REPORT ON EXAMINATION

OF THE

BLOUNT COUNTY MUTUAL FIRE INSURANCE COMPANY

ALCOA, TENNESSEE 37701

AS OF
DECEMBER 31, 2011

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

TABLE OF CONTENTS

Alcoa, Tennessee
June 4, 2013

Honorable Julie Mix McPeak
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws and regulations and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a financial examination and a market conduct review was made of the condition and affairs of the

BLOUNT COUNTY MUTUAL FIRE INSURANCE COMPANY

319 SANDERSON STREET
POST OFFICE BOX 496
ALCOA, TENNESSEE 37701

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

INTRODUCTION

This examination was called by the Department of Commerce and Insurance of the State of Tennessee ("TDCI") on November 28, 2011. Examination work commenced on January 3, 2013 with the initial information request sent to the Company, which included the Planning Questionnaire. With the Company having authority to write business only in the state of Tennessee, the examination was not classified as an Association Examination under NAIC guidelines. The examination was performed by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2007 to the close of business on December 31, 2011, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2011. The financial condition of the Company and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statues and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on solvency.

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Holding Company System
Compensation Expense Ratio
Pecuniary Interest
Corporate Records
Fidelity Bonds and Other Insurance
Retirement Plan and Other Employee Benefits
Territory
Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance
Commission Equity
Dividends or Distributions
Accounts and Records
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2006 by authorized representatives of the TDCI and resulted in a decrease in surplus of one million, one hundred eighty-six thousand, twenty-four dollars ($1,186,024). This was primarily due to the non-admitting of assets which were not held under a proper custodial agreement. Three (3) recommendations were made and incorporated into the Commissioner's Order which is discussed under the caption, "COMMENTS – PREVIOUS EXAMINATION."

COMMENTS – PREVIOUS EXAMINATION

The "Order Adopting Examination Report with Directives No.: 08-112" listed three (3) Directives as follows:

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-109(a)(4) by excluding office furniture and equipment from its admitted assets on annual statements filed with the Division in accordance with the National Association of Insurance Commissioners accounting standards.

Corrective Action: The Company currently non-admits its office furniture and equipment from its admitted assets.

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-109(a)(4) by excluding premiums collected on behalf of other insurance companies from annual statements filed with the TDCI in accordance with National Association of Insurance Commissioners accounting procedures.

  Corrective Action: The Company produced a detailed general accounting of premium activity for examination purposes.

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-109(b)(1) by setting premiums in accordance with rates filed and approved by the Division, and by filing future rate changes at least thirty (30) days before the proposed effective date, pursuant to Tenn. Code Ann. § 56-5-305.

  Corrective Action: The examiner was able to determine that the proper rates were being charged.

COMPANY HISTORY

The Company was incorporated on March 27, 1905 under the provisions of the Tennessee Business Corporation Act as a non-profit mutual benefit corporation, and was organized as a county mutual fire insurance company ("county mutual") pursuant to Tennessee Code Annotated Title 56, Chapter 22, for the purpose of insuring loss or damage to property of residents of Blount in the state of Tennessee.

The original incorporators were:

John M. Clark
J.H. Frow
W.L. Russell
J.E. McCulley
John Hitch
J.R. Harris

The Company commenced business in 1913 and has operated as a "county mutual" since that time. The current Certificate of Authority was issued to the Company on July 1, 1986 and authorized the transaction of the business of Fire; Lightning; Hail; Extended Coverage and Tornado Limited to Blount County, Monroe, Loudon, Knox, and Sevier Counties. The Certificate is valid until suspended or revoked.

The Company operates as a mutual company and, therefore, reports no authorized or issued common stock.

The Company's capital structure appears in the 2011 Annual Statement as follows:

Policyholders' surplus $2,226,799

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with the TDCI.

