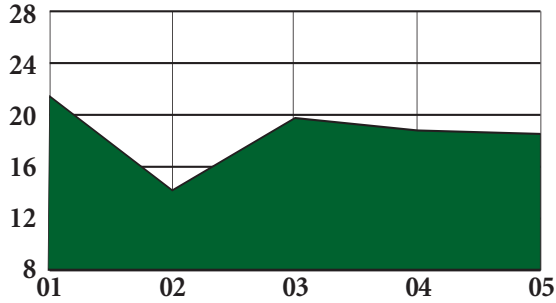


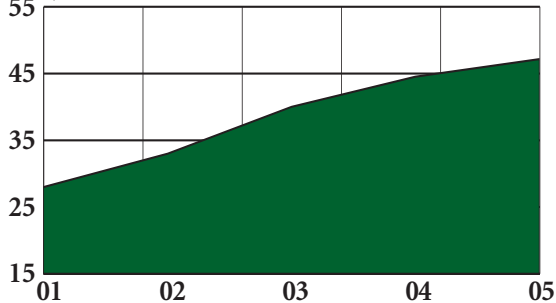
Direct Incurred Losses

\$ Millions



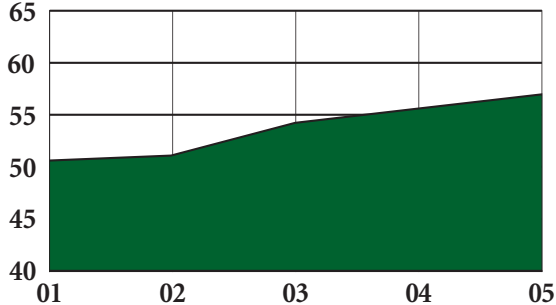
Direct Premiums Written

\$ Millions



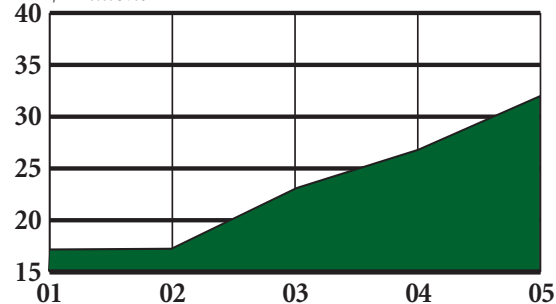
Policies In Force

Thousands



Policyholders' Surplus

\$ Millions



OFFICERS AND DIRECTORS:

PATRONS CO-OPERATIVE FIRE INSURANCE COMPANY

(Organized September 1, 1915)

Charles R. Mason, Pawlet, Vt., President
 Charles B. Palmer, Pownal, Vt.,
 VP and Secretary/Treasurer
 Joseph W. Devall, Bristol, Vt.
 Richard P. Foote, Middlebury, Vt.
 James W. Sullivan, Bristol, Vt.
 Elisabeth Weltin, Essex Junction, Vt.
 Everett A. Willard, Orleans, Vt.*

FARMERS CO-OPERATIVE FIRE INSURANCE COMPANY

(Organized September 1, 1924)

Richard W. Stickney, Rockingham, Vt., President
 Hugh B. Spafford, Rutland, Vt., Vice-President
 Jane T. Sorensen, Fairfax, Vt., Secretary
 George A. Chaffee, Williston, Vt.
 Jaques R. Couture, Westfield, Vt.
 Arlington O. Hazen, South Hero, Vt.
 Russell Dodd, Sheldon, Vt.*

RURAL CO-OPERATIVE FIRE INSURANCE COMPANY

(Organized September 1, 1933)

Edward A. Lewis, Poultney, Vt., President
 Dwight R. Miller Jr., Dummerston, Vice-President, Vt.
 Jean Conklin, Haverhill, NH., Secretary/Treasurer
 Gordon J. Booth, Barre, Vt.
 Alan K. Kinney, South Hero, Vt.
 Michael J. Ladd, Glover, Vt.
 Albert E. Conklin, Woodstock, Vt.*
 Dean Jackson, Pantou, Vt.*
 John Urie, Glover, Vt.*

