

EXHIBIT A



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF THE
HAMBLÉN MUTUAL INSURANCE COMPANY
MORRISTOWN, TENNESSEE

AS OF
DECEMBER 31, 2014

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Nashville, Tennessee
June 10, 2016

Honorable Julie Mix McPeak
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-22-115, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope individual financial examination and market conduct review, as of December 31, 2014, has been made of the condition and affairs of:

HAMBLÉN MUTUAL INSURANCE COMPANY

110 North Cumberland Street
Morristown, Tennessee 37814

hereinafter and generally referred to as the "Company", and a report thereon is submitted as follows:

INTRODUCTION

This examination was arranged by the Commissioner of the Tennessee Department of Commerce and Insurance (TDCI), commenced on November 2, 2015, and was conducted by duly authorized representatives of the TDCI, pursuant to Tenn. Code Ann. § 56-22-115.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2010, to the close of business on December 31, 2014, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with practices and procedures of the TDCI and the NAIC *Financial Condition Examiners Handbook* ("Handbook"), as appropriate. The examination was planned to evaluate the financial condition, to

identify prospective risks of the Company, and to evaluate system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

Our examination reviewed the Company's business policies and practices, management and corporate matters, and verified and evaluated assets, liabilities, income, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we considered the concepts of materiality and risk, and our examination efforts were directed accordingly. In light of the Company's limited segregation of duties and its reliance upon third parties to provide accounting services, examination tests and audit procedures considered necessary were performed to verify the balance sheet and income statement item balances as of December 31, 2014, including substantial verification of supporting documentation.

Craine, Thompson & Jones, P.C. was the Company's Certified Public Accountant (CPA) and independent auditor for all years under examination. The CPA's workpapers were reviewed for the most recent year under examination and copies were incorporated into the examination, as deemed appropriate.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

Our examination included a review to determine the current status of the comments and recommendations in our previous Report on Examination, as of December 31, 2009, which covered the period from January 1, 2005, through December 31, 2009. A summary of the Commissioner's directive and the corrective action taken by the Company is discussed below:

Directive #1

Pursuant to Tenn. Code Ann. § 56-22-109 and Tenn. Comp. R. & Regs. 0780-01-78-.04, the Company was directed to comply with Statement of Statutory Accounting Principles (SSAP) # 16, Section 2, which provides that non-operating system software are non-admitted assets, and Section 3, which requires the Company to depreciate electronic data processing (EDP) equipment and operating software for a period not exceeding three (3) years using methods detailed in SSAP # 19.

Corrective Action

The Company complied with this directive.

COMPANY HISTORY

The Company incorporated on April 12, 1909, under the provisions of the Tennessee Business Corporation Act, as a non-profit mutual benefit corporation, and organized as a county mutual fire insurance company ("county mutual"), pursuant to Title § 56, Chapter 22, of Tennessee Law for the purpose of insuring loss or damage to property due to fire, lightning, or tornadoes to residents of Hamblen and Jefferson counties in the State of Tennessee. The Company commenced business on April 12, 1909.

As of December 31, 2014, the Company was licensed to transact business in the state of Tennessee, pursuant to Tenn. Code Ann. §§ 56-22-106(a) and 56-22-106 (b)(1).

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board"), elected annually by its members ("policyholders") at the annual members' meeting. In accordance with the Bylaws, the Board shall consist of six (6) members.

The following persons were duly elected by the members to serve on the Board, as of December 31, 2014:

<u>Director</u>	<u>Address</u>
Larry D. Baker	Russellville, Tennessee
Stancil Ford	Talbott, Tennessee
Herbert M. Bacon	Morristown, Tennessee
Charles D. Thomason	Russellville, Tennessee
Brent Walker	Whitesburg, Tennessee
Jerry Self	Morristown, Tennessee

One third (1/3) of the directors are elected at each annual members' meeting, and each serves a term of three (3) years. A majority of the Board constitutes a quorum, as defined by the Bylaws. Board meetings are held on the same day as the members' meetings.

Officers

The Bylaws of the Company instruct the Board to annually appoint the officers of the Company, immediately following the annual meeting of the members.

