REPORT ON EXAMINATION OF

FARMERS MUTUAL OF TENNESSEE

KNOXVILLE, TENNESSEE

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MAY 28 2008
Dept. Of Commerce & Insurance
Company Examinations

AS OF

DECEMBER 31, 2006

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT

A

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Knoxville, Tennessee
May 28, 2008

Honorable Leslie A. Newman
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 the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination has been made concerning the condition and affairs of

FARMERS MUTUAL OF TENNESSEE
903 NORTH HALL OF FAME DRIVE
KNOXVILLE, TENNESSEE 37917

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

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee to commence on August 6, 2007. The examination field work started on August 20, 2007, and was conducted by examiners from the State of Tennessee Department of Commerce and Insurance (TDCI).

The examination was conducted at the Company's office in Knoxville, Tennessee where all books and records are located. The period covered by this examination is from January 1, 2002, to the close of business on December 31, 2006, 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 of the Company 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 or estimated as of December 31, 2006. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus. Additionally, an examination of the following items was made:

Company History	Charter and Bylaws	Management and Control
Corporate Records	Affiliated Companies	Fidelity Bond/Insurance
Employee Benefits	Territory	Plan of Operation
Reinsurance	Loss Experience	Statutory Deposits
Commitments/Contingencies	Accounts and Records	Financial Statements

The previous examination of the Company was made as of December 31, 2001, and resulted in no changes to the Company's surplus account. It was recommended that the Company's custodial agreement be amended to:

- grant no authority to the custodian to borrow or pledge the assets of the Company
- reflect the standard of care of that of a bailee under Tennessee law
- be construed in accordance with the laws of Tennessee

The Company was directed to comply with Tenn. Comp. R. & Regs. ch.0780-1-46-.04, should it choose to hold its securities with a custodial bank by having such securities held pursuant to a qualified custodial agreement between the company and the custodial bank.

The Company's custodial agreement was amended effective June 10, 2003, to include the above recommendation and to comply with said directive.

COMPANY HISTORY

The Company was incorporated on June 19, 1913 and commenced business on July 12, 1913, under the statutes of Tennessee, as Farmers Mutual Fire Insurance Company of Knox County, Tennessee. On May 17, 1973, the Charter of Incorporation of the Farmers Mutual Fire Insurance Company of Tennessee was certified by the Secretary of State of Tennessee. The Department of Insurance issued a Certificate of Authority on May 18, 1973, which authorized the Company to commence the business of insurance as a state mutual fire insurance company.

At the close of business on June 30, 1973, the Company reinsured the unearned premiums and all liabilities of the Farmers Mutual Fire Insurance Company of Knox County and assumed title to all assets of said Company. The Company then proceeded with operations on July 1, 1973, and filed a financial statement as of the same date.

In 1991, a request for conversion from a state mutual fire insurance company, governed by Title 56, Chapter 21, Tennessee Code Annotated, to a mutual insurance company, governed by Title 56, Chapter 19, Tennessee Code Annotated, was submitted. The request was approved by the TDCI in October, 1991. An amended and restated Charter was submitted to the State of Tennessee in December 1991. The new Charter was approved December 20, 1991, by the TDCI. Subsequently, in June 1992, the amended and restated Charter was filed with the Secretary of State of Tennessee and with the Register of Deeds, Knox County, Tennessee. The new Charter included the following changes:

- The name of the Corporation was changed to Farmers Mutual of Tennessee
- The Corporation became the successor to and assumed all assets and liabilities of the Farmers Mutual Fire Insurance Company of Tennessee

A new Certificate of Authority, with an effective date of June 10, 1992, was issued by the TDCI on July 23, 1992.

In January, 2002, the policyholders of Farmers Mutual Fire Insurance Company of Sumner County approved a plan of merger with the Company. The members of the Company then voted to approve said merger at their annual meeting held on March 9, 2002. The completed articles of merger were approved by the Commissioner of the TDCI on March 27, 2002 and the merger became effective on April 1, 2002.

Under the mutual corporate structure, each insured is a member of the Company by virtue of holding an active policy. In the event of liquidation and dissolution of the Company the balance of all money and other property remaining after the payment of all debts and obligations of the Company would be distributed and conveyed to a Tennessee corporation which is an organized "not-for-profit".

There have been no regulatory activities since the prior examination was made as of December 31, 2001.

