

# EXHIBIT A



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

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**REPORT ON EXAMINATION**  
**OF**  
**FARMERS MUTUAL OF TENNESSEE**  
**(NAIC # 30651)**  
**KNOXVILLE, TENNESSEE**

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**AS OF**  
**DECEMBER 31, 2016**

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Knoxville, Tennessee  
June 6, 2018

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

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Code Annotated ("Tenn. Code Ann.") § 56-1-408, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination and a market conduct review, as of December 31, 2016, has been made of the condition and affairs of:

**FARMERS MUTUAL OF TENNESSEE**

NAIC # 30651

837 North Hall of Fame Drive

Knoxville, Tennessee 37917

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

**INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under rules promulgated by the NAIC. The examination commenced on October 25, 2017, and was conducted by duly authorized representatives of the TDCI. This examination was called through the NAIC's Financial Examination Electronic Tracking System (FEETS). There were no requests from other states for a coordinated examination.

**SCOPE OF EXAMINATION**

The last examination of the Company was made as of December 31, 2011. This examination covers the period January 1, 2012, through December 31, 2016, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the NAIC *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company, as of December 31, 2016. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating 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.

During planning, all accounts and balances were reviewed to determine which key activities and accounts would be examined. The key activities included: Investments; Underwriting; Reserving/Claims Handling; Reinsurance Assumed; Reinsurance Ceded; Related Parties; Expenses; and Capital & Surplus.

The Company's 2016 annual statement was reconciled to the corresponding general ledger account balances.

An examination of the Company's information technology general controls (ITGC) was conducted. The examination included a review of management and organizational controls, logical and physical security controls, system and program development and change controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A separate market conduct review was also performed concurrently with the financial examination. See the "Market Conduct Activities" section of this report.

Although the Company does not maintain an internal audit (IA) department, it does have a system of internal controls that are tested regularly. As such, tests of controls were used whenever possible to reduce the amount of substantive test work required to determine completeness and accuracy of annual statement financial reporting.

Independent actuaries, Lewis & Ellis, Inc., were utilized in the review of the Company's loss reserves for this examination.

Johnson Lambert LLP was the certified public accountant (CPA) and independent auditor for the Company from 2013 through 2016. HGA & Associates, P.C. was the

auditor for 2012. The CPA's workpapers for the 2016 audit were reviewed and copies were incorporated into the examination, as deemed appropriate.

The Company provided a letter of representation certifying that management has disclosed all significant matters and records.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The examination included a review to determine the current status of the comments and recommendations included in the previous report of examination dated March 6, 2013, which covered the period from January 1, 2007, through December 31, 2011. The previous full-scope examination report contained one (1) recommendation. The Company addressed the prior exam recommendation during the course of the previous examination. Below is a description of the recommendation:

### **Recommendation:**

The Company should adopt and provide a privacy statement to all policyholders as defined in Tenn. Comp. R. & Reg. 0780-01-72 with respect to the privacy of non-public personal information.

### **Corrective Action:**

The Company provided the Department with its privacy notification which is sent to all policyholders. The Company has also added a privacy statement to its website.

## **COMPANY HISTORY**

The Company was incorporated on June 19, 1913, and commenced business on July 12, 1913, under the statutes of the State 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 TDCI 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 was submitted to the TDCI for conversion from a state mutual fire insurance company, governed by Tenn. Code Ann., Title 56, Chapter 21, to a mutual insurance company, governed by Tenn. Code Ann., Title 56, Chapter 19. 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 amended Charter changed the name of the Company to Farmers Mutual of Tennessee and noted that FMT was the successor to and assumed all assets and liabilities of the Farmers Mutual Fire Insurance Company of Tennessee. A 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 TDCI on March 27, 2002, and the merger became effective on April 1, 2002.

As of December 31, 2016, the Company was only licensed in the State of Tennessee.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

Management of the Company is vested in a Board of Directors ("Board") elected annually. In accordance with the Bylaws, the Board shall consist of not less than six (6) nor more than eleven (11) directors. At least three (3) of the directors must be members of the Company. A member is defined in the Bylaws as a person or organization who maintains an insurance policy with the Company.