The following persons served as the Company's officers, as of December 31, 2014:

<u>Name</u>	<u>Title</u>
Larry D. Baker	President, Director
Stancil Ford	Vice President, Director
Herbert M. Bacon	Secretary, Treasurer, Director

The Board installed committees to provide oversight for the affairs of the Company. The Board appointed the following Committees:

Executive Committee

<u>Name</u>	<u>Title</u>
Larry D. Baker	President, Director
Herbert M. Bacon	Secretary, Treasurer, Director
Jerry Self	Director

Audit Committee

<u>Name</u>	<u>Title</u>
Larry D. Baker	President, Director
Herbert M. Bacon	Secretary, Treasurer, Director
Jerry Self	Director

CONTROL

The Company's Bylaws define a member as a person having insurance with the Company. The Company is equally owned by its members, who are the Company's policyholders. The Company has never issued any shares of capital stock or established guaranteed capital.

Annual and special meetings of the members shall be held at the call of the Board and shall be held at the office of the Company, or at such place as the Board may designate. Annual meetings of the members are held on the third Saturday in March at 10:00 A.M. Advance notice of the date and time of the annual meeting of the members is given on the insurance policy form. Notice of a special meeting must be published once a week for two (2) weeks in a newspaper circulated in Hamblen County, prior to the special meeting. These communications shall be deemed sufficient notice to all members of annual and special meetings, pursuant to the Bylaws.

Each member is entitled to one (1) vote, irrespective of the number of policies owned by any member. No member shall be entitled to more than one (1) vote, whether such

policy is held individually, jointly, or otherwise. No member shall vote by proxy. A quorum for the transaction of business consists of ten (10) members. The affirmative vote of a plurality of members present shall be necessary to pass any action.

The Company's members held five (5) annual meetings and no special meetings during the examination period.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

On March 17, 2007, the Board adopted a formal, written "Conflict of Interest Policy". The policy prohibits any director, officer, or committee member having any investment authority from accepting any fee, brokerage, commission, gift, or other consideration for any loan, deposit, purchase, sale, payment, or exchange made by or on behalf of the Company, or from being pecuniarily interested in any such purchase, sale, or loan, in accordance with Tenn. Code Ann. § 56-3-103.

A review of the Company's compliance with Tenn. Code Ann. § 56-3-103 found no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds.

AFFILIATED COMPANIES

The Company is licensed as a "county mutual insurance company," owned by its members. It does not have any subsidiaries or affiliates and does not meet the definition of a holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7).

CORPORATE RECORDS

Charter

The Charter recites the general and specific powers of the Company in detail. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period of examination.

Bylaws

The Bylaws were reviewed and found to contain key provisions noted within insurance companies. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the affirmative vote of two-thirds (2/3) of the members present at any regular or special meeting of the members. There were no amendments to the Bylaws during the period of examination.

Meeting Minutes

The minutes provided a brief summary of the actions of the Company's Board. Attachments and exhibits provided to the Board were maintained with the minutes. During the period of examination, there were five (5) annual meetings of members and five (5) regular Board meetings. Minutes of the referenced meetings were reviewed. Investment transactions were approved by the Executive Committee pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

SERVICE AGREEMENTS

Safekeeping Agreement

Regions Bank has provided custodial services since December 2005. The Company's safekeeping agreement, in effect as of December 31, 2014, did not exhibit language compliant with Tenn. Comp. R. & Regs. 0780-01-46 (revised effective May 26, 2013). See "Comments and Recommendations" section later in this report for additional information.

Investment Brokerage Services

Martin & Company, Inc. has provided the Company with investment management services since May 2000.

Financial and Tax Preparation Services

HG&A Associates, P.C. (HG&A), a Knoxville, Tennessee CPA firm, provides accounting services related to regulatory filings, including preparation of statutory annual statements, quarterly statements, and federal income tax filings.

Policy Management Services

Automated Insurance Management Systems (AIMS) of Richmond, Virginia provides policy management and premium accounting software and support services.

Claims Adjustment Services

Appalachian Claims Service provides claims adjustment services on an as needed basis.

