

Report on the Statutory Examination

As of December 31, 2010

of

Union Mutual Fire Insurance Company

and its wholly owned subsidiary,

New England Guaranty Insurance Company, Inc.

NAIC Group Code: 0195

NAIC Company Code: 25860 - Union Mutual Fire

25852 - New England Guaranty

by the

Vermont Department of Banking, Insurance, Securities
and Health Care Administration

Division of Insurance



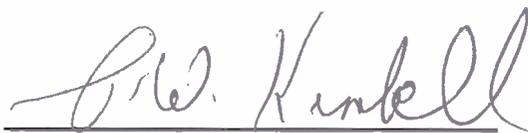
The attached report of examination made of the condition and affairs as of December 31, 2010 of:

Union Mutual Fire Insurance Company
and its wholly-owned subsidiary
New England Guaranty Insurance Company, Inc.
Montpelier, VT

was recently completed by duly qualified examiners of the State of Vermont Department of Banking, Insurance, Securities and Health Care Administration.

Due consideration has been given to the comments of the examiners regarding the operations of Union Mutual Fire Insurance Company and New England Guaranty Insurance Company and their financial condition, as reflected in this report. This report is hereby, as of this date, approved, adopted, filed and made an official record of this Department.

IN WITNESS WHEREOF, I have
hereunto set my hand, and affixed the
official seal of this Department at the
City of Montpelier this 4th day of
April, 2012



Stephen W. Kimbell, Commissioner

UNION MUTUAL COMPANIES
STATUTORY EXAMINATION REPORT
AS OF DECEMBER 31, 2010

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February 24, 2012

Joseph Torti III
Chair, Financial Condition (E) Committee
Rhode Island Superintendent of Insurance
1511 Pontiac Avenue, Bldng 69-2
Cranston, RI 02920-4407

Stephen W. Kimbell
Commissioner of Banking, Insurance,
Securities and Health Care Administration
89 Main Street
Montpelier, VT 05620-3101

Joseph G. Murphy
Chair, Northeast Zone
Commissioner, Massachusetts Division of Insurance
1000 Washington Street, Suite810
Boston MA 02118-6200

Dear Commissioner and Superintendent:

Pursuant to your instructions and in compliance with statutory requirements, we have conducted an examination of:

Union Mutual Fire Insurance Company
and its wholly owned subsidiary,
New England Guaranty Insurance Company, Inc.
with their offices located at
139 State Street
Montpelier, Vermont 05602

The examination was done, as required by 8 V.S.A. §3563, in order to ascertain the Companies' financial condition, ability to fulfill their obligations and their compliance with the provisions of Vermont law.

The following examination report reflecting the two companies is respectfully submitted.

SCOPE OF EXAMINATION

Union Mutual Fire Insurance Company (UMF) and its wholly owned subsidiary, New England Guaranty Insurance Company, Inc. (NEG), hereinafter referred to jointly as the “Companies”, were last examined as of December 31, 2005 for the period from January 1, 2001 thereto. Those statutory examinations were conducted by the Vermont Department of Banking, Insurance, Securities and Health Care Administration, hereafter referred to as the “Department”, under the Association Plan of the National Association of Insurance Commissioners (NAIC).

The current statutory examination was conducted at the direction of the Department, according to the Association Plan of the NAIC, which included financial statements for the two companies. The examination was performed at the Companies’ home office at 139 State Street, Montpelier, Vermont, in compliance with your instructions and in accordance with the statutory provisions contained in the certificate of appointment, effective February 16, 2011. The examination covered the period from January 1, 2006 through December 31, 2010. It consisted of a general review of the Companies’ business policies and practices, management, corporate matters, a verification and evaluation of assets and a determination of liabilities as of December 31, 2010. They 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.

Pursuant to Vermont insurance law and the standard examination procedures required by the NAIC, the Companies instructed their independent accounting firm to make available for our review all workpapers concerning procedures followed, tests performed, information obtained and conclusions reached pertinent to their audit of the Companies’ financial statements for the period covered by the examination. We reviewed the workpapers of the independent accounting firm 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, we utilized their workpapers and analyses to supplement our examination work.

