



CO-OPERATIVE INSURANCE COMPANIES

Member owned. Member committed.



2013

Building strong working relationships is the best way to provide the level of service our customers deserve and expect.





Letter from the President



Dear Members,

2013 was a year of challenges and opportunities. We started the year with a substantial number of our members suffering fires in January, incurring \$5.2 million in losses – the largest one-month amount ever in the history of the company.

Living in the Northeast, we always expect a rough first quarter, both financially and weather-wise, and we plan for that. The challenge is responding to all in need in their time of need. Our goal is to make first contact within 24 hours of receiving notice of a loss, and the sooner, the better; that's our opportunity to provide exceptional customer service and help members through difficult situations. I am proud to say that our staff did an outstanding job, not only in January, but throughout the year. We follow up with members after claims, and your feedback let us know that we met or exceeded your expectations 99% of the time.

Our strategic initiatives include moderate growth, focusing on profitability to keep your co-operative financially sound and independent into the future. We grew 3.6% in 2013, and were able to add to policyholder surplus, primarily due to capital gains from the stock market.

Challenges to growth and profitability include a rapidly changing marketplace. Your agent plays a key role in understanding your risk and providing the coverage you and your family need, so we've worked this past year to build on our current agency relationships and to expand our network with more agents who share our approach to insurance and customer service. At the same time, we've been working to reinforce our core capabilities and what we do well, so that our agents can continue to concentrate on serving you well. With a strong foundation in farm and personal lines business, we see opportunity to diversify and grow in Vermont and New Hampshire by expanding into small commercial business.

We put effort into being an employer of choice, and it shows in our high employee retention; more than 40% of our employees have been here more than ten years, and almost a quarter have been here 25 years or longer. As more than a third of our employees near retirement, the challenge is in holding on to the institutional knowledge we have accumulated, while preparing for and embracing the future and all that we need to do to meet the expectations of consumers. We've found some opportunities in realigning our staff this past year, moving people into positions where their talents are best realized. We continue to strengthen our bench, relying on our carefully crafted hiring process to help us select new team members with the right blend of expertise and fit.

Developing technology for the future is a constant challenge for a small company: choosing the right platforms, having the right skill sets, providing the experience you expect. We are committed to making informed decisions while developing technology to meet your needs now and into the future.

With every challenge, there is indeed opportunity. I am excited about what lies ahead.

Sincerely,

Marie Jewett, AU, API, AIS
President & CEO



Letter from the
Chief Financial Officer



Dear Members,

Insurance companies make money in two ways. Most people are aware that over time, we need to collect enough premium revenue to pay the losses that occur for our members, and to cover our operating costs. The net result is referred to as *underwriting income*. There's another important source of income, though, and that's the income that we earn from investing our reserves and surplus. Investment income not only helps us to build our surplus, but also provides some stability to our bottom line, which allows us to keep our members' premium rates more stable, too.

Investments played a critical role in our profitability and surplus growth in 2013. We posted an underwriting loss of \$852,000, but our net investment income, including interest, dividends and capital gains, added \$3.2 million to pretax income. Unrealized gains on our mutual fund investments added another \$4.7 million to surplus.

Interestingly, back in the 1970s and 1980s, insurance companies almost always lost money on underwriting – on purpose! With U.S. Treasury bonds paying 13% back then, a company could make enough on investment income that they could price their insurance below cost and still make a profit. Fast-forward a few decades, and that same 10-year Treasury barely gets us 2%, making us much more reliant on our underwriting results to make a profit. While investment income is a smaller part of the equation today, it still plays an important role in profitability and surplus growth over time.

At the end of last year, the Vermont Department of Financial Regulation completed our five-year financial examination (for the years 2008-2012), with no adjustments. Also in 2013, the A.M. Best Company reaffirmed our A (Excellent) financial strength rating, and added a "positive outlook" designation to our credit issuer rating.

We look forward to another successful year serving our membership in 2014.