Date	Earned Premium	Net Incurred Losses	Admitted Assets	Liabilities	Policyholders' Surplus	Net Income
12/31/2007	$166,359	$ 63,101	$4,527,471	$165,282	$4,362,189	$103,047
12/31/2008	208,085	64,246	4,607,146	125,962	4,481,185	113,956
12/31/2009	215,232	258,226	3,273,276	171,061	3,102,215	(106,487)
12/31/2010	246,604	136,387	2,863,974	129,894	2,734,080	37,641
12/31/2011	242,034	517,068	2,857,852	631,053	2,226,799	(400,173)

Date	Gross In Force Business	Net In Force Business	Policy Count
12/31/2007	$52,618,355	$52,618,355	832
12/31/2008	51,053,705	51,053,705	795
12/31/2009	57,746,625	32,717,570	690
12/31/2010	57,498,150	35,027,670	697
12/31/2011	57,450,950	34,140,850	687

CHARTER AND BYLAWS

Charter:

The original Charter of the Company was filed and recorded with the Secretary of State, State of Tennessee effective July 29, 1913. The Charter provided for the operation of a non-profit corporation with a perpetual existence and established its location in Alcoa, Blount County, Tennessee.

The Charter states, "The purpose of the corporation is to insure its members against loss to property caused by fire, wind or lightning."

Changes to statutes in Tennessee Law now allow the Company to offer extended coverage.

Bylaws:

Two revisions were made to the Bylaws at the January 26, 2011 annual meeting. These changes were as follows:

1. Under Article XI – Insurance, The Company also reserves the right to prorate the remaining useful life of the insured property, which is to be replaced, rebuilt, or repaired.

2. Under Section 7, "H" – All losses hereunder shall be reduced by a five hundred dollar ($500.00) deductible.

The Bylaws provide for annual meeting of the Members on the fourth Monday in the month of January at 1:00 PM Eastern Standard Time. A Board of Directors is elected at this meeting. Officers are elected by the Board annually at the first board meeting after the annual meeting of Members. The Bylaws charge the Board of Directors with managing the business and affairs of the Company.

The current Bylaws are such as are generally found in corporations of this type and contained no unusual provisions.

MANAGEMENT AND CONTROL

Board of Directors:

Management of the Company is vested in a Board of Directors ("BOD") with staggered terms where one-third of the Directors are elected for one year, one-third for two years, one-third for three years and thereafter one-third of the Directors are elected each year for a period of three years. In accordance with the Bylaws, the BOD shall consist of fifteen (15) members. The BOD is charged with managing the business and affairs of the Company. Each Director must be a member in good standing of the Company.

The following persons were duly elected and were serving as members of the Company's BOD at December 31, 2011:

Name and Address	Name and Address
Tom Peery Maryville, Tennessee 37804	Flora Simerly Maryville, Tennessee 37804
Ron Campbell Walland, Tennessee 37886	Mac Pate Maryville, Tennessee 37803
Elizabeth Gilmore Maryville, Tennessee 37801	Dan Blevens Walland, Tennessee 37886
Lynn Morton Louisville, Tennessee 37777	Doyle Gray Maryville, Tennessee 37803
Calvin Lynch Friendsville, Tennessee 37737	Mike Fugate Maryville, Tennessee 37801

John Keller Maryville, Tennessee 37801	W.T. Bowers III Walland, Tennessee 37886
Mose Waters Maryville, TN 37803	Max Coulter Maryville, Tennessee 37803
Jack Gillenwater Maryville, TN 37801	

Officers:

The Bylaws of the Company provide that the Board shall annually elect Officers that include a President, Vice President, and a Secretary/Treasurer that must also be Members of the Company. The following Officers were duly elected serving in the positions indicated for the Company at December 31, 2011:

Dan Franklin Blevens	President
Calvin Coolige Lynch	Secretary/Treasurer
William Thomas Bowers III	Vice President

The President functions as the Chief Executive Officer and presides over all meetings of the members and the Board of Directors. The day to day activities are managed under the direction of the Executive Committee.

The Company's Executive Committee at December 31, 2011 is as follows:

Name	Title
Dan Franklin Blevens	President
Calvin Coolige Lynch	Secretary/Treasurer
William Thomas Bowers III	Vice President

The administrative and executive functions of the Company are performed by home office employees Ms. Stephanie P. Pierce and Ms. Anne Blevens. The Company is a direct writer marketing insurance products through its appointed agent, Ms. Linda Roberson. Underwriting activities are performed by the Executive Committee with the assistance of the Company's reinsurer, Farmers Mutual of Tennessee located in Knoxville, Tennessee.

Limited accounting assistance was provided by the following individual:

Tracy L. Carico
609 W Lamar Alexander Parkway
Maryville, Tennessee 37801

Ms. Carico was no longer providing any accounting or other services for the Company after assisting the Company to derive the totals in the 2011 Annual Statement.