FIDELITY BONDS AND OTHER INSURANCE

Professional Liability Policy and Directors & Officers

The Company's combination fidelity and professional liability coverage was underwritten by NAMIC Insurance Company, Inc. of Indianapolis, Indiana, which is an approved foreign surplus lines carrier in the State of Tennessee. The fidelity bond policy has an occurrence/aggregate limit of \$1,000,000, and a \$10,000 retention limit. The minimum

coverage recommended in the NAIC Handbook for a company of this size is \$75,000. Therefore, the Company had fidelity coverage which exceeded the minimum fidelity coverage recommended for the protection of the Company's policyholders.

Commercial General Liability and Business Owners Property Policy

The Company's combination Commercial General Liability and Business Owners Property coverage was underwritten by Erie Insurance Exchange of Erie, Pennsylvania, which operates as a licensed reciprocal in the State of Tennessee.

The policy's commercial general liability limit of insurance was: (a) \$2,000,000 for general aggregate and products-completed operations aggregate limit; (b) \$1,000,000 limit for each occurrence; (c) \$1,000,000 for personal and advertising limit; (d) \$1,000,000 damage to premises rented; and (e) \$5,000 medical payments (any one person).

The policy's business owner's property insurance limits were (a) building (replacement cost) of \$200,000 and (b) business personal property of \$40,000.

Workers' Compensation and Employers' Liability Policy

For the period June 12, 2014, to June 12, 2015, the Company had in effect a workers' compensation and employers' liability policy with Travelers Property Casualty Company of America located in Hartford, Connecticut, which is a licensed property and casualty carrier in the State of Tennessee, as of the date of this examination.

Under the policy's specific coverage, the insurer agrees to indemnify the Company for each accident or employee disease, up to the statutory limit for workers' compensation and up to \$1,000,000 for employers' liability. Also, the policy covers each employee up to \$100,000 for bodily injury by disease and up to \$500,000 for all cases of bodily injury by disease incurred by the Company during the policy term.

TERRITORY AND PLAN OF OPERATION

The Company's current Certificate of Authority was issued by the TDCI on July 2, 2008, and authorized the transaction of the business of liability, fire, lightning, hail, extended coverage, and tornado in the State of Tennessee. The Certificate of Authority reflects the Company's lawful authorization to write liability insurance pursuant to Tenn. Code Ann. § 56-22-106(b)(1). The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in all counties contiguous to Hamblen County, to the second degree, in the State of Tennessee, pursuant to Tenn.

Code Ann. § 56-22-106(f)(1). The Company writes policies in Hamblen, Hancock, Hawkins, Cocke, Grainger, Greene, Sevier, and Jefferson Counties in Tennessee.

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company provides its members with coverage on dwelling homes, rental homes, modular homes, mobile homes, farm buildings, livestock, personal property, farm machinery, and churches in case of loss due to fire, wind, hail, lightning, and theft.

Policies are typically written for eighty percent (80%) of the replacement value of the property insured; subject to policy limits of \$100,000 per specific loss. The policy period for each policy is one (1) year. Policyholders have the option of paying premium annually, semi-annually, quarterly, or monthly, and premiums are first due beginning on the policy anniversary date. The standard deductible is \$500, and applies separately to each specific item listed on the policy. The aggregate amount deducted from loss for any one (1) occurrence shall not exceed \$500. The policyholder has the option of paying premium rates that are

- (1) Ten percent (10%) higher in exchange for a \$250 deductible;
- (2) Fifteen percent (15%) lower in exchange for a \$1,000 deductible; or
- (3) Twenty-five percent (25%) lower in exchange for a \$1,500 deductible.

Pursuant to Tenn. Code Ann. § 56-22-106(b)(1), the Company also writes three (3) different types of liability policies as follows:

- (1) Owner, Landlord & Tenant
- (2) Fire Comprehensive Personal Liability, and
- (3) Comprehensive Personal Liability.

The Company writes business through two (2) licensed in-house agents and eight (8) local insurance agencies. These agencies receive a fifteen percent (15%) commission for all new and renewal business. As of December 31, 2014, the Company's Office Manager and Claims Manager were licensed property and casualty insurance agents in the State of Tennessee.