Sincerely,

David C. Tatlock, CPA, CPCU
Chief Financial Officer

BALANCE SHEET

As of December 31
(In Thousands)

	2013	2012
ASSETS		
Bonds, at amortized cost	\$ 71,984	\$ 62,192
Stocks and Mutual Funds, at fair value	28,936	27,248
Cash and Short Term	2,035	2,375
Real Estate and other	1,905	2,205
Total Invested Assets	104,860	94,020
Premiums Receivable	14,359	14,118
Deferred Income Taxes	553	1,861
Other Assets	2,953	2,429
TOTAL ASSETS	\$ 122,725	\$ 112,428
LIABILITIES AND SURPLUS		
Unearned Premiums	32,284	31,262
Reserve for Losses and Claim Expenses	19,041	16,108
Commissions and Expenses Payable	2,899	3,392
Other Liabilities	2,944	1,447
TOTAL LIABILITIES	57,168	52,209
Policyholders' Surplus	65,557	60,219
TOTAL LIABILITIES AND SURPLUS	\$ 122,725	\$ 112,428

STATEMENT OF INCOME

Year Ended December 31
(In Thousands)

	2013	2012
Premiums Earned, Net of Reinsurance	\$ 55,779	\$ 53,388
Losses Incurred	31,689	25,946
Loss Adjustment Expenses	4,380	4,077
Other Underwriting Expenses	20,562	19,993
Net Gain (Loss) from Underwriting	(852)	3,372
Net Investment Income	3,202	2,529
Other Income	750	508
Income Before Federal Tax	3,100	6,409
Federal Income Tax	331	1,377
Net Income	\$ 2,769	\$ 5,032

STATEMENT OF CHANGES IN SURPLUS

Year Ended December 31
(In Thousands)

Policyholders' Surplus, Beginning	\$ 60,219	\$ 53,770
Net Income	2,769	5,032
Unrealized Investment Gains (Losses)	4,727	3,053
Other Surplus Changes	(2,158)	(1,636)
Policyholders' Surplus, Ending	\$ 65,557	\$ 60,219



Leadership



2012-2013 Executive Management Team

Front Row (L-R): Eric Rhoades, Marie Jewett, David Tatlock

Back Row (L-R): Gina Larrow, Brad Fortier, John Condon



2012-2013 Board of Directors

Front Row (L-R): Michael Ladd, Jacques Couture,
Hugh Spafford, James Sullivan

Second Row (L-R): Jane Sorensen, Laurie Rowell,
Pamela Douglass, Jean Conklin, Marie Jewett

Third Row (L-R): Richard Foote, Charles Palmer,
George Chaffee, Charles Mason

Core Values & Mission Statement

Co-operative Insurance Companies operates on
four core values:

Respect, Stewardship, Integrity, Accountability



*Our goal is to serve people by providing
financial security to residential property
owners, farm owners, and business owners
in Vermont and New Hampshire.*

Officers and Directors

Co-operative Insurance Companies

Marie M. Jewett, President/CEO
David C. Tatlock, Treasurer, CFO, Senior VP Finance
Eric Rhoades, Senior VP Information Services
Brad Fortier, Senior VP Marketing and Underwriting
John Condon, VP Underwriting and Farm Safety
Gina Larrow, VP Human Resources
Michael J. Ladd, Chair of the Board
Jacques R. Couture, Vice Chair of the Board
Mary Micklas, Secretary to the Board

Patrons Co-operative Fire Insurance Company

(Organized September 1, 1915)
Charles R. Mason, Pawlet, VT, President
Charles B. Palmer, Pownal, VT, VP, Secretary
Richard P. Foote, Middlebury, VT
James W. Sullivan, Vergennes, VT
Pamela J. Douglass, Brandon, VT
Jean Conklin, Haverhill, NH
Everett A. Willard, Orleans, VT*

Farmers Co-operative Fire Insurance Company

(Organized September 1, 1924)
Hugh B. Spafford, Rutland, VT, President
Jacques R. Couture, Westfield, VT, Vice President
Jane T. Sorensen, Fairfax, VT, Secretary
George A. Chaffee, Williston, VT
Charles R. Mason, Pawlet, VT
Richard P. Foote, Middlebury, VT
Richard W. Stickney, Rockingham, VT*

Rural Co-operative Fire Insurance Company

(Organized September 1, 1933)
Michael J. Ladd, Glover, VT, President
Laurie A. Rowell, Saxtons River, VT, Vice President
Jean Conklin, Haverhill, NH, Secretary
Marie M. Jewett, New Haven, VT
Pamela J. Douglass, Brandon, VT
Jacques R. Couture, Westfield, VT
Albert E. Conklin, Woodstock, VT*
Dean Jackson, Panton, VT*
Alan K. Kinney, South Hero, VT*
John Urie, Glover, VT*
Edward A. Lewis, Poultney, VT*

* = Director Emeritus



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