The following persons had been duly elected and were serving as Directors of the Company's Board, as of December 31, 2016:

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Teresa J. Newby	Certified Public Accountant
William K. Dunn	State Representative
Wes Gainey	Marketing Manager, Farmers Mutual of Tennessee
J. Randall Hodges	Insurance Agent, Securities Advisor
Sam McCamey	Banker

<u>Name</u>	<u>Principal Occupation</u>
Brian S. Newkirk	Farmer
Earl R. Ratledge	Insurance Agent, Securities Advisor
J. Leslie Spitzer	Retired Utilities Board Manager
Rufus "Gordo" Watson	President, Farmers Mutual of Tennessee

### Officers

The Bylaws provide that the officers of the Company shall consist of a President, a Secretary, a Treasurer, and such Vice Presidents, Assistant Secretaries, Assistant Treasurers, and other officers as the Board may from time to time elect. Any two (2) 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 shall be elected by the Board at its regular meeting following the annual meeting of members.

The following officers were duly elected and were serving in the positions indicated for the Company, as of December 31, 2016:

<u>Name</u>	<u>Office</u>
Rufus "Gordo" Watson	President
J. Leslie Spitzer	Treasurer
James F. Zwolinski	Assistant Treasurer
Brian S. Newkirk	Secretary
Earl R. Ratledge	Vice President

### Committees

A majority of the Board may, by resolution, designate two (2) or more Directors to constitute an Executive Committee. Said committee, to the extent resolved by the Board, shall have and may exercise all the authority of the Board in the management of the Company. The following Directors were serving on the Executive Committee as of December 31, 2016:

<u>Name</u>	<u>Title</u>
Teresa J. Newby	Director, Chair
Brian S. Newkirk	Director
Earl R. Ratledge	Director
J. Leslie Spitzer	Director
Rufus "Gordo" Watson	President/Director

As of December 31, 2016, other established committees of the Board and their respective members were as follows:

**Audit Committee**

J. Randall Hodges  
Sam McCamey  
Brian S. Newkirk  
J. Leslie Spitzer

**Investment Committee**

J. Randall Hodges  
Earl R. Ratledge  
J. Leslie Spitzer  
Rufus "Gordo" Watson

**Nominating Committee**

Sam McCamey  
Brian S. Newkirk  
Earl R. Ratledge  
Rufus "Gordo" Watson

**Governance Committee**

William K. Dunn  
Wes Gaaney  
Sam McCamey  
Rufus "Gordo" Watson

Teresa J. Newby is an ex-officio member of each committee.

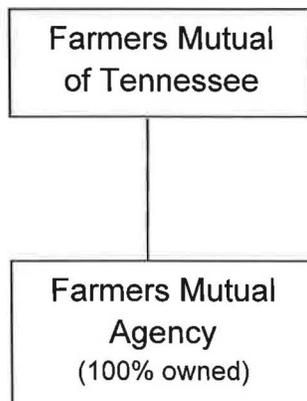
**CONTROL**

The Company is a mutual company, and as such, is owned by its policyholders, known as "members." The Company owns one hundred percent (100%) of Farmers Mutual Agency (FMA), a Tennessee corporation. FMA was created to provide the Company's agents and policyholders access to products which it does not offer on a direct basis.

**CONFLICTS OF INTEREST AND PECUNIARY INTERESTS**

The Company established a conflict of interest policy for its directors and officers to attest to compliance with Tenn. Code Ann. § 56-3-103, prohibiting officers and directors from having a pecuniary interest in the investment or disposition of Company funds. The officers and directors filed annual conflict of interest statements for each year under examination, with no exceptions noted.

**ORGANIZATIONAL CHART**



## **DIVIDENDS**

During the period of examination, the Company paid no annual dividends to its policyholders.

## **CORPORATE RECORDS**

The minutes of meetings of the Company's policyholders, Board, and committees were reviewed for the period under examination. A review of the minutes of the Company's Board and Executive Committee meetings did not show regular approval of the Company's investment transactions. The Board, or a committee appointed by the Board should approve all investment transactions, as required by Tenn. Code Ann. § 56-3-408(b)(1). See the "Comments and Recommendations" section of this report.