All operations are performed at the Company's home office at 903 North Hall of Fame Drive Knoxville, Tennessee. The Company's development, since the previous examination, is depicted in the following table:

Date	Earned Premiums	Incurred Losses & LAE	Admitted Assets	Liabilities	Surplus
12/31/02	$4,670,145	$2,991,958	$12,270,449	$4,339,427	$7,931,022
12/31/03	5,392,076	2,923,643	12,900,185	4,333,094	8,567,091
12/31/04	5,917,143	2,145,808	15,080,907	5,100,297	9,980,610
12/31/05	6,281,934	2,834,530	16,362,592	5,241,363	11,121,229
12/31/06	6,275,932	3,449,453	17,399,649	5,363,327	12,036,322

CHARTER AND BYLAWS

Charter:

Under the amended and restated Charter approved December 20, 1991, the corporation is a mutual benefit corporation. The purpose for which the corporation is organized is to engage in and carry on the business of a mutual insurance company other than life, pursuant to Title 56, Chapter 19 of the Tennessee Code Annotated as it now exists or as it may hereafter be amended from time to time.

In addition to the preceding, the Charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. The Charter, as currently amended, was inspected and found to have been duly issued and properly recorded.

Bylaws:

The bylaws are such as are generally found in corporations of this type and contain no unusual provisions. The bylaws may be amended or repealed, or new bylaws may be made and adopted by a majority of the Board of Directors at a regular or special meeting of the Board. The bylaws of the Company in effect at December 31, 2006 were last amended on November 21, 2000 in order to stipulate that the number of directors serving can be increased or decreased by action of the Board of Directors subject to the constraints set forth in the Charter.

MANAGEMENT AND CONTROL

Control:

The Company is a non-stock, not-for-profit mutual insurance company. The primary control of the Company is vested in its policyholders. The policyholders of the Company constitute its membership. The membership of the Company consists of persons or organizations having insurance therein who elect a Board of Directors to manage the business and affairs of the Company. The annual meeting of members is held on the second Saturday in March of each year, if not a legal holiday, but if a legal holiday, then on the third Saturday of March. Special meetings may be called at any time by the President, the Board of Directors, or one-twentieth of all the members entitled to vote at such meeting. One-twentieth of the members entitled to vote, represented in person or by proxy, constitutes a quorum at the meetings of members.

Board of Directors:

The business and affairs of the Company shall be managed by the Board of Directors or by such Executive, or other Committees as the Board of Directors may establish. The Directors shall be elected at the annual meeting of the members. At no time shall the number of directors be greater than eleven or less than six. The Company's Board of Directors, at December 31, 2006, were as follows:

Name	Address	Occupation
Stephen E. Babelay	Knoxville, TN	Nurseryman & Farmer
Neal P. Ford	Knoxville, TN	Retired Contractor
J. Randall Hodges	Knoxville, TN	Securities Advisor, Fountain Financial Group
Scott M. Kehne	Knoxville, TN	President & General Manager of Company
Teresa J. Newby	Knoxville, TN	Partner, McMurry and Company CPAs
Brian S. Newkirk	Knoxville, TN	Farmer
Earl R. Ratledge	Knoxville, TN	Securities Advisor, H.D. Vest Investment Services
*J. Leslie Spitzer	Corryton, TN	Retired, Knoxville Utilities Board
James R. Wallenhorst	Christiania, TN	Retired, The Farmers Group
Rufus B. Watson	Maryville, TN	Marketing Manager of Company

* Chairman

Committees:

The Board of Directors may by resolution adopted by a majority of the entire Board of Directors who have been elected and serving at the time of the vote, designate two or more directors to constitute an Executive Committee, which committee, to the extent resolved by the Board, shall have and may exercise all the authority of the Board of Directors in the management of the Company. The following directors were serving on the Executive Committee at December 31, 2006:

Scott M. Kehne
Teresa J. Newby
Earl R. Ratledge
J. Leslie Spitzer
James R. Wallenhorst

At December 31, 2006, other established committees of the Board of Directors and their respective members were as follows:

Audit Committee
Stephen E. Babelay
J. Randall Hodges
Teresa J. Newby
James R. Wallenhorst

Building Committee
Stephen E. Babelay
Scott M. Kehne
Brian S. Newkirk
Rufus B. Watson

Governance Committee
Scott M. Kehne
Teresa J. Newby
Brian S. Newkirk
Earl R. Ratledge

