

Report on the Examination

As of December 31, 2012

of

**Vermont Mutual Insurance Group  
(Vermont Mutual Insurance Company, Northern Security  
Insurance Company, Inc., and Granite Mutual Insurance  
Company)**

by the

Vermont Department of Financial Regulation

Division of Insurance



State of Vermont  
assistance  
Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101  
[www.dfr.vermont.gov](http://www.dfr.vermont.gov)

For consumer

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

William A. Catto  
President and COO  
Vermont Mutual Insurance Group

### ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574 (c), I order that the Report on the Examination of Vermont Mutual Insurance Group for the year ending December 31, 2012 is adopted.

Vermont Mutual Insurance Group may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.

  
Susan L. Donegan, Commissioner

Date June 16, 2014



Banking  
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Insurance  
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Captive Insurance  
802-828-3304

Securities  
802-828-3420

Health Care Admin  
802-828-2900

**VERMONT MUTUAL INSURANCE GROUP**

**EXAMINATION REPORT**

**AS OF DECEMBER 31, 2012**

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June 2, 2014

Susan L. Donegan, Commissioner  
Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101

Dear Commissioner Donegan:

Pursuant to the June 12, 2013 examination order, the Insurance Division's financial examination team has conducted an examination of:

**Vermont Mutual Insurance Group**  
**(Vermont Mutual Insurance Company, Northern Security Insurance Company, Inc., and**  
**Granite Mutual Insurance Company)**

with their offices located at  
89 Main Street, P.O. Box 188  
Montpelier, Vermont 05601-0188

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.



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*Health Care Admin*  
802-828-2900

# VERMONT MUTUAL INSURANCE GROUP

## EXAMINATION REPORT

AS OF DECEMBER 31, 2012

### SCOPE OF EXAMINATION

As of December 31, 2012 the Vermont Mutual Insurance Group (Group) consisted of three entities as follows:

- Vermont Mutual Insurance Company (VMIC or Company)
- Northern Security Insurance Company, Inc. (NSIC or Company)
- Granite Mutual Insurance Company (GMIC or Company)

The Group's 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 (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 Group, including corporate governance, identifying and assessing inherent risks within the Group, 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 examination 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. In accordance with the risk-focused examination process, all accounts and activities of the Group were considered.

As required by law and the NAIC standard examination procedures, the Group instructed their independent accounting firm, PricewaterhouseCoopers, 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 Group's financial

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statements for the period covered by the examination. The Department reviewed the work papers of PricewaterhouseCoopers, 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 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.

**HISTORY**

VMIC, one of the 10 oldest mutual insurance companies in the US, was incorporated under the laws of Vermont on January 21, 1828 and commenced operations on March 31, 1828. VMIC is a property and casualty insurer principally engaged in underwriting homeowners, commercial multi-peril, automobile and general liability insurance in the seven states in which it is licensed.

NSIC was originally incorporated on December 9, 1904 under the laws of the State of Vermont as the Northern Mutual Fire Insurance Company. It was dormant until 1955. On June 8, 1955, the charter was amended changing the mode of operation from a mutual to a stock basis. NSIC is a wholly owned subsidiary of VMIC and is licensed in six states.

GMIC was incorporated on November 23, 1906 under the laws of the State of Vermont and began business the following year. Originally an assessment mutual, GMIC has written all contracts on a non-assessable basis since 1962. On January 1, 1995, GMIC entered an affiliation and pooling agreement with VMIC and NSIC. GMIC is licensed in two states.

Pursuant to a reinsurance pooling agreement entered into during 1994, the Group began pooling their underwriting income and expenses. As of the exam date, 100% of NSIC and GMIC

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premium, losses and applicable expenses are ceded to VMIC, including those losses incurred prior to January 1, 1998. Additionally, the Group shares certain facilities and employees with the related costs recorded on the basis of the allocation percentages. The Group wrote \$329.0 million of direct premiums during 2012, which was comprised primarily of homeowners (39%) and commercial multi-peril (27%). The Group writes 100% of its direct premiums through independent agents and has averaged a 94% combined loss ratio over the prior 6 years.

During 1997, VMIC formed Baldwin Insurance Agency, Inc. (Baldwin), a wholly owned independent insurance broker and agency. Baldwin was formed primarily to allow the Group's Agents to offer various types of insurance coverage not underwritten by the Group. Baldwin has been inactive since 2004.