The Company's agents perform a visual inspection of the property, photograph the property, and determine the value of the property prior to the issuance of a policy. The Company's President approves or rejects all policy applications prepared by the agents. Upon the signing of the completed application by the Company's President and collection of the initial billed premium, the policy is bound. The policy is issued upon the signature of the President and Secretary and then mailed to the member.

GROWTH OF COMPANY

The following comparative data reflects the growth of the Company for the period under review:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income</u>
2014	\$547,470	\$219,174	\$6,966,377	\$605,312	\$6,361,065	\$202,797
2013	\$508,786	\$149,503	\$6,598,401	\$527,946	\$6,070,455	\$255,965
2012	\$485,572	\$318,264	\$6,025,952	\$514,186	\$5,511,766	\$59,150
2011	\$406,524	\$606,619	\$5,814,199	\$543,524	\$5,270,675	(\$74,051)
2010	\$371,005	\$244,212	\$5,948,854	\$427,017	\$5,521,837	\$55,375

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses & LAE</u>	<u>Underwriting Ratio</u>	<u>General & Adm. Expense</u>	<u>Gen. & Adm. Expense to Premium</u>	<u>Combined Ratio</u>
2014	\$547,470	\$219,174	40.03%	\$248,590	45.41%	85.44%
2013	\$508,786	\$149,503	29.38%	\$247,110	48.57%	77.95%
2012	\$485,572	\$318,264	65.54%	\$243,218	50.10%	115.65%
2011	\$406,524	\$606,619	149.22%	\$221,518	54.49%	203.71%
2010	\$371,005	\$244,212	65.82%	\$183,597	49.49%	115.31%

ACCOUNTS AND RECORDS

The Company engaged HG&A, assisted by the Company's Office Manager, to provide certain accounting services, preparation of income tax returns, and promulgation of certain regulatory filings, including all required NAIC financial statements.

The Company accounts for its business on an accrual basis, using a computer-generated general ledger and trial balance. Using source documents and various electronic subsidiary ledgers, (e.g., cash receipts, cash disbursements, and policy files), HG&A makes adjusting entries to the Company's general ledger and trial balance in order to report balance sheet and income statement items in the Company's annual and quarterly statements on a statutory basis. Policy information, premium billing, and

premium receipts for each policy were recorded electronically using a software package developed and maintained by AIMS.

As noted above in the "Scope" section of this report, Craine, Thompson & Jones, P.C. was the CPA and independent auditor for all years under examination.

The Company's adjusted trial balance, and annual and quarterly statements conformed to insurance accounting principles, as prescribed by the NAIC annual and quarterly statement instructions and Tennessee Statutes and Rules.

Pursuant to Tenn. Comp. R. & Regs. 0780-01-37, and the Management's Discussion and Analysis Report (MD&A) section of the NAIC *Annual Statement Instructions for Property and Casualty Companies*, the Company filed a MD&A Report each year during the period of examination.

The Company was not required to file a Risk Based Capital (RBC) Report, pursuant to Tenn. Code Ann. § 56-46-110.

The Company was exempt from filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1, pursuant to Tenn. Comp. R. & Regs., 0780-1-78-.04(4).

STATUTORY DEPOSIT

The following table reflects the securities that composed the Company's statutory deposit held by Regions Bank in accordance with Tenn. Code Ann. §§ 56-22-106(b)(2) and 56-2-104(a)(4)(A), as of December 31, 2014.

