Report on the Examination

As of December 31, 2012

of

Co-operative Insurance Companies

by the

Vermont Department of Financial Regulation

Division of Insurance

VERMONT

State of Vermont
assistance
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101
www.dfr.vermont.gov

For consumer

[All Insurance]	800-964-1784
[Securities]	877-550-3907
[Banking]	888-568-4547

Marie Jewett
President and CEO
Co-operative Insurance Companies
292 Colonial Drive
Middlebury, VT 05753

Dear Ms. Jewett:

ORDER OF ADOPTION

Pursuant to and in accordance with the provisions of Title 8, Chapter 101, Section 3563 and 3566 of the Vermont Statutes Annotated, and other applicable laws, I, do hereby adopt the Report on the Examination of Co-operative Insurance Companies for the year ending December 31, 2012.

C L Sherman
Crosby L. Sherman, Acting Commissioner

7 Oct 2013
Date

CO-OPERATIVE INSURANCE COMPANIES

EXAMINATION REPORT

AS OF DECEMBER 31, 2012

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September 13, 2013

Susan L. Donegan, Commissioner

Department of Financial Regulation

89 Main Street

Montpelier, VT 05620-3101

Dear Commissioner Donegan:

Pursuant to the July 26, 2012 examination order, the Insurance Division's financial examination team has conducted an examination of:

Co-operative Insurance Companies
with their offices located at
292 Colonial Drive
Middlebury, VT 05753-5890

The examination was performed pursuant to 8 V.S.A. §3563 in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.

SCOPE OF EXAMINATION

The Co-operative Insurance Companies the "Company" last financial condition examination was as of December 31, 2007 for the previous five year period. The examination was conducted by the Insurance Division of the Vermont Department of Financial Regulation the "Department".

The examination was conducted pursuant to 8 V.S.A. §3563 and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2008 through December 31, 2012. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition and identify prospective risks by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation, Management's compliance with statutory accounting principles, annual statement instructions and state regulations. The Department also included a review of any material transactions and/or events occurring subsequent to the examination date that were noted during the course of this examination. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

As required by law and the NAIC standard examination procedures, the Company instructed their independent accounting firm, Johnson Lambert LLP, to make available for the department's review all work papers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to the audit of the Company's financial statements for the period covered by the examination. The Department reviewed the work papers of Johnson Lambert LLP to identify additional solvency risk areas and to determine the extent of work performed on high-risk areas, which may have provided insight and efficiencies for the current examination. To the extent possible, the Department utilized the work papers and analyses to supplement the examination work.

The format of this report is designed to explain the procedures employed during the examination and if necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings in the prior exam report or the current exam report. There were no adjustments made to the annual statement in this report based on this examination.

SUBSEQUENT EVENTS

There are no reportable subsequent events.

HISTORY

The Company is a licensed property-casualty insurer comprised of three property and casualty member insurance companies who joined together in 1951 pursuant to an Association Agreement dated December 8, 1951 and amended September 9, 2000. The member companies include: Patrons Cooperative Fire Insurance Company (organized in 1915), The Farmers' Cooperative Fire Insurance Company (organized in 1924) and the Rural Cooperative Fire Insurance Company (organized in 1933). Statutory financial statements are consolidated. All business of the three insurance companies is conducted in the name of the Association: Co-operative Insurance Companies. The Company issues non-participating, non-assessable single insurance policies in the name of the insurance companies, with each company carrying one-third of the risk. The Joint Board of Directors of the three companies conducts the affairs of the Association.

A provision in the Company's association agreement assures continuity by making the forfeiture of policyholders' surplus a condition of a policyholder's withdrawal. The Company can be voluntarily dissolved by the policyholders upon proper resolution, notice and the vote of three-quarters of the directors of each of the associated companies' Board of Directors.

In 1968, the Company formed a subsidiary, Underwriters, Inc. to act as an affiliated insurance agency. The agency is available to the Company's agents to place those types of insurance contracts that the Company chooses not to write. The subsidiary changed its name to the Underwriter's Agency of N.E., Inc. and then to UI Insurance Services, Inc. in August 1998.