**CORPORATE RECORDS**

The Group's headquarters and administrative offices are located in Montpelier, Vermont, and the Group maintains its corporate records at this location. The Articles of Incorporation, By-Laws and minutes of the Board of Directors meetings held during the period under examination were reviewed. Based upon our review, the Group is conducting its affairs in accordance with the by-laws of the companies. The recorded minutes of these meetings adequately documented approval and oversight of the Group's investment transactions, other material transactions, events and changes in directors.

**MANAGEMENT AND CONTROL**

**VMIC**

*By-laws:*

In accordance with Article I and II of the Company's By-Laws, an Annual Meeting is held in Montpelier on the first Wednesday after the second Thursday in April at such a place and time as designated. The annual reports of the Treasurer are presented and acted upon, and the Directors are chosen by a majority vote of the Members present and voting in person or by proxy.

The Board of Directors consists of not more than seventeen nor less than nine persons; the exact number of Directors may be determined at any Annual Meeting of the Policyholders. Such Directors shall serve until others have been elected in their stead.

**VERMONT MUTUAL INSURANCE GROUP**  
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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:

<u>Name:</u>	<u>Principal Business Association:</u>
Richard N. Bland	Vice President General Counsel, Vermont Mutual Insurance Company
John N. Evans, Ph.D.	Professor, UVM College of Medicine
J. Timothy Ide	President E.T. & H.K. Ide Company
William H. Brooks*	Retired, Vermont Mutual Insurance Company
Michele S. Gatto	Former Executive Vice President, Corporate Services & General Counsel, National Life Group
George D. Milne, Jr.*	Retired
William A. Catto	President, Vermont Mutual Insurance Company
William A. Gilbert	Attorney
David J. Provost	Sr. Vice President Finance & Administration, Champlain College
William P. Cody	Broker, USB Financial Services
John D. Hashagen, Jr.	Former President, Vermont National Bank
Thomas J. Tierney	Chairman & CEO, Vermont Mutual Insurance Company

*Directors Advisory Council:*

The Directors Advisory Council was established to maintain the knowledge and expertise of past Directors. Members of the Directors Advisory Council may participate in the discussion of the Company's business and advise but are not entitled to vote. Members of the Directors Advisory Council are elected for a term of one year at the Annual Meeting of the Policyholders of the Company. \*Denotes member of the Director Advisory Council.

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*Committees:*

The Executive Committee consists of the Chairman of the Board or the Chairman Emeritus, the President and not less than three nor more than five other Directors of the Company.

The Audit Committee consists of Directors who are not Officers of the Company. The Audit Committee is charged with designating an independent and qualified auditor, who examines the records, books, vouchers and accounts of the Company and makes a report of their findings. A copy of findings is furnished to each Director.

Other active committees as of December 31, 2012 included:

- Pension & 401(k) Committee
- Compensation Committee

*Officers:*

The Officers of VMIC as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
Thomas J. Tierney	Chairman & CEO
William A. Catto	President & COO
Richard N. Bland	Vice President & Secretary
Brian C. Eagan	Vice President & CFO & Treasurer
Daniel C. Bridge	Senior Vice President
Joanne M. Currier	Vice President
David N. Deluca	Vice President
Shaun P. Farley	Vice President
Mary J. Gray	Vice President

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NSIC

*By-Laws:*

In accordance with Article I and II of the Company's By-Laws, an Annual Meeting of Stockholders is held on the first Wednesday after the second Thursday of April at a place and time designated. The presence, in person or by proxy, of the holders of 50% of the outstanding stock entitled to vote is necessary to constitute a quorum for the transaction of business.

The Board of Directors consists of not more than seventeen nor less than nine persons; the exact number of Directors may be determined at any Annual Meeting of the Stockholders. Such Directors shall serve until others have been elected in their stead.