This report is prepared according to the "Full-Scope Examination" format as described in the NAIC Examiner's Handbook. Only items needing financial adjustment, procedural recommendations, or not conforming to the charter approved by the Vermont legislature are commented upon.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings in the prior exam report or the current exam report.

SUBSEQUENT EVENTS

Through the first three quarters of 2011, the Companies reported an underwriting loss of \$22.6 million and a combined net loss of \$11.9 million. This was a primarily the result of catastrophic weather events that included a F3 Scale tornado, Hurricane Irene and a blizzard. The estimated cumulative losses for these events totaled \$23.0 million in net losses.

Based on the significant losses, the Companies sought and the Department granted a permitted practice to carry the properties occupied by the Companies at fair market value. This election, which had no effect on net income, increased Union Mutual Fire's surplus by \$901,732. The permitted practice became effective June 30, 2011 and will expire on March 31, 2012.

James H. Douglas joined the Board of Directors on February 23, 2011.

Effective June 1, 2011 the Company materially modified its postretirement health benefit program. The plan and all previously defined benefits were terminated and a fixed stipend will be offered to all participating retirees through December 31, 2013. After December 31, 2013 the plan in its entirety will be dissolved. The present value of the two years' worth of stipends is \$144,873.

HISTORY

UMF was first chartered by an act of the Vermont Legislature on November 24, 1874. The first policy was issued in July of 1875. In 1962 UMF acquired the guaranty of State Mutual Insurance Company of Rutland, Vermont, which was first chartered in 1898. In 1963 State Mutual was

demutualized with UMF acquiring all of the issued capital stock. At the same time, State Mutual changed its name to New England Guaranty Insurance Company, Inc.

UMF is a mutual property and casualty insurer which, together with its wholly-owned subsidiary, NEG, principally underwrites homeowners, fire, liability, commercial, and automobile coverage in the New England region. The Companies pool their underwriting transactions, net of amounts ceded to other reinsurers. In accordance with an agreement effective January 1, 2008, UMF keeps 100% of the pool's underwriting risk and NEG keeps 0% of the underwriting risk. Prior to that date, the underwriting risk was shared 50% by each company with the companies allocating the shared facilities and employees and related costs primarily on the basis of the pool percentages. Under the new agreement, UMF is allocated 100% of the costs, expenses and commissions with the exception that each company will pay their own dividends and income tax. UMF will also pay all real estate expenses. NEG pays all costs associated with management of its investment portfolio.

On June 1, 2000, UMF entered into an affiliation agreement with Eastern Mutual Insurance Company (Eastern), a New York domiciled assessment cooperative insurer. UMF provides Eastern with support services as part of the agreement. On October 1, 2000, UMF began assuming Eastern's property and casualty excess of loss reinsurance program.

CORPORATE RECORDS

The Companies' administrative office is located in Montpelier, Vermont, and the Companies maintain their corporate records at this location. The minutes of the Board of Directors' meetings were reviewed and were found to be in compliance with the Companies' By-Laws and Vermont Statutes.

MANAGEMENT AND CONTROL

Board of Directors

The following were elected to the Board of Directors of the Companies in accordance with the By-Laws and serving as of December 31, 2010:

<u>Name</u>	<u>City of Residence</u>	<u>Principal Business Affiliation</u>
S. John Osha, Chairman	Randolph Center, VT	Dairy Farmer; Chairman - Randolph National Bank
John E. Corning	Barre, VT	Former Senior Vice President - Union Mutual Fire Insurance Company
Kathleen H. Davis	Shelburne, VT	Partner - Downs, Rachlin & Martin, PLLC, Attorneys at Law
John H. Fitzhugh	Berlin, VT	President & CEO - Union Mutual Fire Insurance Company
Aaron R. MacAskill	WR JCT, VT	Managing Partner & CPA – A.M. Peisch and Co.
Thomas H. MacLeay	Montpelier, VT	Chairman – National Life Group
James A. McDonald	Lyndon Center, VT	President & Chief Executive Officer - J.A. McDonald, Inc.
Mark S. Young	Orwell, VT	President & CEO – The First National Bank

