA MUTUAL INSURANCE COMPANY

13 Idlewood Blvd.
Staunton, VA 24401-9355

David H. Smith, CFE, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P.O. Box 1157
Richmond, VA 23218

February 12, 2020

Dear Mr. Smith:

This letter is in response to your letter dated January 30, 2020. AMIC acknowledges receipt of the Examination Report.

We appreciate the Bureau's time and effort during the audit process. AMIC will always strive to conduct business in the most forthright way possible. Our mission is to build and enhance policy holder surplus through qualified, knowledgeable employees, innovative products and policy offerings, sound financial management and timely and equitable claim settlements based on policy wording. Please let me know if there is anything else you may need.

Sincerely,

A handwritten signature in black ink, appearing to read "George A. Coyner, III".

George A. Coyner, III
President

CC: Directors and Management