HOLDING COMPANY SYSTEM

The Company is licensed as a "county mutual insurance company" owned by its Members who are the policyholders. It does not meet the definition of a holding company system defined by Tenn. Code Ann. § 56-11-201.[1]

COMPENSATION EXPENSE RATIO

Tenn. Comp. R. & Regs. 0780-1-78-.03(2) states:

> Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for any given year shall be considered to be operating in a hazardous financial condition. *See also* Tenn. Code Ann. § 56-22-107; Tenn. Comp R. & Regs. 0780-1-66.

The below listed table demonstrates the actual expense ratio during the examination period:

Year	Policy Count	Gross Premium	Total Compensation Expense	Compensation Expense Ratio
2007	832	$150,667	$36,721	24.4%
2008	795	225,533	40,540	18.0%
2009	690	229,415	39,220	17.1%
2010	697	244,394	37,700	16.2%
2011	687	243,487	39,000	16.3%

PECUNIARY INTEREST

The Directors and Officers of the Company comply with the provisions of Tenn. Code Ann. § 56-3-103. The statue prohibits Officers and Directors from having pecuniary interest in investment or disposition of Company funds.

1 Former part 2, §§ 56-11-201—56-11-215, was redesinated as part 1, §§ 56-11-101—56-11-115, by the code commission in 2008.

CORPORATE RECORDS

During the period of examination and subsequent period in the 2012 calendar year, minutes of the Board Meetings, Executive Meetings, and Annual Meetings were reviewed. The examiner did not find any items in these minutes that required further inquiry.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains insurance coverage as follows:

Type of Coverage	Coverage Limits
Insurance Company Combined Professional Liability and Directors & Officers Liability Insurance	$1,000,000

Coverage is underwritten by NAMIC Insurance Company, Inc., which is licensed in Tennessee as a "surplus lines carrier." A ten thousand dollar ($10,000) retention per claim applies to defined claims as outlined in the policy.

Type of Coverage	Coverage Limits
Office PAC for Business Owners:	
General Aggregate (except Products – Completed Operations Limit)	$1,000.000
Products – Completed Operations Aggregate Limit	$1,000,000
Personal and Advertising Injury Limit	$500,000
Each Occurrence Limit	$500,000
Damage to Premises Rented to You	$300,000
Medical Payments Limit (any one person)	$5,000

Coverage is underwritten by The Travelers Indemnity Company of Connecticut (Travelers) in Tennessee. Travelers is a "foreign property and casualty insurer". A two hundred fifty dollar ($250) deductible applies to Business Owners Property Coverage.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company does not provide any retirement benefits or health insurance for Employees or Directors.

TERRITORY

As of December 31, 2011, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee with approval to write coverage in Blount

County and those counties contiguous to Blount County.

2011 Premium Written in Tennessee by County was as follows:

Blount	$232,741
Knox	4,084
Loudon	1,500
Monroe	3,002
Sevier	2,160
Total	$243,487

PLAN OF OPERATION

The Company has been in existence since 1913, writing fire, lightning, hail and extended coverage insurance on structures in Blount County and contiguous counties. Marketing is performed by the Company's one (1) appointed agent. The Company uses limited media tools including advertisements in the Blount County "Daily Times". The overall net loss exposure was limited to fifty thousand dollars ($50,000) per risk through reinsurance. The largest single gross risk insured in 2011 was two hundred thousand dollars ($200,000).

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2011, in conjunction with this examination. The following items were reviewed during the examination:

Policy Forms and Underwriting Practices:

A review was made of the Company's underwriting policies and policy forms. No unusual findings were noted.

Advertising:

The Company advertises in a local newspaper. Reputation and services are communicated throughout the community by the Board Members and the Company's appointed agent. Marketing is on a direct basis. All coverage is written by the Company's one (1) appointed agent, Linda Roberson, who is licensed in the state of Tennessee for property casualty lines of business.

The Company and its appointed agent comply with the licensing requirements under Tenn. Code Ann. § 56-22-113.

Claims Review:

A sample of paid claim files reviewed during the examination indicated claims were being paid in accordance with policy provisions, and settlements were made properly upon receipt of proper evidence of the Company's liability.

The Company had only one (1) open claim at December 31, 2011 which was settled in January 2012.