Directors' Advisory Council

The By-Laws allow for the creation of a Directors' Advisory Council that shall be comprised of any Director that is not eligible for re-election as a Director and is elected to serve on the Council by the Board of Directors. Members of the Advisory Council are expected to participate in discussion of Company business at Board of Director meetings, and provide advice at such meetings, but are not entitled to vote. Members of the Directors' Advisory Council as of December 31, 2010 were:

<u>Name</u>	<u>City of Residence</u>	<u>Principal Business Affiliation</u>
Frederic H. Bertrand	West Danville, VT	Chairman of Central Vermont Public Service, Chairman of Chittenden Bank, Former CEO & Chairman of the Board, National Life of Vermont
David R. Coates	Colchester, VT	Executive VP of New England Culinary Institute, Former Managing Partner, KPMG Peat Marwick, Public Accountants Directorships: National Life Group, Green Mountain Power, Deringer
Frank R. Keyser, Jr.	Proctor, VT	Counsel of the Law Firm Keyser, Crowley, Meub, Layden, Kulig & Sullivan. Governor of Vermont 1961-1963
Allen Martin	Burlington, VT	Former Senior Partner - Downs, Rachlin & Martin, PLLC, Attorneys at Law
Lawrence H. Reilly	Barre, VT	Former Chairman of the Board, President & CEO Union Mutual Fire Insurance Company
Thomas P. Salmon	Bellows Falls, VT	Former President, University of Vermont; Governor of Vermont 1973-1977

Executive Committee

At December 31, 2010 the Executive Committee consisted of the following members:

S. John Osha, Chair
James A. McDonald

Kathleen H. Davis

John H. Fitzhugh

Officers

The Officers as of December 31, 2010 are as follows:

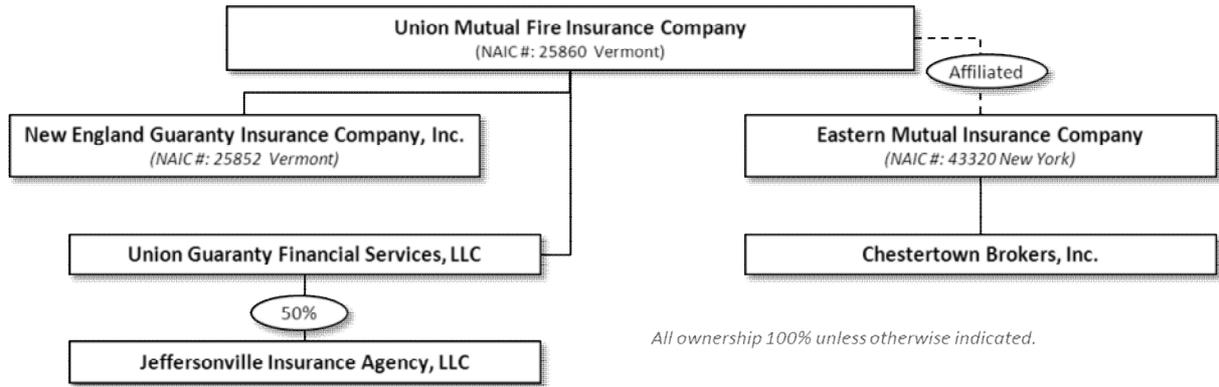
<u>Title</u>	<u>Name</u>
President & CEO	John H. Fitzhugh
Senior Vice President, CFO & Treasurer	Michael W. Nobles
Senior Vice President	John R. Walker (retired 12/31/2010)
Vice President, Underwriting	John H. Condon
Vice President, Claims	Guy W. Graham
Vice President, Marketing	Carolyn S. Ix
Vice President	Bradley S. Keyser (retired 12/31/2010)
Vice President, Customer Support and Corporate Secretary	Lisa L. Keysar
Vice President, Operations, Technology and Enterprise Risk	Gary H. Ouellette

Conflict of Interest Policy

The Companies have developed a Statement on Conflict of Interest as a reference guide to help personnel define and understand appropriate standards of business conduct and to establish compliance requirements. The Companies also have established procedures for the disclosure of possible conflicts of interest involving Directors, Principal Officers and key employees.