## **Charter**

Under the amended and restated Charter, the Company was organized to engage in and carry on the business of a mutual insurance company other than life, pursuant to Tenn. Code Ann., Title 56, Chapter 19. The Charter was last amended on March 12, 2016, to reflect the Company's new address. It also changed the number of directors who are required to be members of the Company from one-half (1/2) of all directors to three (3) directors, and lowered the requirement for a quorum at meetings of members from five percent (5%) of all members to four percent (4%) of members.

In addition to the preceding, the Charter recites other general and specific powers of the Company in detail. They 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 Restated Bylaws of the Company in effect as of December 31, 2016, were restated on March 12, 2016. The changes to the Bylaws included updating the Company's address, changing the number of members that constitute a quorum from one twentieth (1/20) to one twenty-fifth (1/25), and removing a prohibition on directors being elected or re-elected after their seventy-fifth (75<sup>th</sup>) birthday.

The current Bylaws are such as are generally found in companies of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board, and its members.

## **AGREEMENTS WITH PARENT, SUBSIDIARIES, AND AFFILIATES**

The Company had one (1) agreement with an affiliated company, as of December 31, 2016. Following is a summary of that agreement:

### **Services Agreement – FMT and FMA**

The Company is a party to a Services Agreement, dated August 1, 1997, with its subsidiary agency, FMA. Under the terms of the agreement, FMT provides 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 a pro-rata share of the expenses incurred by the Company in providing these services. Additionally, the Company provides payroll and accounting services for FMA, which are required for the payment of agents' commissions. FMA reimburses the Company one hundred percent (100%) of all such payroll expenses, including payroll taxes. The agreement was approved by the TDCI.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintains fidelity bond coverage which exceeds the amount recommended by the NAIC Handbook. The policy was inspected and appeared to be in-force as of the date of this examination. Other insurance policies were also reviewed. The Company maintains the following coverage as of December 31, 2016:

Workers Compensation	Employment Practices Liability
Directors & Officers Liability	Insurance Company Professional Liability
Commercial General Liability	Trustees and Fiduciaries Liability
Commercial Property	Commercial Automobile Liability

All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers.

## **TERRITORY AND PLAN OF OPERATION**

### **TERRITORY**

As of December 31, 2016, and as of the date of this report, the Company was licensed to transact business in the State of Tennessee.

## SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

<u>State</u>	<u>Direct Premiums Written</u>	<u>Direct Premium Earned</u>	<u>Direct Losses Paid</u>	<u>Direct Losses Incurred</u>	<u>Direct Losses Unpaid</u>
Tennessee	\$12,606,101	\$12,359,322	\$5,536,681	\$5,700,132	\$2,494,371
Totals	<u>\$12,606,101</u>	<u>\$12,359,322</u>	<u>\$5,536,681</u>	<u>\$5,700,132</u>	<u>\$2,494,371</u>

### PLAN OF OPERATION

The Company writes fire, allied lines, farm owners multiple peril, homeowners multiple peril, commercial multiple peril, other liability, and burglary and theft coverages. The Company has its own marketing division located in its home office in Knoxville, Tennessee. The Company markets its insurance products through FMA, as well as through independent agents.

During the period under review and through the date of this report, all underwriting and pricing was performed in the home office and was subject to the underwriting rules adopted by the Company and issued in accordance with approved rates. The Company issues only non-assessable policies. New policies, policy endorsements, and renewals were 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 was handled by Company employees and independent adjusters. The largest net amount insured by the Company in any one risk was \$400,000.

In addition to the Company's traditional marketing approach, there were fifteen (15) Tennessee county mutual insurers (county mutuals) writing liability insurance through the Company as a service to their policyholders who wish to obtain such coverage on properties insured by the county mutuals. Several issues were noted with these arrangements, which are written in some cases, but only verbal in other situations. The county mutual insurer has been listed as the producer on these liability policies. This is a violation of Tenn. Code Ann. § 56-6-106(b), which states, "A business entity may obtain an insurance producer's license; however, only an individual licensed producer or limited lines producer shall sell, solicit or negotiate a contract of insurance in this state." Therefore, county mutual insurers cannot act as agents and the Company should discontinue the practice of allowing a business entity to act as an insurance producer for its policies. Also, in order to comply with Tenn. Code Ann. § 56-6-115(a), FMT must officially appoint an individual agent with a casualty license to write liability coverage on its behalf through each county mutual insurer.