(*) Director Emeritus

CO-OPERATIVE INSURANCE COMPANIES:

Charles R. Mason, Chairman of the Board
 Edward A. Lewis, Vice-Chairman
 James W. Sullivan, Chief Executive Officer
 Marie M. Jewett, Executive Vice-President of
 Insurance Operations
 David C. Tatlock, Senior Vice-Pres. – Finance/CFO/Treasurer
 Ted-E Davis, Senior Vice-President – Information Systems
 Maggie Cyr, Secretary to the Board



2005



FINANCIAL REPORT



292 Colonial Drive, Middlebury, VT 05753

PRESIDENT'S REPORT TO POLICYHOLDERS



"A goal without a plan is just a wish."

Antoine de Saint-Exupery

I am happy to report that, according to plan, we accomplished our goals for 2005. We added 6% premium growth, controlled our expenses and invested in our people

and systems while maintaining our commitment to customer service.

A major factor contributing to our good results was an unusually low number of claims last year. We attribute this to several variables, including milder weather, improved loss prevention activities by you, the policyholders, and our employees' and agents' ongoing reunderwriting process, which helps ensure we're pricing risks accurately.

The profitable experience in 2005 allowed us to add to policyholders' surplus (retained earnings). Over the last five years, we have nearly doubled our policyholders' surplus. Keeping our surplus strong and growing has been and remains important for a number of reasons. For regulators and insurance company rating organizations, like A.M. Best, maintaining surplus adequacy addresses one of their primary concerns with small insurance companies. For you, our members, it simply means peace of mind knowing that we are in a strong financial position entering 2006 and even better able to weather a catastrophic storm or a more competitive insurance market.

Looking ahead, our overriding goal is *to satisfy our customers*. As we enter a more competitive insurance cycle, we will refine our pricing models and methods and develop our systems to give you the service you expect at a competitive rate. Our investments in technology enable us to process our business more efficiently and deliver more information to our agents and members.

BALANCE SHEET

As of December 31, 2005 (*In Thousands*)

Assets:	
Bonds	\$43,422
Stocks and Mutual Funds	12,298
Cash and Short Term	1,097
Real Estate	<u>1,079</u>
Total Invested Assets	57,896
Premiums Receivable	10,049
Deferred Income Taxes	2,030
Other Assets	<u>2,196</u>
TOTAL ASSETS	<u>\$72,171</u>

Liabilities and Surplus:

Unearned Premiums	\$23,969
Reserve for Losses & Claim Expenses	13,303
Commissions and Expenses Payable	2,146
Other Liabilities	<u>788</u>
Total Liabilities	40,206
Policyholders' Surplus	<u>31,965</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$72,171</u>

STATEMENT OF INCOME

Year Ended December 31, 2005 (*In Thousands*)

Premiums Earned, Net of Reinsurance	\$39,009
Losses Incurred	18,575
Loss Adjustment Expenses	2,510
Other Underwriting Expenses	<u>12,975</u>
Net Gain from Underwriting	4,949
Net Investment Income	1,539
Other Income	<u>457</u>
Income Before Federal Tax	6,945
Federal Income Tax	<u>2,468</u>
NET INCOME	<u>\$4,477</u>

STATEMENT OF CHANGES IN SURPLUS

Year Ended December 31, 2005 (*In Thousands*)

Policyholders' Surplus, Beginning	\$26,792
Net Income	4,477
Unrealized Investment Gain	577
Other Surplus Changes	<u>119</u>
POLICYHOLDERS' SURPLUS, ENDING	<u>\$31,965</u>

As we predicted several years ago, the Internet is becoming our primary means of communication. We are updating our Web site again later this year to provide important and useful information. In the near future, members will be able to access policy information online by visiting a secure members-only Web site.

While our competitive model is based in technology, that model is effective because it uses our competitive advantage: our experienced, knowledgeable people. Efficiencies gained by technology enable our experts to answer questions and solve problems. We work hard every year to stay current

with new developments in our industry and become better able to serve our customers.

I thank all of you, our members and owners, for your continued confidence and loyalty.

James W. Sullivan

President/CEO