Investment Committee
J. Randall Hodges
Scott M. Kehne
Teresa J. Newby
Earl R. Ratledge

Nominating Committee
Stephen E. Babelay
J. Randall Hodges
J. Leslie Spitzer
Rufus B. Watson

Officers:

The officers of the Company consist of a President, a Secretary, a Treasurer, and such Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers as shall from time to time be elected by the Board of Directors at its regular meeting following the annual meeting of members. Any two or more offices may be held by the same person, except the offices of President and Vice President, and President and Secretary. The Officers of the Company, at December 31, 2006, were as follows:

Name	Office Held
Scott M. Kehne	President
Earl R. Ratledge	Vice President
Neal P. Ford	Secretary & Treasurer
James F. Zwolinski	Assistant Treasurer

Conflict of Interests:

All directors and officers of the Company are required to complete an Annual Conflict of Interest Statement. The examiners reviewed the statements signed by the Company's directors and officers, for the period under examination, without exception.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors and Policyholders were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective parties. The review of the minutes indicates that all investment transactions were approved by the Board of Directors.

AFFILIATED COMPANIES

The Company owns 100% of Farmers Mutual Agency. An organizational chart is attached to this report on page 33. The following agreement between the Company and its affiliate was in effect at December 31, 2006:

Services Agreement:

The Company entered into a Services Agreement with Farmers Mutual Agency (FMA) effective August 1, 1997. Under the terms of the agreement the Company agrees to provide all office space, office equipment, supplies, clerical help and other support services to FMA. As consideration for these services, FMA agrees to pay the Company pro-rata share of the expenses incurred by the Company in providing these services. Additionally, the Company provides payroll accounting services for FMA which are required for the payment of agents' commissions. FMA reimburses the Company 100% of all such payroll expenses, including payroll taxes.

FIDELITY BOND AND OTHER INSURANCE

The following is a summary of the insurance maintained by the Company at December 31, 2006:

Type or Class of Coverage	Limits
Commercial Property	$296,000 home office $131,298 personal property
Commercial General Liability	$2,000,000 general aggregate $1,000,000 personal and advertising injury $2,000,000 complete operations $300,000 damage to premises rented
Commercial Crime	$252,000 employee theft
Commercial Inland Marine	$225,000 accounts receivable $30,000 valuable papers and records
Business Automobile	$1,000,000 liability $2,000 medical payments $1,000,000 uninsured motorists $1,000,000 underinsured motorists
Excess Liability – umbrella form	$2,000,000 each occurrence $2,000,000 aggregate
Workers' Compensation Employers Liability	Tennessee limit $500,000 each accident $500,000 disease – each employee $500,000 disease – policy limit
Directors' and Officers' Liability	$5,000,000 each claim $5,000,000 aggregate
Agents Errors and Omissions	$1,000,000 each claim $1,000,000 aggregate

Employment Practices Liability	\$1,000,000 each claim \$1,000,000 aggregate

The fidelity coverage is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. All of the above insurance policies are written by companies licensed to write in Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company makes available life insurance, long-term disability and medical coverage to eligible employees. Additionally, all full-time employees are eligible to participate in the Company's retirement program. The plan consists of a qualified defined contribution profit sharing plan which was established in 1986. This plan was amended in 1998 by adding a salary reduction feature (401k). Contributions are determined annually based upon Company profits.

TERRITORY

The Company is licensed in Tennessee as a property and casualty insurance company, and writes business only in the state of Tennessee. Although the Company operates on a statewide basis, the majority of the Company's policyholders reside in eastern and middle Tennessee. The Certificate of Authority issued by the State of Tennessee was inspected and found to be in force both at the time of examination and inspection. During 2006, the Company wrote direct premiums of \$6,704,779.

PLAN OF OPERATION

The Company writes fire, allied lines, farmowners multiple peril, homeowners multiple peril, commercial multiple peril, other liability, and burglary and theft coverages. Business is produced by 72 independent agencies, having formal contracts with the Company, and three home office agents, under the supervision of the Company's General Manager. Additionally, there are 14 Tennessee County Mutuals writing business through the Company under agency contracts. The independent agencies produce approximately 68% of the Company's business with no single agency producing more than 5%.