<u>Jurisdiction</u>	<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Tennessee	FNMA, 1.625%, due 11/27/2018, CUSIP # 3135G0YT4	\$50,000.00	\$50,099.40	\$50,240.50
Tennessee	FNMA, 1.75%, due 06/20/2019, CUSIP # 3135G0ZE6	\$50,000.00	\$49,681.62	\$50,246.50
Tennessee	FHLMC, 2.00%, due 08/25/2016, CUSIP # 3137EACW7	\$25,000.00	\$25,336.65	\$25,597.00
Tennessee	FNMA, 1.250%, due 09/28/2016, CUSIP # 3135G0CM3	\$50,000.00	\$50,500.28	\$50,510.50
Tennessee	Regions Trust Money Market Acct.	<u>\$38,067.67</u>	<u>\$38,067.67</u>	<u>\$38,067.67</u>
Totals		<u>\$213,067.67</u>	<u>\$213,685.62</u>	<u>\$214,662.17</u>

COMMITMENTS AND CONTINGENCIES

No commitments or contingencies were found that would materially affect the Company's financial position or operating results, as of December 31, 2014.

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

Effective January 1, 2012, the Company ceded risk through an Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee (FMT), headquartered in Knoxville, Tennessee, as follows:

Type:	Combination Per Risk/Aggregate Excess of Loss
Coverage:	Section I – Property Risk Excess of Loss: covers each loss in excess of the Company's \$100,000 maximum retention up to the reinsurer's limit of \$100,000 each risk, each occurrence.
	<p>Section II – Aggregate Excess of Loss: The reinsurer shall not be liable for any loss hereunder until the Company's ultimate net loss in the aggregate for each calendar year exceeds the greater of:</p> <p>A. Seventy-five percent (75%) of the Company's gross net earned premium income or</p> <p>B. \$500,000 and then the reinsurer shall be liable for one hundred percent (100%) of the Company's ultimate net loss in excess of that amount, but the reinsurer's liability for each calendar year shall not exceed one hundred percent (100%) or the lesser of:</p> <p style="padding-left: 20px;">a. sixty percent (60%) of the Company gross net earned premium income or</p> <p style="padding-left: 20px;">b. \$400,000.</p> <p>The agreement provides that recoveries under Part 1 shall inure to the benefit of Part 2</p>

Type:	Second Aggregate Excess of Loss
Coverage:	<p>The reinsurer shall not be liable for any loss hereunder until the Company's ultimate net loss in the aggregate for each calendar year exceeds the greater of:</p> <p>A. Seventy-five percent (75%) of the Company's gross net earned premium income or</p> <p>B. \$500,000, plus the lesser of:</p> <p>a. Sixty percent (60%) of the Company's gross net earned premium income or</p> <p>b. \$400,000, and then the reinsurer shall be liable for one hundred percent (100%) of the Company's ultimate net loss in excess of the greater of:</p> <p>i. Seventy-five percent (75%) of the gross net earned premium income or</p> <p>ii. \$500,000, plus the lesser of:</p> <p>(a) One hundred, twenty-five percent (125%) of the Company's gross net earned premium income or</p> <p>(b) \$400,000, but the reinsurer's liability shall not exceed one hundred percent (100%) of the lesser of:</p> <p>(i) One hundred, twenty-five percent (125%) of the Company's gross net premium income or</p> <p>(ii) \$725,000 in the aggregate.</p>

During the period of examination, the maximum amount of coverage the Company was allowed to retain for a single risk was \$100,000 in accordance with Tenn. Code Ann. § 56-22-106(c)(1).

Quota Share Reinsurance

Effective January 1, 2008, the Company ceded risk through a Quota Share Reinsurance Agreement with FMT. This reinsurance agreement allows for the Company to cede seventy-five percent (75%) of its liability coverage classified by the Company as Comprehensive Personal Liability, Farmers Comprehensive Personal Liability, Section II of Homeowners, Farmowners Liability, and/or Mobile-Homeowners and Owners, Landlords and Tenants Liability on Dwellings, Churches, and Farm Premises only to FMT, less a fifteen percent (15%) ceding commission.

The agreements contained acceptable provisions of reporting responsibility of the ceding entity, payment terms, premium taxes, termination clauses, and ceding clauses. The agreements transferred risk in accordance with SSAP # 62 and other NAIC guidelines.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Company, as of December 31, 2014. The following areas were addressed:

Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. §§ 56-22-109(b)(1), 56-5-303, 56-5-304, and 56-5-305, the Company's policy forms in effect from January 1, 2010, through December 31, 2011, were approved by the TDCI on December 29, 2006, and July 30, 2009.