Affiliated Companies

UMF owns 100% of the stock of NEG, an insurance subsidiary, and Union Guaranty Financial Services, LLC, a non-insurance holding company, which share office space and employees. UMF also has an affiliation agreement with Eastern whereby UMF provides Eastern with strategic support services, reinsurance, investment services and other key insurance related services. To facilitate that agreement, certain officers of UMF were elected as officers of Eastern. A chart of the holding company structure follows:



As noted under the report heading “Reinsurance,” UMF provides all administrative services to NEG through assumption of all expenses in connection with the 100% pooling agreement. In addition, UMF provides all administrative services to subsidiary Union Guaranty Financial Services, LLC.

FIDELITY BOND AND OTHER INSURANCE

The Companies are covered under the terms of a fidelity bond. The amount of coverage in force at December 31, 2010 meets the minimum amount of coverage recommended by the NAIC. All other insurance coverages are maintained at adequate levels.

PENSIONS AND INSURANCE PLANS

UMF sponsors a 401(k) Employee Savings Plan and a Defined Contribution Pension Plan. Substantially all employees of both companies are eligible to participate in both Plans upon attainment of age 21. Participants are fully vested after 6 years of credited service. Contributions to both the 401(k) Employee Savings Plan and the Defined Contribution Pension Plan are subject to Internal Revenue Code and Plan limitations.

Under the 401(k) Employee Savings Plan, eligible employees may elect salary deferrals up to the federal maximum. The Companies matching contribution, based on the sole discretion of the Board of Directors, was 100% of the first 3% of employee’s annual compensation. For the year 2010 the Companies’ contributions to the Plan were \$196,212.

Under the Defined Contribution Pension Plan, the Companies contribute 10% of participant's annual compensation into the Plan. The costs incurred for the Defined Contribution Pension Plan were \$691,451 in 2010.

The Companies have a Deferred Compensation Plan available to Directors and Officers allowing for elective deferrals of a portion of their annual compensation into the Plan. The Companies pay interest on any amounts deferred. Deferred Compensation expense related to this plan was \$208,651 for 2010.

The Companies have also entered into individual deferred compensation contracts with certain Directors and Officers providing for the payment of specified amounts upon their retirement or attainment of age 65. The Companies are the owners and beneficiaries of individual life insurance policies on some of these Directors and Officers, which serve as a cost recovery mechanism for the deferred compensation contracts. These insurance policies have an aggregate face amount of approximately \$4.3 million and a cash surrender value of \$3.0 million as of December 31, 2010. Any proceeds from the life insurance policies are recorded as a reduction to the cash surrender value with proceeds in excess of and the cash surrender value recorded through earnings.

In addition to pension plan benefits the Companies have established unfunded postretirement benefits, which provide for other health and life insurance benefits upon retirement at age 65, provided the employee has at least 20 years of service. Health care benefits to retirees or their surviving spouse include doctor and hospital care, less any Medicare payments, and are subject to co-payments and annual deductibles. Life insurance benefits are non-contributory and generally a fixed amount.

See the subsequent events section for transactions occurring after year end.

TERRITORY AND PLAN OF OPERATIONS

Union Mutual Fire sells primarily homeowners, business-owners, auto and multi-peril policies through independent agents located in Connecticut, Maine, Massachusetts, Rhode Island, New Hampshire, and Vermont. NEG writes business in Maine, Massachusetts, New Hampshire, and Vermont. The Companies are also licensed to do business in the State of New York, but do not currently write business there.

The six New England states accounted for 100% of all direct business written during 2010 as shown in the following schedule (in thousands):

State	UMF	NEG	Total
Vermont	\$22,871	\$10,084	\$32,955
Massachusetts	12,047	11,391	23,438
New Hampshire	12,824	5,626	18,450
Maine	9,695	6,176	15,871
Connecticut	8,611	-	8,611
Rhode Island	2,391	-	2,391
Total	<u>\$68,439</u>	<u>\$33,277</u>	<u>\$101,716</u>