During the period under review and through the date of this report, all policy preparation was performed in the home office and was subject to the underwriting rules adopted by the Company and promulgated in accordance with approved rates. The Company issues only non-assessable policies. New policies, policy endorsements and renewals are direct billed. Dividends may be paid to policyholders from unassigned surplus; however, no dividends were paid during the period under examination. The adjustment of claims is handled by Company employees and independent adjusters. During the year of 2006, claims adjustment by the Company's employees was approximately 85% of the total claims. The largest net amount insured by the Company in any one risk is $150,000.

REINSURANCE

Assumed:

1. The Company assumes business from 14 Tennessee County Mutuals under excess of loss, quota share and first surplus agreements. Approximately 50% of this business is retroceded to Farmers Mutual Hail Insurance Company of Iowa.
The reinsurance agreements were reviewed by examiners of the TDCI during the examinations of the respective County Mutual Companies.

2. Type — Retrocessional Interests and Liabilities (for the 2006 NAMICO Reinsurance Facility)

Reinsured — NAMIC Insurance Company

Term — Effective January 1, 2006 to January 1, 2007

Coverage — The Company through participation in a pool with 81 other insurance companies, reinsures 0.51983% of 50% of the first $1,000,000 each claim, each policy, and in the aggregate where applicable, of primary insurer and 0.51983% of 80% of the next $4,000,000 each claim, each policy, and in the aggregate where applicable, of the primary insurer. The types of insurance being ceded are Directors and Officers Liability, Insurance Company Professional Liability, Agents Errors and Omissions, Insurance Company Trustees and Fiduciaries Liability and Professional Liability for Insurance Related Organizations.

Ceded:

The following reinsurance agreements were arranged through BMS Vision Reinsurance Intermediaries, Inc., Dallas, Texas and were in effect at December 31,

2006. Each agreement was reviewed and found to contain standard provisions for arbitration, cancellation, errors and omissions, exclusions, insolvency, intermediary, settlement, taxes and termination.

1.	<u>Type</u>	County Mutual Quota Share	
	<u>Reinsurer</u>	Farmers Mutual Hail Insurance Company of Iowa	
	<u>Term</u>	Continuous contract effective January 1, 2006	
	<u>Coverage</u>	Property: Quota Share of Property Reinsurance Assumed by the Company from 14 Tennessee County Mutual Companies. Liability: Quota Share of Casualty business written in conjunction with 14 Tennessee County Mutual Companies.	
2.	<u>Type</u>	Multiple Line Excess of Loss	
	<u>Reinsurer</u>	Platinum Underwriters Reinsurance	50%
		Farmers Mutual Hail Insurance Company of Iowa	50%
	<u>Term</u>	Continuous contract effective January 1, 2006	
	<u>Coverage</u>	Property: Reinsurer shall indemnify the Company for 100% of the ultimate net loss in excess of $100,000 each and every risk, each loss occurrence. The Reinsurer's limit of liability is $400,000 for each and every risk. The Reinsurer's limit of liability as respects all excess property losses resulting from one loss occurrence is $1,200,000. Casualty: Reinsurer shall indemnify the Company for 100% of the ultimate net loss in excess of $100,000 any one loss occurrence. The Reinsurer's limit of liability for any one loss occurrence is $400,000.	

3.	<u>Type</u>	First Combination Catastrophe/Aggregate Excess of Loss	
	<u>Reinsurer</u>	Odyssey American Reinsurance	30%
		Platinum Underwriters Reinsurance	20%
		Lloyd's, London	50%
	<u>Term</u>	Effective January 1, 2006 to January 1, 2007.	
	<u>Coverage</u>	Catastrophe: Reinsurer shall not be liable for any loss until the Company's ultimate net loss in each loss occurrence exceeds the greater of 15% of the Company's gross net earned premium income or $840,000 and then the Reinsurer shall be liable for 95% of the Company's ultimate net loss in each loss occurrence in excess of the greater of 15% of the Company's gross net earned premium income or $840,000 but the Reinsurer's liability shall not exceed 95% of the lesser of 15% of the Company's gross net earned premium income or $1,260,500 with respect to each loss occurrence. Aggregate: Reinsurer shall not be liable for any loss until the Company's ultimate net loss exceeds the greater of 75% of the Company's gross net earned premium income or $4,200,000 and then the Reinsurer shall be liable for 95% of the Company's ultimate net loss in excess of the greater of 75% of the Company's gross net earned premium income or $4,200,000 but the Reinsurer's liability shall not exceed 95% of the lesser of 15% of the Company's gross net earned premium income or $1,260,500 in the aggregate.	
4.	<u>Type</u>	Second Combination Catastrophe/Aggregate Excess of Loss	
	<u>Reinsurer</u>	Lloyd's, London	50%

	Odyssey American Reinsurance	30%
	Platinum Underwriters Reinsurance	20%

Term: Effective January 1, 2006 to January 1, 2007.