Further, some of the county mutuals are receiving commissions on the liability policies sold. This is a violation of Tenn. Code Ann. § 56-6-113(b), which states “A person shall not accept a commission, service fee, brokerage or other valuable consideration for selling, soliciting or negotiating a contract of insurance in this state if that person is required to be licensed under this part and is not so licensed.” The Company should discontinue the practice of paying commissions to entities other than duly licensed agents.

The Company is currently working with the county mutuals to come to an agreement that is satisfactory to both parties and in compliance with Tennessee statutes, rules and regulations. See “Comments and Recommendations” section in this report.

## **GROWTH OF COMPANY**

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements as filed with the TDCI:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Total Surplus</u>	<u>Earned Premiums</u>	<u>Incurred Losses</u>
2016	\$23,995,093	\$9,898,223	\$14,096,870	\$11,127,430	\$6,568,871
2015	\$23,064,230	\$9,488,051	\$13,576,179	\$10,650,021	\$6,676,035
2014	\$22,157,423	\$8,752,331	\$13,405,092	\$9,639,500	\$6,558,921
2013	\$20,614,391	\$7,306,867	\$13,307,524	\$8,412,840	\$4,495,061
2012	\$17,477,533	\$6,804,349	\$10,673,184	\$6,508,988	\$6,849,378

## **LOSS EXPERIENCE**

As developed from applicable amounts included in the Company’s annual statements filed with the TDCI, the ratios of losses incurred to earned premiums for the period subject to this examination were as follows:

<u>Year</u>	<u>Losses Incurred</u>	<u>LAE Incurred</u>	<u>Premiums Earned</u>	<u>Loss Ratio</u>
2016	\$5,957,231	\$611,640	\$11,127,430	59.0%
2015	\$6,009,373	\$666,662	\$10,650,021	62.7%
2014	\$5,945,618	\$613,303	\$9,639,500	68.0%
2013	\$3,950,150	\$544,911	\$8,412,840	53.4%
2012	\$6,295,613	\$553,765	\$6,508,988	105.2%

## REINSURANCE

### Ceded

To mitigate the severity of loss events, the Company obtained reinsurance through Farmers Mutual Hail Insurance Company of Iowa (FMHIC), Odyssey American Reinsurance Corp., Renaissance Reinsurance U.S. Inc., and Lloyd's, London. The Company maintained excess of loss coverage on property and casualty risks of \$400,000 in excess of a \$100,000 retention. The Company also had catastrophe excess coverage and aggregate excess of loss coverage.

The Company's reinsurance agreements were reviewed and found to contain the standard provisions for arbitration, cancellation, errors and omissions, exclusions, insolvency, offset, settlement, taxes, and termination. The Company's reinsurance agreements transferred risk in accordance with Statement of Statutory Accounting Principles (SSAP) No. 62 and NAIC guidelines.

### Assumed

The Company assumes proportional and excess property reinsurance from several Tennessee county mutual fire insurance companies. The Company also cedes a portion of this business, on a quota share basis, to FMHIC. The Company also assumes business as part of a pooling arrangement with NAMIC Insurance Company, Inc.

The Company used Beach Re Limited as its reinsurance intermediary.

## LITIGATION AND CONTINGENT LIABILITIES

During the period of examination and as of December 31, 2016, the Company is a party to various pending legal proceedings arising in the ordinary course of business. Based upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that contingent liabilities arising from litigation, income taxes and other matters are not considered material in relation to the financial position of the Company.

## STATUTORY DEPOSITS

The Company's statutory deposit with the TDCI matured during 2016 and had not been replaced as of December 31, 2016. Therefore, the Company did not report a statutory deposit amount on Schedule E, Part 3 of its 2016 annual statement. On March 14,

2017, the security below replaced the previously matured security, so that the Company maintained the deposit shown below, as of the date of this report:

### **GENERAL DEPOSITS**

<b><u>Jurisdiction</u></b>	<b><u>Description of Security</u></b>	<b><u>Book/Adjusted Carrying Value</u></b>	<b><u>Fair Value</u></b>	<b><u>Par Value (Dollars)</u></b>
Tennessee - Department of Insurance	J.P. Morgan Chase Bond, 2.2%, Due 10/22/19, CUSIP # 48127HAA7	\$250,803	\$249,735	\$275,000
	<b>Total General Deposits</b>	<b><u>\$250,803</u></b>	<b><u>\$249,735</u></b>	<b><u>\$275,000</u></b>

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodians of such deposits.