In April 2003, the Company received approval from the Department to issue a surplus note with a principal value of $3 million, maturity date of May 23, 2033, and an interest rate of LIBOR plus 4.1%, with a 12.5% cap.

CORPORATE RECORDS

The Company's headquarters and administrative offices are located in Middlebury, Vermont, and the Company maintains its corporate records at this location. The articles of incorporation, by-laws and minutes of the board meetings held during the period under examination were reviewed. Based upon our review, the Company is conducting its affairs in accordance with the Association Agreement and by-laws. Each Company has adopted identical by-laws. The recorded minutes of these meetings adequately documented approval and oversight of the Company's investment transactions, other material transactions, events and changes in directors.

MANAGEMENT AND CONTROL

Members

In accordance with Article I of the Company's by-laws, members of the associated companies shall consist of those persons who are holders of valid policies of insurance issued by the Company. The Annual Meeting of the Company shall be held on the first Tuesday of April each year at the home office or as such other place that the board of directors designate for the purpose of electing directors, acting upon reports of the directors and officers, ratifying acts of the directors and officers, and transacting such other business as may be properly transacted. Each member shall be entitled to one vote in person. Voting by proxy is prohibited.

Board of Directors

In accordance with Article II of the Company's by-laws, the number of directors shall be no less than five (5) or more than nine (9). Annually the Board of Directors shall determine the number of directors to be elected and shall file the minutes of such vote with the Secretary of the Company no less than ten days prior to the annual meeting of the Company. No person shall be elected to hold office of director unless he/she is a member of the Company and resides in a state in which the Company is legally authorized to conduct business and shall hold office for three years. The annual meeting of the Board of Directors shall be held on the third Tuesday of April each year or at such other place that the Board of Directors designate, for the purpose of organizing, election of officers, and consideration of any other business that may properly come before the meeting. A majority of the directors shall constitute a quorum at all meetings. The following were elected to the Board of Directors of the Company in accordance with the by-laws and serving as of December 31, 2012:

Patrons Cooperative Fire Insurance Company

Name/Principal Business Affiliation	Residence
Charles R. Mason Beef and Sheep Producer	Pawlet, VT
Charles B. Palmer Vegetable Farmer	Pownal, VT
Richard P. Foote, Esq. Conley & Foote	Middlebury, VT
James W. Sullivan Former President and CEO of the Co-operative Insurance Companies	Bristol, VT
Pamela J. Douglass, CPA McCormack, Guyette & Associates	Brandon, VT

Farmers Cooperative Fire Insurance Company

Name/Principal Business Affiliation	Residence
Hugh B. Spafford Proprietor, Farm Supply	Rutland, VT
Jacques R. Couture Dairy Farmer and Maple Producer	Westfield, VT
Jane T. Sorensen Vegetable and Fruit Farmer	Fairfax, VT
George A. Chaffee Retired insurance executive	Williston, VT
Charles R. Mason Beef and Sheep Producer	Pawlet, VT

Rural Cooperative Fire Insurance Company

Name/Residence	Principal Business Affiliation
Michael J. Ladd Wicor Americas Inc.	Glover, VT
Gordon J. Booth Dairy Farmer	Barre, VT
V. Jean Conklin Yankee Farm Credit	Haverhill, NH
Laurie A. Rowell, Esq. Fitts, Olson & Giddings, P.L.C.	Saxton River, VT
Marie M. Jewett President and CEO of the Co-operative Insurance Companies	New Haven, VT

Executive Committee

The Association Agreement provides for the affairs of the Company shall be directed and conducted by an Executive Committee, comprised of the Boards of Directors of the three Companies and shall be elected for a term of one year. The meetings of the Executive

Committee shall meet at least four (4) times per year. Each Executive Committee member shall have one vote and the majority of votes shall prevail on all questions, except as otherwise expressly directed. The Executive Committee consisted of the following members as of December 31, 2012:

Name/Member Company	Office
Michael J. Ladd Rural Co-operative Fire Insurance Company	Chairman of the Board
Charles Palmer Patrons Co-operative Fire Insurance Company	Secretary
Jane T. Sorensen Farmers Co-operative Fire Insurance Company	Secretary
Jacques R. Couture Farmers Co-operative Fire Insurance Company	Vice Chair
Marie M. Jewett Co-operative Insurance Companies	President