Coverage: Catastrophe: Reinsurer shall not be liable for any loss until the Company's ultimate net loss in each loss occurrence exceeds the greater of 15% of the Company's gross net earned premium income or $840,000 plus the lesser of 15% of the Company's gross net earned premium income or $1,260,500 and then the Reinsurer shall be liable for 97.5% of the Company's ultimate net loss in each loss occurrence in excess of the greater of 15% of the Company's gross net earned premium income or $840,000 plus the lesser of 15% of the Company's gross net earned premium income or $1,260,500 but the Reinsurer's liability shall not exceed 97.5% of the lesser of 30% of the Company's gross net earned premium income or $2,520,000 with respect to each loss occurrence or 97.5% of the lesser of 60% of the Company's gross net earned premium income or $5,040,000 with respect to all loss occurrences.

Aggregate: Reinsurer shall not be liable for any loss until the Company's ultimate net loss exceeds the greater of 75% of the Company's gross net earned premium income or $4,200,000 plus the lesser of 15% of the Company's gross net earned premium income or $1,260,500 and then the Reinsurer shall be liable for 97.5% of the Company's ultimate net loss in excess of the greater of 75% of the Company's gross net earned premium income or $4,200,000 plus the lesser of 15% of the Company's gross net earned premium income or $1,260,500 but the

Reinsurer's liability shall not exceed 97.5% of the lesser of 30% of the Company's gross net earned premium income or $2,520,000 in the aggregate.

5.	Type	Third Combination Catastrophe/Aggregate Excess of Loss	
	Reinsurer	Lloyd's, London	70%
		Odyssey American Reinsurance	10%
		Platinum Underwriters Reinsurance	20%
	Term	Effective January 1, 2006 to January 1, 2007.	
	Coverage	Catastrophe: Reinsurer shall not be liable for any loss until the Company's ultimate net loss in each loss occurrence exceeds the greater of 15% of the Company's gross net earned premium income or $840,000 plus the lesser of 45% of the Company's gross net earned premium income or $3,780,500 and then the Reinsurer shall be liable for 100% of the Company's ultimate net loss in each loss occurrence in excess of the greater of 15% of the Company's gross net earned premium income or $840,000 plus the lesser of 45% of the Company's gross net earned premium income or $3,780,500 but the Reinsurer's liability shall not exceed 100% of the lesser of 130% of the Company's gross net earned premium income or $10,925,000 with respect to each loss occurrence or 100% of the lesser of 260% of the Company's gross net earned premium income or $21,850,000 with respect to all loss occurrences. Aggregate: Reinsurer shall not be liable for any loss until the Company's ultimate net loss exceeds the greater of 75% of the Company's gross net earned premium income or $4,200,000	

plus the lesser of 45% of the Company's gross net earned premium income or $3,780,500 and then the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 75% of the Company's gross net earned premium income or $4,200,000 plus the lesser of 45% of the Company's gross net earned premium income or $3,780,500 but the Reinsurer's liability shall not exceed 100% of the lesser of 130% of the Company's gross net earned premium income or $10,925,000 in the aggregate.

LOSS EXPERIENCE

The loss experience of the Company, since the previous examination, as reported in its annual statements, is as follows:

Year	Premiums Earned	Losses Incurred	LAE Incurred	Loss Ratio	Other Underwriting Expenses	Combined Ratio
2002	$4,670,145	$2,745,547	$246,411	64.1%	$1,684,969	100.1%
2003	5,392,076	2,584,644	338,999	54.2%	1,963,867	90.6%
2004	5,917,143	1,868,683	277,125	36.3%	2,060,438	71.1%
2005	6,281,934	2,550,362	284,168	45.1%	2,243,987	80.8%
2006	6,275,932	3,008,002	441,451	55.0%	2,149,039	89.2%
Total	$28,537,230	$12,757,238	$1,588,154	50.3%	$10,102,300	85.7%

STATUTORY DEPOSITS

The Company maintained the following deposit at December 31, 2006, for the benefit of all policyholders, claimants and creditors of the Company.