### **ACCOUNTS AND RECORDS**

Tenn. Comp. R. & Regs. 0780-01-65-.08(4)(a) states that no partner or other person responsible for rendering a report by a certified public accounting (CPA) firm may act in that capacity for more than five (5) consecutive years. The Company was audited by Johnson Lambert LLP for the most recent four (4) of the five (5) years under examination. HGA & Associates, P.C. was the auditor for 2012. Both CPA firms were in compliance with this regulation.

During the course of the examination, certain balances were tested and amounts were traced from the Company's trial balance to the annual statement. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed. These test checks and reviews revealed no material discrepancies. Premium tax records were reviewed for Tennessee, and no exceptions were noted.

Pursuant to Tenn. Code Ann. § 56-3-903 and Tenn. Comp. R. & Regs. 0780-01-46-.02(1), the Company must deposit its securities with a qualified custodian via a written agreement. However, as of December 31, 2016, the Company's custodial agreements with Regions Bank and Home Federal Bank of Tennessee did not contain all the provisions required by Tenn. Comp. R. & Reg. 0780-01-.02. Subsequent to the examination date and prior to the completion of the examination, these custodial agreements were amended to include all the necessary provisions. See "Comments and Recommendations" section in this report.

In addition, the Company has mutual fund investments held directly by Vanguard Brokerage Services ("Vanguard"). These mutual fund investments meet the definition of

a security as defined by Tenn. Comp. R. & Regs. 0780-01-46-.01(7). Accordingly, the Company must deposit its mutual fund investments with a qualified custodian via a written agreement. Vanguard is a broker/dealer and qualifies as a custodian as defined in Tenn. Comp. R. & Regs. 0780-01-46-.01(3)(b). However, there is no custodial agreement between Vanguard and the Company that meets the requirements of Tenn. Comp. R. & Reg. 0780-01-.02. See "Comments and Recommendations" section in this report.

The Company's books and records are located in Knoxville, Tennessee.

## **MARKET CONDUCT ACTIVITIES**

A market conduct review was made of the Company, as of December 31, 2016, in conjunction with this examination. The following items were addressed:

### **Underwriting, Rates, and Policy Forms**

In the examination of underwriting and rating, Company operations were examined for compliance with their own underwriting guidelines, filed rates and forms, and applicable statutes and rules. In conducting the examination, random samples were selected from open and closed underwriting files. As a result of examination, no issues or concerns were identified.

### **Complaint Handling Practices**

The Company's complaint handling procedures and complaints received by the Company were examined to ensure that records maintained by the Company were in accordance with applicable statutes, rules and regulations, and that the time-frame within which the Company responded to complaints was reasonable. As a result of examination, although the Company appeared to respond to complaints in a timely manner, it was noted that the Company did not include all of the complaints received from the TDCI on its complaint register. See "Comments and Recommendations" section in this report.

### **Advertising**

All advertising and sales materials used by the Company were examined for compliance with statutory and rule requirements. As a result of examination, no issues or concerns were identified.

### **Claims Handling Practices**

The Company's efficiency of claims handling, accuracy of payment, adherence to contract provisions, and compliance with applicable statutes and rules were examined.

In conducting the examination, random samples were selected from claims approved and resisted by the Company. As a result of examination, no issues or concerns were identified.

### **Anti-fraud Plan**

The Company has an anti-fraud plan, which contains procedures designed to detect and investigate potentially fraudulent activity. The procedures were examined to ensure that they included proper guidance for employees. Company operations were also examined for implementation of antifraud measures. As a result of examination, no issues or concerns were identified.

### **Privacy of Consumer Information**

The Company's policies and procedures for the privacy of consumer information were examined to ensure the Company had developed and implemented written policies and procedures for the management of confidential and personal insurance information. As a result of examination, no issues or concerns were identified.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of revenue and expenses as of December 31, 2016, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2016 annual statement.