Policyholder Complaints:

Inquiries made to the various sections within the Division of Insurance indicated no specific regulatory concerns with the Company during the period under examination. No unusual practices, transactions, or items warranting significant concern with regard to the Company were noted.

Privacy of Non-Public Personal Information:

The Company's privacy policies and practices were reviewed. No instances of non-compliance with Tenn. Comp. R. & Regs. 0780-1-72 were noted.

LOSS EXPERIENCE

The Company's loss experience is shown in the table below:

Year	Net Premiums Earned	Net Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
2007	$166,359	$63,101	38.0%	$201,819	121.3%	159.3%
2008	208,085	64,246	31.0%	238,188	114.5%	145.5%
2009	215,232	258,226	120.0%	243,220	113.0%	233.0%
2010	246,604	136,387	55.3%	247,597	100.4%	155.7%
2011	242,034	517,068	214.0%	273,692	113.0%	327.0%

REINSURANCE

Effective January 1, 2008 through the end of the year 2011, the Company ceded excess of loss reinsurance with Farmers Mutual of Tennessee ("Reinsurer") headquartered in Knoxville, Tennessee, as follows:

Type:	Exhibit A – Combination Per Risk and Aggregate Layer
Coverage:	Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $50,000 maximum retention up to the Reinsurers $100,000 maximum per risk, each loss occurrence.
	Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 200% of the Company's gross net earned premium income, or $352,000 lesser of 100% of the Company's gross premium income or $275,000.
Type:	Exhibit B – Second Aggregate Layer
Coverage:	Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 200% of the Company's gross net premium income or $352,000 plus the lesser of 100% of gross net premium income or $275,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 200% of the Company's gross net premium income or $352,000 plus the lesser of 100% of gross net earned premium income or $275,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 450% of the Company's gross net premium income or $1,200,000 in the aggregate, during each annual period this agreement is in effect.

During the period of examination, the Company's losses have not exceeded the amount necessary to trigger the Second Aggregate Layer of reinsurance coverage. Farmers Mutual of Tennessee is licensed as a "domestic property and casualty insurer" by the Department.

COMMISSION EQUITY

The reinsurance agreements with Farmers Mutual of Tennessee under which the Company cedes a portion of its losses are excess of loss agreements and do not create any commission equity.

DIVIDENDS OR DISTRIBUTIONS

No dividends or distributions were paid during the period under examination.

ACCOUNTS AND RECORDS

The Company's books and records are kept at the home office location at 319 Sanderson Street, Alcoa, TN 37701.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. Assets were verified and valued as of December 31, 2011. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All of the Company's bank accounts were confirmed with the various financial institutions.

County Mutual Insurance Companies are exempt by statute from filing the NAIC'S Risk Based Capital Report.

Accounting records were maintained on QuickBooks and included hand written ledger information.

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2011, the Company had no pending litigation which could have a material financial effect.

SUBSEQUENT EVENTS

The Company received additional accounting advice in order to assist with their 2012 Annual Statement. This was due to the departure of the former CPA Ms.Carico.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of revenue and expenses at December 31, 2011, as stated in the 2011 Annual Statement filing. Assets and liabilities were traced to the general ledger and accounting detail. Further discussion is included under the caption of "Recommendations and Comments."

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds, and Long-term Certificate of Deposits per Schedule D – Part 1	$3,036,877	$1,786,873	$1,250,004
Preferred Stocks	0		0
Common Stocks	0		0
Real Estate:			
Property occupied by the company	0		0
Cash and short-term investments	1,070,091	0	1,070,091
Premium receivables and agents balances	10,765	0	10,765
Investment income due and accrued	21,018	0	21,018
Prepaid expenses	5,775	5,775	0
Aggregate write-ins for other than invested Assets	505,974	0	505,974
Totals	$4,650,500	$1,792,648	$2,857,852

LIABILITIES, CAPITAL, AND SURPLUS

Gross losses and claims reported, unpaid	$505,974
Gross losses and claims incurred but not reported	0
Reinsurance recoverable on unpaid losses and claims	0
Total unpaid claims and losses net of reinsurance	505,974
Loss adjustment expenses	0
Unearned premiums	118,111
Ceded reinsurance premiums payable	0
Account payable and Accrued expense Payable	2,555
Advance premiums	4,064
Taxes, licenses and fees payable	0
Federal income tax payable and interest thereon	349
Borrowed money	0
Aggregate write-ins for liabilities	0
Total liabilities	631,053
Policyholders' surplus	2,226,799
Total liabilities & Policyholders' surplus	$2,857,852