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
Federal Home Loan Bank, 6.625%, Due 8/27/07	$250,000	$256,261	$252,155

The above deposit was verified by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2002, 2003, 2004, 2005 and 2006.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company is audited annually by HG&A Associates, P.C., Knoxville, Tennessee. There is no violation as respects Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2006, together with a reconciliation of surplus for the period under review, as established by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 7,340,183	$ 0	$ 7,340,183
Stocks:			
Preferred stocks	2,196,015	0	2,196,015
Common stocks	389,995	0	389,995
Real estate:			
Properties occupied by company	288,433	0	288,433
Properties held for production of income	108,562	0	108,562
Properties held for sale	14,000	0	14,000
Cash, cash equivalents and short term investments	5,489,975	0	5,489,975
Subtotals, cash and invested assets	15,827,163	0	15,827,163
Investment income due and accrued	132,850	0	132,850
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	296,512	0	296,512
Deferred premiums, agents' balances and installments booked but deferred	563,279	0	563,279
Reinsurance:			
Amounts recoverable from reinsurers	18,060	0	18,060
Current federal income tax recoverable	186,274	0	186,274
Net deferred tax asset	325,631	0	325,631
Electronic data processing equipment	44,595	0	44,595
Furniture and equipment	35,563	35,563	0
Receivables from parent, subsidiaries and affiliates	5,285	0	5,285
Total assets	$17,435,212	$ 35,563	$17,399,649

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 925,858
Reinsurance payable on paid losses and loss adjustment expenses	26,633
Loss adjustment expenses	300,954
Commissions payable	107,014
Other expenses	280,254
Taxes, licenses and fees	17,021
Net deferred tax liability	10,519
Unearned premiums	3,311,476
Advance premium	261,711
Dividends declared and unpaid:	
Policyholders	7,205
Ceded reinsurance premiums payable	70,826
Amounts withheld or retained by company for account of others	43,856
Total liabilities	5,363,327
Unassigned funds	12,036,322
Surplus as regards policyholders	12,036,322
Totals	$ 17,399,649

STATEMENT OF INCOME

Underwriting Income	
Premiums earned	$ 6,275,932
Deductions:	
Losses incurred	3,008,002
Loss expenses incurred	441,451
Other underwriting expenses incurred	2,149,039
Total underwriting deductions	5,598,492
Net underwriting gain (loss)	677,440
Investment Income	
Net investment income earned	577,996
Net realized capital gains (losses)	(18,571)
Net investment gain (loss)	559,425
Other Income	
Net gain (loss) from agents' or premium balances charged off	(27,279)
Miscellaneous income	(266)
Total other income	(27,545)
Net income before federal income taxes	1,209,320
Federal income taxes incurred	367,377
Net income	$ 841,943

RECONCILIATION OF SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders, December 31, 2001	$ 6,367,100
Net income	302,889
Change in nonadmitted assets	(11,439)
Aggregate write-ins for gains or (losses) in surplus:	
Merged assets from Sumner County Mutual	1,254,432
Change in surplus as regards policyholders for the year	1,563,922
Surplus as regards policyholders, December 31, 2002	$ 7,931,022
Net income	621,969
Change in net unrealized capital gains or (losses)	44,018
Change in nonadmitted assets	(28,388)
Aggregate write-ins for gains or (losses) in surplus:	
Merged assets from Sumner County Mutual	(1,530)
Change in surplus as regards policyholders for the year	636,069
Surplus as regards policyholders, December 31, 2003	$ 8,567,091
Net income	1,473,098
Change in net unrealized capital gains or (losses)	(62,273)
Change in nonadmitted assets	2,544
Aggregate write-ins for gains or (losses) in surplus:	
Merged assets from Sumner County Mutual	150
Change in surplus as regards policyholders for the year	1,413,519
Surplus as regards policyholders, December 31, 2004	$ 9,980,610
Net income	1,181,172
Change in net unrealized capital gains or (losses)	(33,188)
Change in nonadmitted assets	(7,365)
Change in surplus as regards policyholders for the year	1,140,619
Surplus as regards policyholders, December 31, 2005	$ 11,121,229
Net income	841,943
Change in net unrealized capital gains or (losses)	50,245
Change in nonadmitted assets	22,905
Change in surplus as regards policyholders for the year	915,093
Surplus as regards policyholders, December 31, 2006	$ 12,036,322

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Comments:

1. The Company changed one of its custodians subsequent to the examination date; however, no custodial agreement or custodial affidavits were available upon request by the examiners. Prior to completion of the examination, a custodial agreement between the Company and the new custodian was executed and applicable custodial affidavits were obtained. (See Recommendation 1.)