### ASSETS

	<u>Assets</u>	<u>Non- admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$12,700,071		\$12,700,071
Preferred stocks	372,896		372,896
Common stocks	3,576,160	31,000	3,545,160
Properties occupied by the company	1,668,766		1,668,766
Properties held for the production of income	90,881		90,881
Properties held for sale	10,250		10,250
Cash and short-term investments	2,462,150		2,462,150
Investment income due and accrued	123,311		123,311
Uncollected premiums and agents' balances in the course of collection	534,400	15,367	519,033
Deferred premiums; agents' balances and Installments deferred and not yet due	1,407,771		1,407,771
Amounts recoverable from reinsurers	385,141		385,141
Current federal and foreign income tax recoverable and interest thereon	119,211		119,211
Net deferred tax asset	646,076	72,054	574,022
Electronic data processing equipment and software	9,771		9,771
Furniture and equipment, including healthcare delivery assets	98,303	98,303	
Receivables from parent; subsidiaries and affiliates	<u>6,659</u>		<u>6,659</u>
Total assets	<u>\$24,211,817</u>	<u>\$216,724</u>	<u>\$23,995,093</u>

## LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$2,415,923
Reinsurance payable on paid losses and loss adjustment expenses		336,399
Loss adjustment expenses		245,189
Commissions payable, contingent commissions and other similar charges		168,835
Other expenses		325,205
Taxes, licenses and fees		38,927
Unearned premiums		6,193,070
Advance premium		212,648
Ceded reinsurance premiums payable		(47,541)
Amounts withheld by company for account of others		<u>9,569</u>
<b>Total liabilities</b>		9,898,223
Unassigned funds (surplus)	<u>14,096,871</u>	
Surplus as regards policyholders		<u>14,096,870</u>
<b>Totals</b>		<u>\$23,995,093</u>

## STATEMENT OF INCOME

<b>UNDERWRITING INCOME</b>		
Premiums earned		\$11,127,430
Deductions:		
Losses incurred	\$5,957,231	
Loss adjustment expenses incurred	611,640	
Other underwriting expenses incurred	<u>4,114,464</u>	
Total underwriting deductions		<u>10,683,336</u>
Net underwriting gain (loss)		444,094
<b>INVESTMENT INCOME</b>		
Net investment income earned	279,905	
Net realized capital gains (losses)	<u>75,268</u>	
Net investment gain (loss)		355,173
<b>OTHER INCOME</b>		
Net gain (loss) from agents' or premium balances charged off	(26,942)	
Total other income		<u>(26,942)</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		772,324
Federal and foreign income taxes incurred		<u>40,005</u>
Net income		<u>\$732,319</u>

**CAPITAL AND SURPLUS ACCOUNT**

	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Surplus as regards policyholders, December 31 prior year	\$13,576,179	\$13,405,092	\$13,307,524	\$10,673,184	\$13,004,285
Net Income	732,319	445,171	332,031	1,711,726	(2,495,964)
Change in net unrealized capital gains or (losses)	79,980	(162,045)	(174,850)	384,086	163,569
Change in net deferred income tax	(258,186)	(135,735)	17,755	578,992	
Change in non-admitted assets	(33,422)	23,695	(77,368)	(40,464)	1,294
Change in surplus as regards policyholders for the year	<u>520,691</u>	<u>171,086</u>	<u>97,568</u>	<u>2,634,340</u>	<u>(2,331,101)</u>
Surplus as regards policyholders, December 31 current year	<u>\$14,096,870</u>	<u>\$13,576,179</u>	<u>\$13,405,092</u>	<u>\$13,307,524</u>	<u>\$10,673,184</u>

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No adjustments were made to surplus as a result of this examination.

## **SUMMARY SCHEDULE FOR CHANGES IN CAPITAL AND SURPLUS**

There were no adjustments to capital and surplus as of December 31, 2016, based on the results of this examination.

## **COMMENTS AND RECOMMENDATIONS**

The following list presents a summary of comments and recommendations noted in this report:

### **Comments**

1. As noted above in "Accounts and Records," as of December 31, 2016, the Company's custodial agreements with Regions Bank and Home Federal Bank of Tennessee did not contain all the provisions required by Tenn. Comp. R. & Reg. 0780-01-.02. Subsequent to the examination date and prior to the completion of the examination, these custodial agreements were amended to include all the necessary provisions. The Company should monitor changes to state regulations to ensure that custodial agreements comply with regulatory requirements.
2. As noted in the "Statutory Deposits" section of this report, the Company's statutory deposit matured during 2016 and had not been replaced as of the date of this examination. Therefore, the Company did not report a statutory deposit amount on Schedule E, Part 3 of its annual statement. The deposit was replaced on March 14, 2017.