GROWTH OF COMPANY

UMF

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

<i>(amounts in 000's)</i>	2010	2009	2008	2007	2006
Direct Premium Written (DPW)	\$68,439	\$68,896	\$66,748	\$61,462	\$58,012
DPW/PHS	89.5%	98.3%	103.5%	85.3%	84.1%
Net Premium Written (NPW)	90,261	89,816	89,632	41,979	40,649
NPW/PHS	118.1%	128.1%	138.9%	58.3%	58.9%
Net Income	5,382	839	(6,096)	787	4,431
Net Admitted Assets	180,024	167,814	164,867	129,070	121,979
Liabilities	103,578	97,697	100,359	57,024	52,981
Policyholder Surplus (PHS)	76,446	70,117	64,508	72,046	68,998

NEG

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

<i>(amounts in 000's)</i>	2010	2009	2008	2007	2006
Direct Premium Written (DPW)	\$33,277	\$34,245	\$33,709	\$34,329	\$34,486
DPW/PHS	99.7%	105.2%	106.0%	112.3%	118.5%
Net Premium Written (NPW)	0	0	0	41,979	40,649
NPW/PHS	0.0%	0.0%	0.0%	137.3%	139.7%
Net Income	732	767	4,699	1,448	5,083
Net Admitted Assets	33,494	32,699	32,277	81,845	81,016
Liabilities	124	141	484	51,269	51,911
Policyholder Surplus (PHS)	33,370	32,558	31,793	30,576	29,105

LOSS EXPERIENCE

UMF

A summary of the Company's loss experience is illustrated below:

<i>(amounts in 000's)</i>	2010	2009	2008	2007	2006
Net Premiums Earned	\$90,806	\$88,552	\$87,817	\$40,339	\$40,720
Losses and L.A.E. incurred	54,281	60,050	60,386	25,659	20,232
Loss Ratio	59.8%	67.8%	68.8%	63.6%	49.7%
General and Administrative Exp.	34,740	32,175	33,499	16,556	16,683
Expense Ratio	38.2%	36.3%	38.1%	41.0%	41.0%
Combined Ratio	98.0%	104.1%	106.9%	104.6%	90.7%

NEG

A summary of the Company's loss experience is illustrated below:

<i>(amounts in 000's)</i>	2010	2009	2008	2007	2006
Net Premiums Earned	\$0	\$0	\$0	\$40,339	\$40,720
Losses and L.A.E. incurred	0	0	0	25,587	20,155
Loss Ratio	0.0%	0.0%	0.0%	63.5%	49.5%
General and Administrative Exp.	0	0	0	15,587	15,749
Expense Ratio	0.0%	0.0%	0.0%	38.6%	38.7%
Combined Ratio	0.0%	0.0%	0.0%	102.1%	88.2%

REINSURANCE

Pooling

UMF and NEG participate in an inter-company pooling arrangement whereby each company cedes 100% of their underwriting activity on all lines of business, including all reinsurance, to a pool maintained by UMF. The pool in turn retroceded all activities back to UMF and NEG on the basis of 50% to each company. Beginning on January 1, 2008, the agreement was updated to change the pooling percentages to 100% for UMF and 0% for NEG. UMF also retains 100% of the costs associated with employees, facilities, resources and other operating expenses.

External Reinsurance

Management performs an analysis of the Companies' exposure and has obtained a combination of facultative and excess of loss reinsurance coverages that limit the Companies' exposure to any one property or liability loss to \$400,000. The Companies also obtained reinsurance coverage for losses due to catastrophic events to \$145,000,000 in excess of a retention of \$5,000,000.

Additionally, UMF assumes a small amount of business from affiliate Eastern Mutual Insurance Company.

ACCOUNTS AND RECORDS

The operations of the Company are recorded utilizing automated billing, policy administration and claims administration systems that interface with an automated general ledger system. Payroll and investment recordkeeping functions are outsourced. The Company monitors outsourced operations by obtaining Type II SAS 70 reports regarding controls. Financial data is reporting utilizing automated statutory financial statement preparation software. A review of I.T. general control was conducted and revealed no material weaknesses.

Due to premium volume, the Company is not subject to requirements of either Sarbanes-Oxley Section 404, or the internal control attestation requirements of the NAIC Model Audit Rule as expressed in REG I-209-06.