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:

<u>Name:</u>	<u>Principal Business Association:</u>
Richard N. Bland	Vice President General Counsel, Vermont Mutual Insurance Company
John N. Evans, Ph.D.	Professor, UVM College of Medicine
J. Timothy Ide	President E.T. & H.K. Ide Company
Michele S. Gatto	Former Executive Vice President, Corporate Services & General Counsel, National Life Group
William A. Catto	President, Vermont Mutual Insurance Company
William A. Gilbert	Attorney
David J. Provost	Sr. Vice President Finance & Administration, Champlain College
William P. Cody	Broker, USB Financial Services
John D. Hashagen, Jr.	Former President, Vermont National Bank
Thomas J. Tierney	Chairman & CEO, Vermont Mutual Insurance Company

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*Committees:*

The Executive Committee consists of the Chairman of the Board or the Chairman Emeritus, the President, Executive Vice President and not less than three nor more than five other Directors of the Company.

The Audit Committee consists of Directors who are not Officers of the Company. The Audit Committee is charged with designating an independent and qualified auditor, who examines the records, books, vouchers and accounts of the Company and makes a report of their findings. A copy of findings is furnished to each Director.

Other active committees as of December 31, 2012 included:

- Pension & 401(k) Committee
- Compensation Committee

*Officers:*

The Officers of NSIC as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
Thomas J. Tierney	Chairman & CEO
William A. Catto	President & COO
Richard N. Bland	Vice President & Secretary
Brian C. Eagan	Vice President & CFO & Treasurer
Daniel C. Bridge	Senior Vice President
Joanne M. Currier	Vice President
David N. Deluca	Vice President
Shaun P. Farley	Vice President
Mary J. Gray	Vice President

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GMIC

*By-Laws:*

In accordance with Article I and II of the Company's By-Laws, the Annual Meeting of the Policyholders is held on the first Wednesday after the second Thursday in April at such place and time as shall be designated. At the Annual Meeting of Policyholders, the annual report of the Treasurer is presented and acted upon, and Directors are chosen by a majority vote of the Policyholders present and voting in person or by proxy.

The Board of Directors consists of not more than seventeen nor less than nine persons; the exact number of Directors may be determined at an Annual Meeting of the Policyholders. Such Directors shall serve until others have been elected in their stead.

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:

<u>Name:</u>	<u>Principal Business Association:</u>
Richard N. Bland	Vice President General Counsel, Vermont Mutual Insurance Company
John N. Evans, Ph.D.	Professor, UVM College of Medicine
J. Timothy Ide	President E.T. & H.K. Ide Company
Michele S. Gatto	Former Executive Vice President, Corporate Services & General Counsel, National Life Group
William A. Catto	President, Vermont Mutual Insurance Company
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John D. Hashagen, Jr.	Former President, Vermont National Bank
Thomas J. Tierney	Chairman & CEO, Vermont Mutual Insurance Company

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*Committees:*

The Executive Committee shall consist of the Chairman of the Board or the Chairman Emeritus, the President, Executive Vice President. The persons are also members of the Board of Directors and not less than three nor more than five other Directors of the Company.

The Audit Committee shall be Directors who are not Officers of the Company. The Audit Committee shall annually designate an independent and qualified auditor, who shall examine the records, books, vouchers and accounts of the Company and make a report of their findings. A copy of said findings shall be furnished to each Director.

Other active committees as of December 31, 2012 included:

- Pension & 401(k) Committee
- Compensation Committee

*Officers:*

The Officers of GMIC as of December 31, 2012 were as follows:

<u>Name</u>	<u>Title</u>
Thomas J. Tierney	Chairman & CEO
William A. Catto	President & COO
Richard N. Bland	Vice President & Secretary
Brian C. Eagan	Vice President & CFO & Treasurer
Daniel C. Bridge	Senior Vice President
Joanne M. Currier	Vice President
David N. Deluca	Vice President
Shaun P. Farley	Vice President
Mary J. Gray	Vice President

**VERMONT MUTUAL INSURANCE GROUP**  
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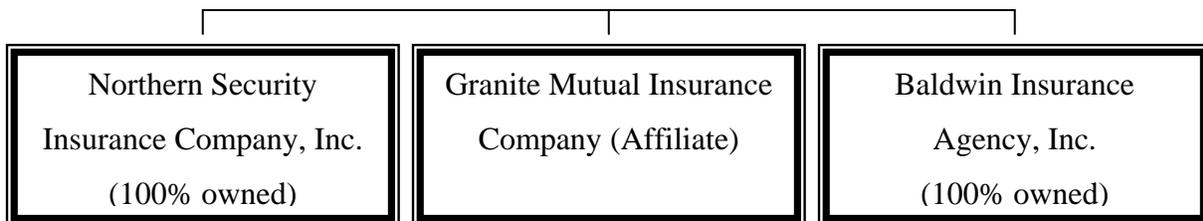
Conflict of Interest Statement