### **Recommendations**

1. As noted in the "Management and Control" section of this report, neither the Board nor the Executive Committee minutes reported regular approval of the Company's investment transactions. It is recommended that the Board, or a committee appointed by the Board, approve all investment transactions, as required by Tenn. Code Ann. § 56-3-408(b)(1).
2. As noted in the "Plan of Operations" section of this report, the Company's liability insurance coverage is sold by several county mutual insurers to the county mutuals' policyholders. The county mutual insurer has been listed as the producer on these liability policies which is a violation of Tenn. Code Ann. § 56-6-106(b). It is

recommended that the Company discontinue the practice of allowing a business entity to act as an insurance producer for its policies.

In order to comply with Tenn. Code Ann. § 56-6-115(a), it is recommended that FMT appoint individual agents with a casualty license to write liability coverage on its behalf through each county mutual insurer.

Commissions paid to the county mutual for liability policies sold on behalf of FMT is a violation of Tenn. Code Ann. § 56-6-113(b). It is recommended that the Company discontinue the practice of paying commissions to entities other than duly licensed agents.

The Company is currently working with the county mutuals to produce a written agreement that is satisfactory to both parties and in compliance with Tennessee statutes, rules and regulations.

3. As noted in the "Accounts and Records" section of this report, the Company has mutual fund investments held by Vanguard. Vanguard is a broker/dealer and qualifies as a custodian; however, there is no custodial agreement between Vanguard and the Company that meets the requirements of Tenn. Comp. R. & Reg. 0780-01-.02. Therefore, it is recommended that the Company either deposit its mutual fund investments with one of the custodian banks with which it has an existing custodial agreement, or obtain a written agreement with Vanguard that meets the requirements of Tenn. Comp. R. & Reg. 0780-01-.02.
4. As noted in the "Market Conduct Activities" section of this report, the Company should record all complaints on its complaint register, whether received directly from the insured or from the TDCI, in compliance with Tenn. Code Ann. § 56-8-104(11).

## CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee and the customary insurance examination practices and procedures as promulgated by the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Mutual of Tennessee.

In such manner, it was found that as of December 31, 2016, the Company had admitted assets of \$23,995,093 and liabilities, exclusive of surplus, of \$9,898,223. Thus, there existed for the additional protection of the policyholders, the amount of \$14,096,870 in the form of unassigned funds (surplus). Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum surplus of \$2,000,000. Therefore, the Company as of December 31, 2016, for this examination maintains surplus sufficient to satisfy the requirements of Tenn. Code Ann. §§ 56-2-114 and 56-2-115.

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

In addition to the undersigned, James T. Pearce, Jr. and Jody Fox, Insurance Examiners for the State of Tennessee and Bryant Cummings, CFE, MCM, Assistant Chief Examiner for the State of Tennessee, participated in the work of this examination. An actuarial review was performed by Greg Wilson, FCAS, FSA, MAAA, of the actuarial firm Lewis & Ellis, Inc., Richardson, Texas.

Respectfully submitted,



Rhonda Bowling-Black, CFE, ARe, MCM  
Examiner-in-Charge  
State of Tennessee

**AFFIDAVIT**

The undersigned deposes and says that she has duly executed the attached examination report of Farmers Mutual of Tennessee located in Knoxville, Tennessee, dated June 6, 2018, and made as of December 31, 2016, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of her knowledge, information, and belief.



Rhonda Bowling-Black, CFE, ARe, MCM  
Examiner-in-Charge  
State of Tennessee

State Tennessee

County Dawson

Subscribed to and sworn before me

this 15th day of June, 2018

  
(NOTARY)

My Commission Expires: 6/19/18



# **EXHIBIT B**



**FARMERS MUTUAL**  
OF TENNESSEE

P.O. Box 3428 • Knoxville, TN 37927 • (865) 523-5153  
www.fmtinsurance.com

June 15, 2018

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 – Farmers Mutual of Tennessee

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Farmers Mutual of Tennessee.**

By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

Gordo Watson, President  
Farmers Mutual of Tennessee