Recommendations:

1. The Company's securities that were moved subsequent to the examination date are being held by a bank which does not qualify as an approved custodian.

Based on the above, it is recommended that the Company move said securities to an approved custodian bank as defined by Tenn. Comp. R. & Reg., ch. 0780-1-46-.03(1) and TDCI Policy Statement #1.

2. The following items were not in compliance with the Accounting Practices and Procedures Manual (AP&P) of the NAIC:

(a) The Company is reporting the wrong designation for many of the securities shown in its annual statement. The Company needs to follow the Purposes and Procedures Manual of the NAIC Securities Valuation Office as required by Statement of Statutory Accounting Principle (SSAP) No. 26, paragraph 7 and SSAP No. 32, paragraph 15 of the NAIC AP&P.

(b) The Company is recording the acquisitions and sales of securities on the settlement date of the transaction; however, these transactions should be recorded on the trade date as required by SSAP No. 26, paragraph 4, SSAP No. 30, paragraph 5 and SSAP No. 32, paragraph 10 of the NAIC AP&P.

(c) The Company is not using the scientific method when amortizing its bonds as required by SSAP No. 26, paragraph 6 of the NAIC AP&P. The Company is using the straight-line method. Since most of the Company's securities have maturities less than five years and most are held to maturity, period to period variances between the methods is immaterial. It is recommended that the Company comply with said SSAP or obtain approval from Commissioner to deviate from the prescribed method.

(d) The Company has four certificates of deposit with maturity dates in excess of one year from date of acquisition. These certificates of deposit are being classified as cash; however, they do not meet the definition of cash as stated in SSAP No. 2, paragraph 3 of the NAIC AP&P. In subsequent financial statements, certificates of deposit with maturity dates in excess of one year should be classified as bonds pursuant to SSAP No. 26, paragraph 2(g) of the NAIC AP&P.

(e) The Company is depreciating some of its electronic data processing (edp) equipment over a five year life; however, edp equipment should be depreciated for a period not to exceed three years according to SSAP No. 16, paragraph 3 of the NAIC AP&P.

Based on the above, it is recommended that the Company comply with Tennessee Code Annotated 56-1-501(g) to alleviate discrepancies.

3. The following errors and/or omissions were noted in the Company's 2006 annual statement:

(a) The Notes to the Financial Statement were not completely readable due to missing letters.

(b) On Schedule A, Part 1, amounts were missing in column 13.

(c) On Schedule D, Part 2, Section 1, amounts were missing in column 12.

Based on the above, it is recommended that the Company comply with Tenn. Code Ann. § 56-1-501(b) when completing its annual statement to alleviate discrepancies.

4. The Company is including in its admitted assets a security that is not held in a permissible method as defined in Tenn. Comp. R. & Reg., ch. 0780-1-46-.03(1). This is a $25,500 common stock investment in the bank that is a custodian of assets for the Company. This investment was confirmed with the bank; however, it is not being held in the custodial account with the bank and there are no definitive stock certificates issued to the Company. It is recommended that the Company comply with Tenn. Comp. R. & Reg., ch. 0780-1-46-.03 or non-admit, on subsequent financial statements, securities not held under a permissible method.

CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2006, the Company had net admitted assets of $17,399,649 and liabilities, exclusive of unassigned funds, of $5,363,327. Thus, there existed for the additional protection of the policyholders, the amount of $12,036,322 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,

David R. White, CFE Examiner-in-Charge State of Tennessee Southeastern Zone, NAIC	Donnie R. Nicholson Examiner III State of Tennessee Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual of Tennessee dated May 28, 2008, and made as of December 31, 2006, on behalf of the TDCI. 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.