The statement as adopted by the Board of Directors requires in order to insure the proper, efficient and dedicated management of the Group, no Director, Officer, or certain other employees of the Group shall have any outside commitments, personal or otherwise, that would divert him/her from his/her duty to further the interest of the Group. In addition, Directors, Officers and employees, must full disclose any “material interest” they have in any entity or concern which sells goods, furnishes services or otherwise does business with any of the Group or in whose securities have invested. The term “material interest” shall mean a director, voting member, trustee, an officer or the ownership of 5 percent or more of the beneficial or proprietary interest in the Group. All Directors, Officers and employees are responsible for completing the Conflict of Interest Statement annually and responsible for promptly notifying the Group of any changes of their status or affiliations.

Affiliated Companies

The following chart exhibits the relationship between the Vermont Mutual Insurance Group.

**Vermont Mutual Insurance Company (Parent)**



Pursuant to a reinsurance pooling agreement entered into during 1994, the Group began pooling their respective income and expenses related to underwriting activities, effective January 1, 1995. Effective December 31, 2003, VMIC amended its pooling agreement with NSIC and GMIC. Under the amended agreement, the VMIC assumes 100% of the unearned premium of NSIC and GMIC. Also, VMIC assumes 100% of the gross premiums written and pooled underwriting expenses of NSIC and GMIC relating to all accident years.

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The Group also shares certain facilities and employees with the related costs recorded predominately on the basis of the allocation percentages. Operations of each individual company, other than those related to underwriting income and expenses, are the responsibility of each respective company.

**FIDELITY BOND AND OTHER INSURANCE**

Fidelity and Deposit Company of Maryland issued the Financial Institution Bond. The bond is for employee dishonesty in the amount of \$1,500,000 per single loss with a \$25,000 deductible. The policy is in effect until June 29, 2015. 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 Group from losses.

**PENSIONS AND INSURANCE PLANS**

The Group sponsors a non-contributory defined benefit pension plan, which substantially covers all Officers and employees of the Group hired prior to December 31, 2006. The benefits are based on years of service and the employees' compensation during the last five year of employment. Effective January 1, 1998, VMIC retains all costs associated with this plan. The plan was amended effective December 31, 2006, which "freezes" the plan participants as of that date, and ceases benefit accruals for employees hired after December 31, 2006; participants with less than five years of credited service as of December 31, 2006; and participants who are younger than age 35 as of December 31, 2006 and have more than five years of credited services, but elected to cease benefit accruals after December 31, 2006. Effective March 1, 2012, the plan was amended to cap the supplemental benefit to eligible employees that retire prior to age 65. The amendment states a maximum benefit of 4 years and limits the payout over that period to \$20,000. Previously the plan did not limit the dollar amount or the number of years of eligibility for the supplemental benefit.

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The Group sponsors a contributory deferred compensation plan available to certain Officers and Directors and a contributory deferred compensation plan for specified officers. The Group also has a qualified 401(k) plan available for all employees who have attained the age of 21 and have completed three months of service. The Group matches 50% of the first 6% of employee's base compensation subject to certain limitations. Effective January 1, 1998, VMIC retains all costs association with the plan.

The Group also provides certain health care benefits (postretirement) for retired employees. Employees may become eligible for these benefits if they were hired prior to December 31, 2006 and have attained the age of 65 and have 20 years of service, or have attained age 55 or older in age and age plus years of service is greater than or equal to 85. VMIC retains all costs associated with the plan in accordance with the terms of the affiliation agreement. The postretirement plan was amended effective December 31, 2006 which froze the plan to new participants.