STATUTORY DEPOSITS

The statutory deposits of the Companies at December 31, 2010, were as follows:

<u>Location</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
UMF				
Massachusetts	US Treasury	\$ 500,000	\$ 503,226	\$ 519,530
Vermont	US Treasury	600,000	603,872	623,436
Total – UMF		<u>\$ 1,100,000</u>	<u>\$ 1,107,098</u>	<u>\$ 1,142,966</u>
NEG				
Massachusetts	US Treasury	\$ 500,000	\$ 498,520	\$ 525,060
Vermont	US Treasury	325,000	318,395	328,429
Vermont	US Treasury	210,000	209,900	211,182
Total - NEG		<u>\$ 1,035,000</u>	<u>\$ 1,026,815</u>	<u>\$ 1,064,671</u>

FINANCIAL STATEMENTS

The following statements show the financial position of the Companies as of December 31, 2010 in accordance with statutory accounting principles as defined by the Vermont State Statutes.

Statements of Admitted Assets

As of December 31, 2010

	<u>UMF</u>	<u>NEG</u>
Bonds	\$ 80,966,092	\$ 28,200,965
Stocks:		
Common Stocks	54,737,219	1,879,945
Mortgage loans on real estate:		
Real estate:		
Properties occupied by the company	2,528,899	0
Cash and short-term investments	8,380,828	823,384
Other invested assets	3,476,863	356,613
Investment income due and accrued	974,517	329,381
Premiums and considerations:		
Uncollected premiums and agents' balances in the course of collection	5,386,686	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,458,446	0
Reinsurance:		
Amounts recoverable from reinsurers	677,521	0
Current federal and foreign income tax recoverable and interest thereon	0	972,487
Net deferred tax asset	5,190,988	15,898
Electronic data processing equipment and software	183,462	0
Receivables from parent, subsidiaries and affiliates	0	915,428
Aggregate write-ins for other than invested assets	3,062,482	0
Total assets	<u>\$ 180,024,003</u>	<u>\$ 33,494,101</u>

Statements of Liabilities, Capital and Surplus

As of December 31, 2010

	<u>UMF</u>	<u>NEG</u>
Losses (Note 1)	\$ 30,783,639	\$ 0
Reinsurance payable on paid loss and loss adjustment expenses	12,747	0
Loss adjustment expenses	7,369,887	0
Commissions payable, contingent commission and other similar charges	3,758,099	0
Other expenses (excluding taxes, licenses and fees)	5,769,177	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	278,947	124,250
Current federal and foreign income taxes	1,933,224	0
Unearned premiums	51,076,988	0
Advance premium	1,600,079	0
Ceded reinsurance premiums payable (net of ceding commissions)	57,086	0
Payable to parent, subsidiaries and affiliates	894,891	0
Aggregate write-ins for liabilities (Note 2)	42,943	0
Total liabilities	<u>103,577,707</u>	<u>124,250</u>
Aggregate write-ins for special surplus funds	1,692,855	0
Common capital stock	0	2,500,000
Surplus Notes (Note 2)	7,500,000	0
Gross paid in and contributed surplus	0	840,596
Unassigned funds (surplus)	67,253,441	30,029,255
Surplus as regards policyholders	<u>76,446,296</u>	<u>33,369,851</u>
Totals	<u>\$ 180,024,003</u>	<u>\$ 33,494,101</u>

Statements of Income

For the year ending December 31, 2010

	<u>UMF</u>	<u>NEG</u>
UNDERWRITING INCOME		
Premiums earned	\$ 90,805,718	\$ 0
Losses incurred	46,834,512	0
Loss adjustment expenses incurred	7,446,689	0
Other underwriting expenses incurred	34,740,092	0
Total underwriting deductions	<u>89,021,293</u>	<u>0</u>
Net underwriting gain	<u>1,784,425</u>	<u>0</u>
INVESTMENT INCOME		
Net investment income earned	2,407,129	980,471
Net realized capital gains less capital gains tax	957,178	199,056
Net investment gain	<u>3,364,307</u>	<u>1,179,527</u>
OTHER INCOME		
Net gain or (loss) from agents' or premium balances charged off	(59,936)	0
Finance and service charges not included in premiums	1,340,579	0
Aggregate write-ins for miscellaneous income	78,755	0
Total other income	<u>1,359,398</u>	<u>0</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	6,508,130	1,179,527
Federal and foreign income taxes incurred	1,126,338	447,775
Net income	<u>\$ 5,381,792</u>	<u>\$ 731,752</u>