STATEMENT OF REVENUE AND EXPENSES

Net premiums earned		$242,034
Deductions: Losses incurred	$517,068	
Loss expenses incurred	0	
Other underwriting expenses incurred:		
Directors and officers compensation and allowances	8,040	
Agents compensation and allowances	54,062	
Employee salaries	52,000	
Directors' and Officers' Salaries	31,600	
Payroll taxes	11,995	
Total salaries and related items	95,595	
Advertising and subscriptions	3,735	
Boards, bureaus and association dues	1,812	
Insurance and fidelity bonds	43,401	
Travel and travel items	8,814	
Rent and rent items	4,362	
Equipment	1,496	
Printing and stationery	3,902	
Postage, telephone and telegraph	5,504	
Legal and auditing fees	28,052	
Taxes, licenses and fees:		
State and local insurance taxes	3,791	
Insurance department licenses and fees	85	
All other (excluding federal income tax and real estate)	76	
Total taxes, licenses and fees	3,952	
Aggregate write-ins for underwriting expenses	10,965	
Total underwriting deductions		790,760
Net underwriting gain (loss)		(548,726)

INVESTMENT INCOME

Net investment income earned	148,553	
Net realized capital gains (losses)	0	
Net investment gain		148,553

OTHER INCOME

Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		0
Dividends to policyholders		0
Federal income taxes incurred		0
Net income		$(400,173)

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		$2,734,080
Net income	($400,173)	
Net unrealized capital gains (losses)	0	
Change in net deferred income tax	0	
Change in non-admitted assets from prior year	(107,108)	
Surplus adjustments: Paid in	0	
Cumulative effect of changes in accounting principles	0	
Aggregate write-in for gains and losses in surplus	0	
Change in surplus as regards policyholders for the year		(507,281)
Surplus as regards policyholders, December 31 current year		$2,226,799

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	2007	2008	2009	2010	2011
Previous Year	$4,284,251	$4,362,189	$4,481,185	$3,102,215	$2,734,080
Net Income	103,047	113,956	(106,487)	37,641	(400,173)
Change in net unrealized capital gains (losses)					
Change in net deferred income tax					
Increase uncollected premium					
Change in non-admitted assets	(25,109)	5,040	(1,259,695)	(405,776)	(107,108)
Change in reserve on account of change in valuation basis	0	0	0	0	0
Change in asset valuation reserve					
Cumulative effect of changes In accounting principles			(12,788)		
Capital changes: Paid in					
Capital changes: Transferred from surplus (stock dividend)					
Surplus adjustments: Paid in					
Surplus adjustments: Transferred to capital (stock dividend)					
Aggregate write-ins for gains and losses in surplus					
Accounting adjustments					
Rounding to $	0	0	0	0	0
Surplus as regards to policyholders December 31 Current Year	**$4,362,189**	**$4,481,185**	**$3,102,215**	**$2,734,080**	**$2,226,799**

COMMENTS AND RECOMMENDATIONS

Comments:

A prior report finding regarding investments not held under a custodial agreement in compliance with Tenn. Comp. R. & Regs. 0780-1-46.01 and 0780-1-46.02 was not remediated. The Company did not comply with the regulation because it was achieving a higher return on investment by not remediating the violation.

Recommendations:

The prior examination report's finding regarding the Company's violation of Tenn. Comp. R. & Regs.0780-1-46.01 and 0780-1-46.02 were not remediated and continues to violate the aforementioned rules.

It is recommended the Company take actions to comply with the requirements of the above violations.

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 Blount County Mutual Fire Insurance Company of Alcoa, Tennessee.

In such manner, it was determined, on December 31, 2011, the Company had admitted assets of two million, eight hundred fifty-seven thousand, eight hundred fifty-two dollars ($2,857,852) and liabilities, exclusive of unassigned funds, of six hundred thirty-one thousand, fifty-three dollars ($631,053). Thus, there existed for the additional protection of the policyholders, the amount of two million, two hundred twenty-six thousand, seven hundred ninety-nine dollars ($2,226,799) in the form of unassigned funds (surplus).