Effective January 1, 2012, the Company issued a policy endorsement that changed the amount of coverage to residential buildings and private structures as a result of wind or hail damage. This endorsement was approved by the TDCI on December 6, 2011. No other changes were made to the Company's policy forms during the period of examination.

The Company's application and premium rates in effect from January 1, 2010, through December 31, 2014, were approved by the TDCI on December 29, 2006. There were no changes to the Company's premium rates during the period of examination. However, the standard deductible was increased from \$250 to \$500 effective January 1, 2012, with the approval of the TDCI on December 6, 2011.

Advertising

The Company's advertising during the period of examination consisted of a billboard located on the Company's office building, calendars distributed to the general public, local newspaper advertisements, hats, and advertisements placed in the local phone book and other publications. The advertising material reviewed was found to be in compliance with Tenn. Code Ann. §§ 56-8-104(1) and 56-8-104(2).

Policy Cancellation

The Company mails a premium notice to its members thirty (30) days before the due date. Policyholders are given ten (10) days to make their premium payment and then policyholders are given a seven (7) day grace period before a cancellation notice is sent. A cancellation notice is sent to the member and lienholder(s) seventeen (17) days after the premium due date. If the premium payment is made during the seventeen (17) day grace period, the Company will pay any legitimate claim, after a reduction for the policy premium due and the deductible. After a policyholder is notified that their policy is cancelled due to nonpayment of premium, they will have ten (10) days to pay either the balance of the policy premium or the installment payment due. The Company charges a \$20.00 reinstatement fee.

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2), that relate to the notice of intention to non-renew and the reason(s) for non-renewal.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of non-public personal information was reviewed. There were no instances noted of non-compliance with Tenn. Comp. R. & Regs. 0780-01-72, "Privacy of Consumer Information Regulations."

Claims Review

All claims open and unpaid, as of the examination date, and a random sample of claims closed during 2014, were examined for compliance with the Company's policy terms and Tenn. Code Ann. § 56-8-105.

The Company's Claims Manager adjusted or supervised the adjudication of all claims tested. Tested claims were handled properly, in accordance with policy provisions and applicable statutes.

FINANCIAL STATEMENTS

There follows a balance sheet, a statement of operations, and surplus balance as of December 31, 2014, for the period under review, as established by this examination:

ASSETS

Bonds	\$4,380,035
Common stocks	1,778,828
Real estate (properties occupied by the company)	74,615
Cash, cash equivalents and short-term investments	544,523
Investment Income Due and Accrued	44,175
Uncollected premiums and agents' balances in the course of Collection	13,015
Deferred premiums, agents' balances and installments booked but deferred and not yet due	98,688
Other amounts receivable under reinsurance contracts	1,263
Net deferred tax asset	25,362
Electronic data processing equipment and software	399
Aggregate write-ins for other than invested assets	<u>5,474</u>
Total admitted assets	<u>\$6,966,377</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses	\$80,000
Loss adjustment expenses	1,699
Other expenses	16,485
Current federal and foreign income taxes	19,095
Net deferred tax liability	319
Unearned premiums	354,227
Advance premium	92,194
Ceded reinsurance premiums payable	<u>41,293</u>
Total liabilities	605,312
Unassigned funds (surplus)	<u>6,361,065</u>
Surplus as regards policyholders	<u>6,361,065</u>
Total liabilities and policyholders surplus	<u>\$ 6,966,377</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$547,470</u>
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DEDUCTIONS

Losses incurred	209,278
Loss adjustment expenses incurred	9,896
Other underwriting expenses incurred	<u>248,590</u>
Total underwriting deductions	<u>467,764</u>
Net underwriting gain (loss)	79,706

INVESTMENT INCOME

Net investment income earned	99,353
Net realized capital gains (losses) less capital gains tax	<u>64,608</u>
Net investment gain (loss)	163,961

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	(3,099)
Aggregate write-ins for miscellaneous income	103
Total other income	<u>(2,996)</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	240,671
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders and before federal income taxes	240,671
Federal income taxes incurred	<u>37,874</u>
Net income	<u>202,797</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	6,070,455
Net income	202,797
Change in net unrealized capital gains (losses) less capital gains tax	86,229
Change in non-admitted assets	<u>1,584</u>
Change in surplus as regards policyholders for the year	<u>290,610</u>
Surplus as regards policyholders, December 31, 2014	<u>\$6,361,065</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Minor differences were found with various balance sheet and income statement items; none were considered to produce a material effect on surplus.