Capital and Surplus Accounts

For the year ending December 31, 2010

	<u>UMF</u>	<u>NEG</u>
Surplus as regards policyholders, December 31, 2009	\$ 70,116,590	\$ 32,558,324
Net Income	5,381,792	731,752
Change in net unrealized capital gains or (losses) less capital gains tax	1,624,420	713
Change in net deferred income tax	(87,158)	79,062
Change in nonadmitted assets	(589,348)	0
Change in surplus as regards policyholders for the year	<u>6,329,706</u>	<u>811,527</u>
Surplus as regards policyholders, December 31, 2010	\$ <u>76,446,296</u>	\$ <u>33,369,851</u>

Analysis of Examination Changes

	<u>UMF</u>	<u>NEG</u>
Surplus as Regards Policyholders, per Company	\$ 76,446,296	\$ 33,369,851
Examination Adjustments:		
	<u>0</u>	<u>0</u>
Total Adjustments	<u>0</u>	<u>0</u>
Surplus as Regards Policyholders, per Examination	\$ <u>76,446,296</u>	\$ <u>33,369,851</u>

COMMENTS ON FINANCIAL STATEMENTS

Note 1: Loss Reserves

The independent accounting firm, PricewaterhouseCoopers, LLP was appointed by the Companies to render an opinion on the reserves. In their opinion, the reserves meet the requirements of the insurance laws of the State of Vermont; are computed in accordance with accepted loss reserving standards and principles; and make a reasonable provision for all unpaid loss and loss expense obligations of the Companies under the terms of their policies and agreements.

Note 2: Surplus Notes

On May 15, 2003, UMF issued a \$7,500,000 surplus note to I-Preferred Term Securities I, LTD, a Cayman Islands company, in exchange for \$7,500,000 cash. A one-time placement fee of \$225,000 was charged against other income in 2003 relating to the note transaction. Interest currently accrues at 90-day LIBOR plus 4.10% and payment is due quarterly. A total of \$343,361; \$382,832; \$540,319; \$718,459 and \$693,673 of interest was paid during 2010, 2009, 2008, 2007 and 2006, respectively. UMF recorded \$42,943 as an accrued liability for interest related to the surplus note as of December 31, 2010. There is no mandatory principal amortization as a balloon payment for the outstanding principal is due on the May 15, 2033 maturity date. However, after May 15, 2008, UMF has the option to prepay all or a portion of the principal. All interest and principal payments require the prior approval of the State of Vermont Insurance Commissioner. In the event of liquidation, the note is subordinate to policyholder claims and other classes of senior indebtedness.

In 2010 UMF created a surplus note sinking fund by transferring \$1,000,000 from unassigned funds (surplus) to special surplus funds. This was the first year the fund was used.

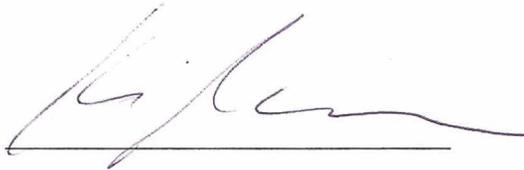
SUMMARY OF RECOMMENDATIONS

There were no significant findings as a result of the examination. A comment letter was issued to the Board of Directors 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

In addition to the undersigned, Robert Crawford, Examiner-In-Charge, Mike McNulty, Cara Bostick, Joe Detrick and Jesse Lussier participated in this examination.

Respectfully submitted,



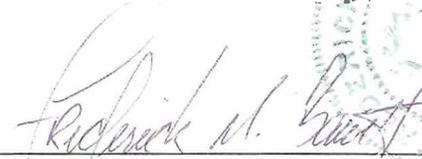
Kaj Samsom, CFE
Chief Examiner
Vermont Department of Banking, Insurance,
Securities, and Health Care Administration

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 9 day of MARCH, 2012


Notary Public

Fredrick M. Barrett
Notary Public State of Vermont at Large
My Commission Expires February 10, 2015