**STATUTORY DEPOSITS**

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

<b><u>Location</u></b>	<b><u>Type of Security</u></b>	<b><u>Par Value</u></b>	<b><u>Book Value</u></b>	<b><u>Market Value</u></b>
<u>VMIC</u>				
Vermont	U.S. Treasury Note, 3.125% due 9/30/13	\$425,000	\$428,082	\$434,282
Vermont	U.S. Treasury Note, 2.750% due 2/15/19	\$125,000	\$123,173	\$138,409
MA	U.S. Treasury Note, 3.375% due 11/15/19	\$550,000	\$558,297	\$632,374

**VERMONT MUTUAL INSURANCE GROUP**

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<u>Location</u>	<u>Type of Security</u>	<u>Value</u>	<u>Value</u>	<u>Value</u>
<u>NSIC</u>				
Vermont	U.S. Treasury Note, 4.00% due 8/15/18	\$150,000	\$152,006	\$176,250
Vermont	U.S. Treasury Note, 3.375% due 11/15/19	\$150,000	\$152,860	\$172,466
Vermont	U.S. Treasury Note, 3.125% due 4/30/13	\$250,000	\$249,892	\$252,470
MA	U.S. Treasury Note, 3.375% due 11/15/19	\$100,000	\$101,907	\$114,977
<u>GMIC</u>				
Vermont	U.S. Treasury Note, 3.625% due 2/15/20	\$200,000	\$205,949	\$233,688

**TERRITORY AND PLAN OF OPERATIONS**

VMIC is licensed in the states of Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. NSIC is licensed in Connecticut, Maine, Massachusetts, New Hampshire, New York and Vermont. GMIC is licensed in New Hampshire and Vermont. The Group provide homeowners, dwelling fire, mobile homeowners, automobile, commercial property and liability, business owner property and liability, and personal and commercial umbrella coverage. Personal and commercial auto coverage is written in Vermont, Maine and New Hampshire only.

Business is marketed through a network of Independent Agents. The Group are all members of the Insurance Services Office (ISO), using primarily ISO policy forms, rates and loss costs combined with some independently filed forms, rate deviations and loss cost multipliers.

# VERMONT MUTUAL INSURANCE GROUP

## EXAMINATION REPORT

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### GROWTH OF COMPANY

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

#### Revenues, Losses, Income, Assets & Surplus

##### VMIC:

	2012	2011	2010	2009	2008
Net Written Premium	\$ 292,344,548	\$ 280,592,902	\$ 257,143,368	\$ 236,631,624	\$ 212,982,726
Losses and LAE Incurred	\$ 145,763,194	\$ 188,801,502	\$ 142,396,312	\$ 128,032,352	\$ 117,044,690
Net Income	\$ 35,044,866	\$ 8,716,350	\$ 24,379,098	\$ 18,752,172	\$ 1,843,425
Net Admitted Assets	\$ 614,239,649	\$ 557,185,818	\$ 540,210,882	\$ 477,630,141	\$ 437,628,717
Surplus	\$ 283,845,033	\$ 239,812,922	\$ 230,770,108	\$ 207,122,111	\$ 172,207,278

##### NSIC:

	2012	2011	2010	2009	2008
Net Written Premium	\$ -	\$ -	\$ -	\$ -	\$ -
Losses and LAE Incurred	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income	\$ 201,838	\$ 56,008	\$ 259,108	\$ 129,593	\$ 265,719
Net Admitted Assets	\$ 8,058,854	\$ 8,177,564	\$ 7,798,622	\$ 7,526,529	\$ 7,433,963
Surplus	\$ 7,941,780	\$ 7,737,487	\$ 7,682,347	\$ 7,433,507	\$ 7,294,181

##### GMIC:

	2012	2011	2010	2009	2008
Net Written Premium	\$ -	\$ -	\$ -	\$ -	\$ -
Losses and LAE Incurred	\$ -	\$ -	\$ -	\$ -	\$ -
Net Income	\$ 136,019	\$ 32,200	\$ 111,495	\$ 27,471	\$ 146,535
Net Admitted Assets	\$ 4,261,696	\$ 4,273,853	\$ 4,103,467	\$ 3,972,253	\$ 3,952,013
Surplus	\$ 4,242,999	\$ 4,112,801	\$ 4,072,847	\$ 3,967,756	\$ 3,935,204

### REINSURANCE

The Group has a reinsurance program established with several reinsurers. The Group's reinsurance program consists of various reinsurers with the majority being A rated by A.M. Best. Coverage is continuous and may be terminated by either the Group or reinsurer, subject to 90 days written notice. Management reviews, approves and executes all reinsurance contracts. A third party consultant is utilized to monitor reinsure metrics, such as reinsurance partners and

## **VERMONT MUTUAL INSURANCE GROUP**

### **EXAMINATION REPORT**

**AS OF DECEMBER 31, 2012**

their respective credit ratings and any other changes that have occurred in the reinsurance market. The reinsurance contracts are also reviewed by the Group's certified public accountant to ensure the contracts qualify for reinsurance accounting treatment.