Officers

In accordance with Article III of the Company's by-laws, the company shall have a president, vice president and secretary. The president shall preside at meetings of the members and directors. The president shall make reports to the directors and members and shall perform such other duties as are incident to the office or are properly required of it by the directors. The vice president shall perform the duties of the president in case of disability or absence. The secretary shall in general perform all duties incident to the office of secretary in accordance with the laws of the State of Vermont and any other state in which the Company is legally authorized to conduct business. As of December 31, 2012 the officers of the Company were as follows:

Name	Title
Marie M. Jewett	President
Ted E. Davis	Senior Vice President
Eric W. Rhoades	Senior Vice President
Bradley S. Fortier	Senior Vice President
John H. Condon	Vice President
Ann R. Larrow	Vice President

Name	Title
Margaret A. Cyr	Secretary

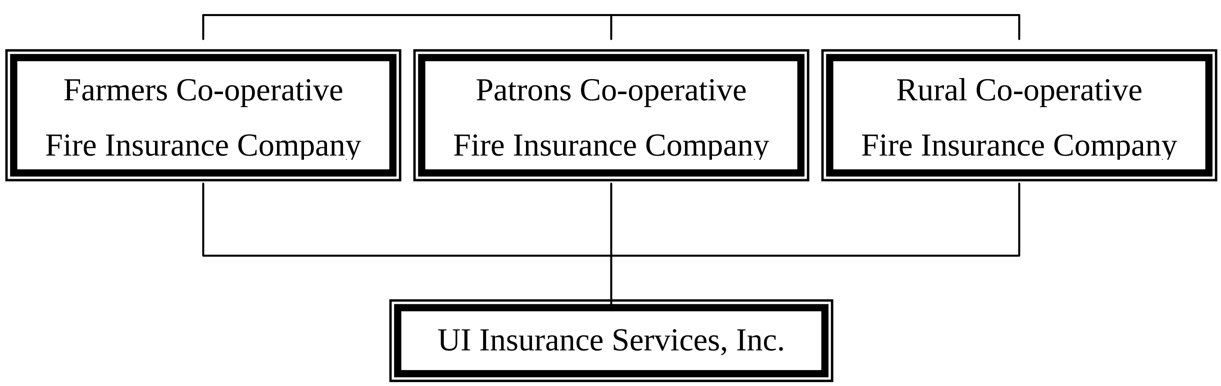
Conflict of Interest Statement and Policy

For the years under examination, the policy of the Company as adopted by the Board of Directors requires that all directors fully disclose any and all relationships or affiliations with all entities or concerns whether or not those entities or concerns transact business of any nature with the Company. All directors, officers and key decision-making employees are responsible for completing the Conflict of Interest Statement and Policy annually, and responsible for promptly notifying the Company of any changes of their status or affiliations.

Affiliated Companies

The following chart delineates the relationship between members of the Co-operative Insurance Companies and UI Insurance Services, Inc. Each of the companies owns one-third of UI Insurance Services, Inc.

Co-operative Insurance Companies of Vermont



FIDELITY BOND AND OTHER INSURANCE

The Financial Institution Bond was issued by Travelers St. Paul Fire and Marine Insurance Company, for employee dishonesty (Blanket) in the amount of $500,000 per single loss with a single loss deductible of $10,000. The policy is in effect until November 2, 2013. The amount of coverage in force at December 31, 2012 meets the minimum amount of coverage recommended by the NAIC. The policies for Property Damage and Business Interruption, Commercial General Liability, Commercial Auto, Commercial Umbrella, Workers Compensation, and Directors and Officers Professional Liability were reviewed and appear to have sufficient limits to protect the Company from losses.

PENSIONS AND INSURANCE PLANS

The Company sponsors a non-contributory defined benefit pension plan, the Co-operative Fire Insurance Association of Vermont Retirement Plan and Trust, for which substantially all employees are eligible. The benefits are based on years of service and the employees' highest, consecutive three-year average salary earned prior to retirement. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. This qualified plan complies with requirements established by the Employee Retirement Income Security Act of 1974. The Company offers limited health care benefits to certain retired employees under an early retirement incentive plan. The Company has a qualified 401(k) plan for employees with more than one year of service with the Company. The Company matches 50% of the first 4% contributed by each employee. The Company's matching contributions and administrative expenses are accrued as incurred. The Company also has a "non-qualified" deferred compensation plan, which was offered to certain current and prior senior management employees. Deferred compensation costs for this plan are accrued over the period of the participants' active employment.