SUBSEQUENT EVENTS

Effective January 1, 2015, the Company entered into a new Excess of Loss Reinsurance Agreement with FMT. This new Excess of Loss Reinsurance Agreement continued to provide the Company with adequate specific risk and aggregate reinsurance coverage pursuant to Tenn. Code Ann. §§ 56-22-106(c)(2) and 56-22-110.

On January 12, 2015, the Company purchased a Federal National Mortgage Association (FNMA) bond with a par value of \$35,000 (CUSIP # 33135G0ZA4). This FNMA bond was acquired in order to replace a security that matured on December 29, 2014, and meet the requirements of the Company's Depository Agreement – General Deposit pursuant to Tenn. Code Ann. §§ 56-22-106(b)(2).

On March 19, 2016, the policyholders elected Derrick G. Raines to replace Herbert M. Bacon as a director of the Company.

On March 19, 2016, the Board appointed Jerry L. Self to replace Herbert M. Bacon as the Company's Secretary and Treasurer.

COMMENTS AND RECOMMENDATIONS

Comments

The Company executed a new Custodial Agreement with Regions Bank in order to meet the requirements of Tenn. Comp. R. & Regs. 0780-01-46 (revised effective May 26, 2013). The Custodial Agreement was signed by representatives of the Company and Regions Bank on May 21, 2016, and June 2, 2016, respectively.

Recommendations

None.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Hamblen Mutual Insurance Company of Morristown, Tennessee.

In such manner, it was determined that, as of December 31, 2014, the Company had admitted assets of \$6,966,377 and liabilities, exclusive of policyholders' surplus, of \$605,312. Thus, there existed for the additional protection of the policyholders surplus funds of \$6,361,065.

Tenn. Code Ann. § 56-22-106(b)(1) requires the Company to provide "the same financial security to policyholders, and meets all other requirements applicable to insurance companies writing the same insurance transactions," in order to "provide comprehensive personal liability, farmers comprehensive personal liability, premises liability for dwellings of up to four (4) families, premises liability for churches and medical payments coverage associated therewith, subject to the same limitations that apply to insurance companies."

The minimum amount of capital and surplus necessary for a stock insurance company to be licensed in Tennessee is \$1,000,000 and \$1,000,000, respectively, as required by Tenn. Code Ann. §§ 56-2-114 and 56-2-115.

Therefore, based upon the Company's 2010 through 2014 Annual Statements filed with the TDCI, and the results of this financial examination, the Company exceeded the \$2,000,000 minimum amount of capital and surplus requirement imposed upon stock insurance companies licensed in Tennessee and thus provides "the same financial security to policyholders...." that is "applicable to insurance companies writing the same insurance transactions...."

The courteous cooperation of the officers, directors and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,



James T. Pearce, Jr.
Insurance Examiner
State of Tennessee

AFFIDAVIT

The undersigned deposes and states that he has duly executed the attached examination report of Hamblen Mutual Insurance Company, as of December 31, 2014, and dated June 10, 2016 on behalf of the Tennessee Department of Commerce and Insurance. Deponent further states he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.

James T. Pearce, Jr.
James T. Pearce, Jr.
Insurance Examiner
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 24th day of June, 2016

Notary Denise M. Lewis

My Commission Expires: 11/15/20



EXHIBIT B

**HAMBLEN
MUTUAL**

A County Mutual Insurance Company

HAMBLEN MUTUAL
A County Mutual Insurance Company

110 N. Cumberland Street • Morristown, TN 37814-4602
(423) 586-6041 • Fax (423) 586-3597

June 24, 2016

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Report of Examination – Hamblen Mutual Insurance Company

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Hamblen Mutual Insurance Company**. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,



Derrick G. Raines
Director