The Group retains the following limits:

- Property Per Risk Excess of Loss: \$750,000 per occurrence
- Property Excess of Loss: \$750,000 per occurrence
- Casualty Excess of Loss: \$750,000 per occurrence
- Commercial and Personal Umbrella: \$50,000 per occurrence
- Automobile Excess of Loss: \$250,000 per occurrence

All remaining coverages provided by the Catastrophe Excess of Loss Treaty is 100% ceded to various reinsurers at various participation layers and ceding percentages.

### **ACCOUNTS AND RECORDS**

The Group operates a centralized computing model with the primary data center located in Montpelier, Vermont. The backup site is provided through an agreement with SunGard and backup tapes are stored at a secure location by the Group. The primary administrative system is the WINS system, housed on the iSeries (AS400 midsize platform). The Group has purchased the source code and customized the system to meet their needs. SunGard is utilized for investments and Stone River is the General Ledger system, which is a financial system for insurance accounting. The Group provides E-Commerce through their Extranet function. The Extranet function includes the ability to quote, issue, and inquire of certain products with their system. ADP, an outside service provider for payroll function is also used.

The Group 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 Group as of December 31, 2012 in accordance with statutory accounting principles as defined by Vermont State Statute.

**VERMONT MUTUAL INSURANCE GROUP**  
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Statement of Assets:

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Bonds	\$ 381,194,044	\$ 7,620,467	\$ 4,067,837
Preferred stocks	1,312,010	-	-
Common stocks	100,778,300	-	15,546
Properties occupied by the company	3,718,053	-	-
Properties held for the production of income	598,938	-	-
Cash and short-term investments	23,489,532	410,385	127,761
Other invested assets	404,544	-	-
Receivables for securities	89,614	-	-
Subtotals, cash and invested assets	<u>511,585,035</u>	<u>8,030,852</u>	<u>4,211,144</u>
Investment income due and accrued	3,332,319	28,002	13,711
Uncollected premiums and agents' balances in the course of collection	468,406	-	-
Deferred premiums, agents' balances and installments booked but deferred and not yet due	61,584,351	-	-
Amounts recoverable from reinsurers	417,959	-	-
Current federal and foreign income tax recoverable and interest thereon	-	-	36,841
Net deferred tax asset	13,754,884	-	-
Electronic data processing equipment and software	299,405	-	-
Receivables from parent, subsidiaries and affiliates	10,991	-	-
Aggregate write-ins for other than invested assets (including \$8,604,332 Fair Plan Accrual and \$3,280,603 Cash Value Life Insurance)	22,786,299	-	-
Total assets	<u>\$ 614,239,649</u>	<u>\$ 8,058,854</u>	<u>\$ 4,261,696</u>

**VERMONT MUTUAL INSURANCE GROUP**

**EXAMINATION REPORT**

**AS OF DECEMBER 31, 2012**

Statement of Liabilities, Surplus and Other Funds:

	VMIC	NSIC	GMIC
Losses	\$ 99,226,510	\$ -	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	(191,390)	-	-
Loss adjustment expenses	29,856,222	-	-
Commissions payable, contingent commissions and other similar charges	14,800,790	-	-
Other expenses (excluding taxes, licenses and fees)	15,592,538	8,897	5,367
Taxes, licenses and fees (excluding federal and foreign income taxes)	554,692	-	-
Current federal and foreign income taxes	5,712,922	106,513	-
Net deferred tax liability	-	673	3,330
Unearned premiums (after deducting unearned premiums for ceded reinsurance)	157,360,288	-	-
Advance premium	5,350,087	-	-
Ceded reinsurance premiums payable (net of ceding commissions)	1,652,026	-	-
Amounts withheld or retained by company for account of others	723	-	-
Payable to parent, subsidiaries and affiliates	-	991	10,000
Payable for securities	85,969	-	-
Aggregate write-ins for liabilities	393,239	-	-
Total liabilities	\$ 330,394,616	\$ 117,074	\$ 18,697
Common capital stock	\$ -	\$ 2,500,000	\$ -
Gross paid in and contributed surplus	-	450,000	-
Unassigned funds (surplus)	283,845,033	4,991,780	4,242,999
Total surplus	283,845,033	7,941,780	4,242,999
Total liabilities and surplus	\$ 614,239,649	\$ 8,058,854	\$ 4,261,696