STATUTORY DEPOSITS

The statutory deposit of the Company at December 31, 2012 was as follows:

Location	Type of Security	Par Value	Book Value	Market Value
Vermont	U.S. Treasury Note, 4.250% due 11/15/13	$500,000	$500,449	$517,695

TERRITORY AND PLAN OF OPERATIONS

The Company is licensed in the states of Vermont and New Hampshire, with over seventy-eight percent of the premium written within Vermont. The Company provides Homeowners, Dwelling Fire, Mobile Homeowners, Farm-Pac, Mini-Farm, Automobile, Commercial Property and

Liability, Business Owner Property and Liability, and Farm, Personal and Commercial Umbrella coverage.

The Company uses a dual agency distribution system throughout most of Vermont and some of New Hampshire, wherein the Co-operative sells and services through a network of exclusive agents and owns its serviced policies. The "agency agreement" defines the terms of the agent/Co-operative relationship and is updated periodically. The balance of its business is distributed through independent agents.

GROWTH OF COMPANY

The growth of the Company over the five most recent years is shown in the following tables:

Revenues, Assets and Surplus

(amounts in 000's)	2012	2011	2010	2009	2008
Direct Premium Written (DPW)	$62,339	$59,123	$57,167	$55,561	$54,142
DPW / PHS	1.035	1.099	1.098	1.143	1.339
Net Premium Written (NPW)	54,798	52,136	49,265	48,049	45,708
NPW / PHS	0.910	0.970	0.946	0.988	1.131
Net Admitted Assets	112,428	102,852	98,461	95,041	85,378
Liabilities	52,209	49,082	46,379	46,418	44,952
Policyholder Surplus (PHS)	60,219	53,770	52,082	48,623	40,426

Loss Experience

	2012	2011	2010	2009	2008
Net Premiums Earned	$53,388	$50,589	$48,529	$47,016	$45,244
Losses and LAE Incurred	30,023	33,742	30,287	27,601	27,926
Loss Ratio	.562	.667	.624	.587	.617
General & Administrative Exp.	20,006	17,844	17,355	16,725	14,692
Expense Ratio	.375	.353	.358	.356	.325
Combined Ratio	.937	1.02	.982	.943	.942

REINSURANCE

Assumed

The Company is currently assuming less than 1% of its premium from various insurers.

Ceded

The Company uses the services of Guy Carpenter & Co., Inc. as a reinsurance intermediary. The Company has used Guy Carpenter and its predecessor, Balis & Co., for over 50 years. The Company has entered into various reinsurance agreements, which with the exception of automobile business; generally limit the Company's retained liability to a maximum of $ 250,000 per risk and to a maximum loss ratio.

Following is a summary of the Company's reinsurance program at December 31, 2012

Contract	Business Covered	Limits of Coverage
First Property Per Risk Excess of Loss	Property	$450,000 in excess of $300,000 subject to an occurrence limit of $1.35 million
Obligatory First Surplus	Property	Limited to 5 times Company retention to a single risk limit of $1 million with an occurrence limit of $6 million, minimum retention of $25,000.
Property Facultative	Property	30 lines, maximum cession of $2.5 million, minimum retention of $50,000.
First Excess Catastrophe	Property	100% of $3.5 million excess of $2.5 million net loss each occurrence.
Second Excess Catastrophe	Property	100% of $6 million in excess of $6 million net loss each occurrence.
Third Excess Catastrophe	Property	100% of $8 million in excess of $12 million net loss each occurrence.
Fourth Excess Catastrophe	Property	100% of $10 million in excess of $20 million net loss each occurrence.
Casualty First Excess of Loss Reinsurance	Casualty	$800,000 in excess of $300,000 combined net loss and loss adjustment expense, each occurrence.
Casualty Second Excess of Loss Reinsurance	Casualty	$2 million in excess of $1.1 million combined net loss and loss adjustment expense each occurrence.
Casualty Facultative	Casualty	100% of $1 million in excess of $1 million.
Umbrella Liability	Personal, Farm and Commercial	Quota Share A – 90% of $1 million Quota Share B – 100% in excess of $1 million applicable to a line limit of $4 million.