David R. White, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

28th day of May, 2008

Notary Helen W. Dorsey

County Davidson

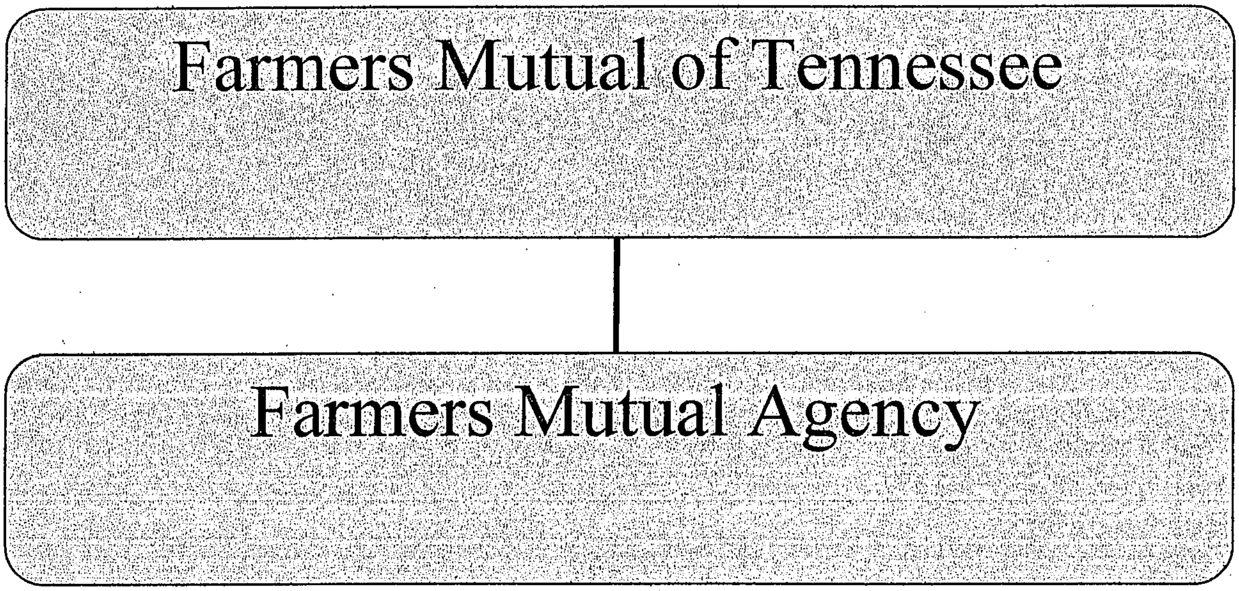
State Tennessee

Commission Expires 05/22/2010

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

ORGANIZATIONAL CHART



FMT SINCE 1913

Farmers Mutual of Tennessee

P.O. BOX 3428 903 NORTH FIFTH AVENUE KNOXVILLE, TN 37927
Phone # 865-523-5153 Fax # 865-523-5307

FAX COVER SHEET

Date: 6-18-2008

From: FMT

Re: Examination Correction

PLEASE DELIVER THE FOLLOWING PAGES TO: Phillip Blustein

*** AS SOON AS POSSIBLE ***

THERE ARE A TOTAL NUMBER OF 2 PAGES INCLUDING THIS PAGE. IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CALL 865-523-5153 IMMEDIATELY.

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Dept. Of Commerce & Insurance
Company Examinations

EXHIBIT
B

Farmers Mutual of Tennessee

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P.O. BOX 3428 903 NORTH HALL OF FAME DRIVE KNOXVILLE, TN 37927 (865) 523-6153

June 18,2008

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JUN 18 2008
Dept. Of Commerce & Insurance
Company Examinations

Phillip Blustein
Chief Examiner
Financial Affairs Section
Insurance Division
The State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway, 4TH Floor
Nashville TN 37243

Re: Quinquennial Examination as of December 31, 2006
Completed May 28, 2008

Mr. Blustein:

We have reviewed the report on examination, including its conclusions and recommendations. We believe the report fairly and accurately reflects the condition of Farmers Mutual of Tennessee as of December 31, 2006. We have been in contact with Assistant Commissioner Knight with respect to recommendation number one found on page twenty-eight of the report. We acknowledge the Departments position on the use of approved custodians for insurance company securities. The Department is aware that the Federal Home Loan Banks are in the process of attaining status as approved custodians of insurance company securities with the National Association of Insurance Commissioners. With this in consideration, we request to continue a dialogue with the Department in order to reach a mutually acceptable resolution of this issue.

With the concurrence by the Department of the above consideration, we have no objection to the adoption of the examination report by Commissioner Newman. Examiners David R. White and Donnie R. Nicholson conducted the examination in a professional manner.

Sincerely,

Gordo Watson

Gordo Watson
Vice-president

FMT-232 1/96