**VERMONT MUTUAL INSURANCE GROUP**  
**EXAMINATION REPORT**  
**AS OF DECEMBER 31, 2012**

Statement of Income and Changes in Capital and Surplus

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Premiums earned	\$ 285,843,672	\$ -	\$ -
Losses incurred	127,249,051	-	-
Loss expenses incurred	18,514,143	-	-
Other underwriting expenses incurred	103,635,461	-	-
Total underwriting deductions	249,398,655	-	-
Net underwriting gain	36,445,017	-	-
Net investment income earned	8,047,931	110,207	60,385
Net realized capital gains (losses)	5,042,410	128,047	79,826
Net investment gain	13,090,341	238,254	140,211
Net (loss) from agents' or premium balances charged off	(150,531)	-	-
Finance and service charges not included in premiums	2,035,174	-	-
Aggregate write-ins for miscellaneous income	385,245	-	-
Total other income	2,269,888	-	-
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	51,805,246	238,254	140,211
Federal and foreign income taxes incurred	16,760,380	36,416	4,192
Net income	<u>\$ 35,044,866</u>	<u>\$ 201,838</u>	<u>\$ 136,019</u>
Surplus as regards policyholders, December 31, 2011	\$ 239,812,922	\$ 7,737,487	\$ 4,112,801
Net income	35,044,866	201,838	136,019
Change in net unrealized capital gains	7,731,687	-	247
Change in net deferred income tax	2,622,200	2,456	(6,068)
Change in nonadmitted assets	(1,366,642)	-	-
Aggregate write-ins for gains and losses in surplus	-	(1)	-
Change in surplus as regards policyholders for the year	44,032,111	204,293	130,198
Surplus as regards policyholders, December 31, 2012	<u>\$ 283,845,033</u>	<u>\$ 7,941,780</u>	<u>\$ 4,242,999</u>

**VERMONT MUTUAL INSURANCE GROUP**

**EXAMINATION REPORT**

**AS OF DECEMBER 31, 2012**

**COMMENTS AND RECOMMENDATIONS**

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be 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.

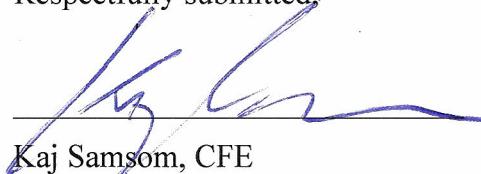
**CONCLUSION**

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

	<u>VMIC</u>	<u>NSIC</u>	<u>GMIC</u>
Admitted Assets	<u>\$ 614,239,649</u>	<u>\$ 8,058,854</u>	<u>\$ 4,261,696</u>
Liabilities	\$ 330,394,616	\$ 117,074	\$ 18,697
Capital and Surplus	<u>\$ 283,845,033</u>	<u>\$ 7,941,780</u>	<u>\$ 4,242,999</u>
Total Liabilities, Capital and Surplus	<u>\$ 614,239,649</u>	<u>\$ 8,058,854</u>	<u>\$ 4,261,696</u>

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

Respectfully submitted,



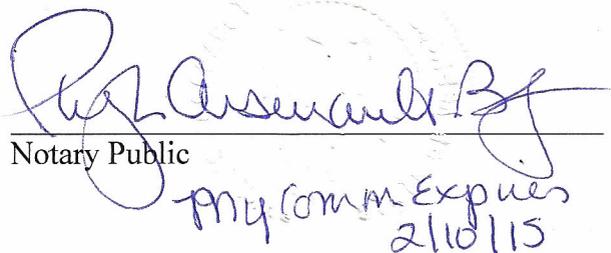
Kaj Samsom, CFE  
Chief Examiner, Division of Insurance  
Vermont Department of Financial Regulation

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 4<sup>th</sup> day of June, 2014



Notary Public  
my comm Expires 2/10/15