ACCOUNTS AND RECORDS

The Company maintains its financial records on an IBM I-Series computer and a Microsoft PC Network. The CSC Point System is for policy processing, all line rating, claims processing, accounts receivable, reinsurance accounting, document automation platform, media viewer and agency interface. Software purchased from Stone River is used for accounts payable, general ledger and check writing. Sunguard's EFS software is used to prepare the annual statement. Investment schedules in the Annual Statement are prepared by Conning Asset Management Company. The Company utilizes an outside service for investment accounting and payroll functions. The Company's information technology environment is not complex and a review by a specialist was not considered necessary.

The Company is not subject to requirements of either Sarbanes-Oxley Section 404, or the internal control attestation requirements expressed in Regulation 1-2009-06, section 16.

FINANCIAL STATEMENTS

The following statements show the financial position of the Company as of December 31, 2012 in accordance with statutory accounting principles as defined by Vermont State Statute.

Statement of Admitted Assets, Liabilities and Surplus
As of December 31, 2012

Admitted Assets		
Cash and investments		
Bonds, as amortized cost	$	62,192,363
Equity securities, at fair value		25,744,636
Common stock of affiliate		1,503,576
Real estate, net of depreciation		1,736,753
Cash and other short term investments		2,375,335
Other invested assets		469,207
Total Investments		94,021,870
Premiums receivable		14,117,594
Accrued investment income		649,499
Reinsurance recoverable on paid losses and funds held		487,795
Federal income tax recoverable		693,822
Net deferred tax asset		1,860,630
Electric data processing equipment, net		202,887
Other assets		393,785
Total Admitted Assets	$	112,427,882
Liabilities		
Losses and loss adjustment expenses, net of reinsurance	$	16,108,178
Unearned premiums, net of reinsurance		30,437,931
Borrowed money and accrued interest		14,316
Premiums paid in advance		824,202
Ceded reinsurance premiums payable		208,728
Amounts due to agents		2,781,222
Federal income taxes payable		1,834,693
Total Liabilities		52,209,270
Surplus		
Surplus notes		3,000,000
Unassigned surplus		57,218,612
Total Surplus		60,218,612
Total Liabilities and Surplus	$	112,427,882

Statement of Income and Changes in Surplus
Year ended December 31, 2012

Revenues		
Premiums earned, net of reinsurance	$	53,387,787
Net investment income		2,253,193
Net realized investment gains, net of capital gains		275,911
Other income		521,681
Total revenues		56,438,572
Expenses		
Losses and loss adjustment expenses incurred		30,023,640
Commission and brokerage, net		10,571,198
Other underwriting – salaries and benefits		5,108,831
Taxes, licenses and fees		1,349,450
Other underwriting expenses incurred		2,976,909
Total expenses		50,030,028
Income before federal income tax expense		6,408,544
Federal income tax expense		1,376,950
NET INCOME	$	5,031,594

Surplus, beginning of year	$	53,770,210
Net income		5,031,594
Change in net unrealized gain on investment, net of tax		2,354,816
Change in net deferred income tax		500,168
Change in non-admitted assets		(1,438,176)
Surplus, end of year	$	60,218,612

COMMENTS AND RECOMMENDATIONS

There are no significant findings or financial adjustments as a result of this examination. A comment letter was issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report.

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2012 was determined to be as follows:

Assets	$112,427,882
Liabilities	52,209,270
Surplus	60,218,612
Total Liabilities and Surplus	$112,427,882

In addition to the undersigned, Karen Murphy, Administrative Insurance Examiner, Jesse Lussier, Examiner-In-Charge, and Miranda Pudvah, Examiner, participated in this examination.

Respectfully submitted,

Kaj Samsom, CFE
Chief Examiner, Division of Insurance
Vermont Department of Financial Regulation

STATE OF VERMONT
COUNTY OF WASHINGTON

Kaj Samsom, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

Subscribed and sworn to before me

This 4th day of October, 2013

2/10/2015
Notary Public