The courteous cooperation of the Officers and Employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Rebecca E. Walker

Rebecca E. Walker
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Blount County Mutual Fire Insurance Company dated June 4, 2013, and made as of December 31, 2011, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says 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.

Rebecca E. Walker

Rebecca E. Walker
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 4th day of

June, 2013

Notary Helen W Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE
OF
TENNESSEE
NOTARY
PUBLIC
DAVIDSON COUNTY

Blount County Mutual Fire Insurance Company
P.O. Box 496 *Phone (865) 983-0402* *Alcoa, TN 37701-0496*
Stephanie P. Pierce-Office Administrator *Linda Roberson-Agent*

May 24, 2013

Rebecca Walker, Insurance Examiner
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
7th Floor Examinations Section
Nashville, TN 37243

RECEIVED
2013 MAY 28 PM 1:
FINANCIAL AFFAIRS ANALYTICAL UNIT

REPLY TO REPORT ON EXAMINATION

Comments- Previous Examination:
2 nd- The report states that the Company was unable to provide a detailed general accounting. In actuality, the auditor was provided a copy of the Company's computerized record keeping system which contained the general ledger. The auditor was unable to utilize the information provided until the Company hard-copied the 140 pages of the general ledger.

Management and Control:
Officers- The report states that the Bylaws of the Company require that a "manager" is to be elected. In actuality, no where in the Company's Bylaws is it required that a "manager" be elected. The Bylaws require the Executive Committee to manage the day-to-day activities of the Company. The report also states that underwriting activities are also performed by the home office staff. This statement is incorrect. According to the Bylaws, the Executive Committee is charged with all underwriting activities. Reference: By-Laws; Article VII; Section 3; a copy of which is attached.

Compensation Expense Ratio:
The interpretation of the definition of the ratio has been an on-going conflict between the Department and the Company since 2007. In 2010, the Company requested the definition of this ratio as defined in

EXHIBIT
B

T.C.A 56-22-120 be interpreted by the Attorney General. Opinion # 10-115, a copy of which is attached, proved that the Company's position regarding this matter was correct. As stated above, the clerical employees of the Company have no underwriting authority; therefore, their salaries should not be included in the calculation of the ratio. It puzzles the Company as to why the Department continues to ignore the above law and the Attorney General's opinion issued December 6, 2010, as it relates to the compensation expense ratio for our particular company. The table below demonstrates the actual expense ratio for the examination period:

YEAR	GROSS PREMIUM	TOTAL COMP. EXP	C/E RATIO
2007	$150,667	$36,721	24.4 %
2008	$225,533	$40,540	18.0 %
2009	$229,415	$39,220	17.1 %
2010	$244,394	$39,700	16.2 %
2011	$243,487	$39,700	16.3 %

Based on these numbers and the Attorney General's opinion, we are well within the required ratio. A change to the Annual Statement form, which provides for the reporting of the actual underwriting expense of this company, would provide a trail to the information needed by the Department to calculate the correct ratio.

Retirement Plan and Other Employee Benefits:
The report states that the Company provides health insurance for its employees. The company does NOT provide health insurance for its employees.

Liabilities, Capital, and Surplus- page 14
Confusion existed regarding Reinsurance recoverable on unpaid losses and claims because no designated line for this item exists on page 6, part 2-B, "net loses incurred" of the Annual Statement form. In fact, $407,922 in reinsurance funds were received in 2012.

Comments and Recommendations:
1) See Compensation Expense Ratio above
2) Following the previous report, the Company entered into a custodial agreement with First Tennessee Bank Trust Department which proved to be totally unacceptable. Investments were not placed as directed by the

Regarding the holding of investments, Page 18, Comment 2:

See attached letters from me to the Insurance Analysis Director dated January 29, 2009. The Company has voluntarily "non-admitted" the CD's and Bonds listed in the First Tennessee Bank Brokerage Account. The CD's are protected by the FDIC insurance by the issuing banks. The Bonds are protected by the Treasury of the United States. The "non-admitting" of these investments was according to the instructions of Karen Heidel, Staff Attorney, Department of Commerce and Insurance, State of Tennessee.

If you need additional information, please feel free to contact me at 865-776-6035

Sincerely,

Dan F. Blevens

Dan F. Blevens, President
Blount County Mutual Fire Insurance Company