

# **EXHIBIT A**



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

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**REPORT ON EXAMINATION**  
**OF**  
**TENNESSEE FARMERS LIFE INSURANCE COMPANY**  
**(NAIC # 82759)**  
**COLUMBIA, TENNESSEE**

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**AS OF**  
**DECEMBER 31, 2015**

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Columbia, Tennessee  
June 2, 2017

Honorable Julie Mix McPeak  
Commissioner  
Tennessee Department of Commerce and Insurance  
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 market conduct review as of December 31, 2015, has been made of the conditions and affairs of:

**TENNESSEE FARMERS LIFE INSURANCE COMPANY**

NAIC # 82759

147 Bear Creek Pike

Columbia, Tennessee 38401-5409

hereinafter generally referred to as “TFLIC” 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 June 25, 2016, 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. It was conducted simultaneously with the examination of two (2) other insurance companies in the Tennessee Farmers Group, all based in Columbia, Tennessee, as follows:

- Tennessee Farmers Mutual Insurance Company
- Tennessee Farmers Assurance Company

## SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2010. This examination covers the period January 1, 2011, through December 31, 2015, 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, 2015. 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; Premiums; Reserving/Claims Handling; Reinsurance Assumed; Reinsurance Ceded; Related Party; Taxes; Expenses; and Capital & Surplus.

The Company's 2015 annual statement was compared with or 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.

Although the Company does not maintain an Internal Audit (IA) Department, it does have 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.

Johnson Lambert LLP was the certified public accountant (CPA) and independent auditor for the Company for the years under examination. The CPA's work papers were reviewed for the 2015 audit 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 on examination, dated June 15, 2012, which covered the period from January 1, 2005, through December 31, 2010. The previous full-scope examination report as of December 31, 2010, contained one (1) comment. The Company addressed the prior examination comment during the course of the previous examination. Below is a description of the prior examination report's comment:

### **Comment:**

In order to better comply with the requirements of "Unfair methods of competition and unfair or deceptive acts or practices" defined by the Tennessee Code, the Company formalized its "Complaint Policy and Procedures" during the examination in order to create a new data base which more accurately captures all complaints and makes database access more assessable.

The new complaint handling system is designed to capture complaints and record all actions in a database that would provide upon request a detailed complaint register listing both complaints received directly by the Company and complaints received through the TDCI. The new system is designed to track each complaint from receipt to completion of actions required.

## **COMPANY HISTORY**

On April 6, 1973, the Tennessee Farmers Mutual Insurance Company (TFMIC) and the Tennessee Farm Bureau Federation ("Federation") subscribed to purchase nine hundred fifty thousand (950,000) and one hundred fifty thousand (150,000) shares, respectively, of the authorized common capital stock of the Company. The subscription

price was \$2.00 per share for a total of \$2,200,000 in the form of \$1,100,000 capital paid in and \$1,100,000 gross paid in and contributed surplus.

The Company was issued a Certificate of Authority by the TDCI on April 30, 1973, to transact the business of Life, Disability and Credit Insurance as defined by Tenn. Code Ann. § 56-2-210. The Certificate remains in force.

On October 31, 1980, the Company acquired one thousand (1,000) shares in the Tennessee Farmers Insurance Agency, Inc., a wholly-owned subsidiary of the company, for \$1,000. The Company made a paid in capital contribution of \$39,000 to the Agency on August 18, 1981, following authorization by the Board of Directors ("Board"). On October 11, 1991, the Board authorized the sale of the Agency to TFMIC for \$133,235.

Effective October 5, 1980, the Company formed and incorporated a wholly-owned subsidiary, Tennessee Farmers Capital Corporation, ("Capital"). Capital was formed as a for-profit corporation for the main purpose of leasing automobile, furniture, and computer equipment to all of the Company's affiliated companies. The Company leased from Capital up through June 30, 2002. Capital was dissolved and merged back into the Company.

The Company owned one hundred percent (100%) of the common stock of Capital, which owned one hundred percent (100%) of the stock of TF Investment Corporation (TFIC), a Nevada corporation. TFIC was incorporated on September 1, 1993, as an investment subsidiary to facilitate the purchase of tax exempt municipal bonds rated "1" by the NAIC's Securities Valuation Office. By permission granted by the TDCI, the Company provided funds necessary to capitalize and purchase the portfolio of bonds. All investments held by this subsidiary are for the benefit of the Company; however, all of the investment income is retained with TFIC, and does not flow upstream into the Company's books. As of December 31, 2015, the book value of the investments held by the Company in TFIC was \$399,137,013.

The Company additionally owns one hundred percent (100%) of A Total Travel Agency, Inc., fifty percent (50%) of TF Properties Inc., and five and one tenth percent (5.1%) of TFHC, Inc. TFHC, Inc. is a holding company which owns ninety one and one tenth percent (91.1%) of Tennessee Farmers Assurance Company (TFAC).

On September 25, 2007, a hearing was held before the Commissioner to consider the Agreement and Plan of Merger between the Company and its subsidiary, Tennessee Farmers Life Reassurance Company. The Order approving the merger was signed on

October 4, 2007. Tennessee Farmers Life Reassurance Company was thus merged out of existence and all of its assets and liabilities were assumed by the Company.

On May 18, 2012, the Company purchased twelve thousand seven hundred fifty (12,750) shares of the common stock of Generation Life Insurance Company ("Generation"). This purchase represented fifty one percent (51%) of the issued and outstanding shares. The remaining forty nine percent (49%) was purchased by TFAC.

At December 31, 2015, the Company has one hundred million (100,000,000) shares of common stock authorized and twenty two million, five hundred sixty six thousand, two hundred twenty (22,566,220) shares of common stock issued at one dollar (\$1) par value per share.

At December 31, 2015, the Company was licensed in one state, Tennessee.

## MANAGEMENT AND CONTROL

### MANAGEMENT

#### Directors

Management of the Company is vested in a Board elected annually. In accordance with the Bylaws, the Board shall consist of not less than five (5) nor more than twenty-five (25) directors. The composition of the Board has been identical for all three (3) companies comprising the Tennessee Farmers Group. The following persons had been duly elected and were serving as members of the Company's Board at December 31, 2015:

| <u>Name</u>           | <u>Principal Occupation</u>                     |
|-----------------------|---|
| Lacy Upchurch         | President and Chairman, Tennessee Farmers Group |
| Jeff Aiken            | Farmer  |
| Willard Brown         | Farmer  |
| Joseph Allen Bryant   | Farmer  |
| Malcolm Burchfiel     | Farmer  |
| Robert Earhart        | Farmer  |
| Charles Hancock       | Farmer  |
| Dan Hancock           | Farmer  |
| James Haskew, Jr.     | Farmer  |
| Jason Luckey          | Farmer  |
| Jane May              | Farmer/Homemaker                                |
| William Eric Mayberry | Farmer  |
| David Mitchell        | Farmer  |
| David Richesin        | Farmer  |
| Jack Sanders          | Farmer  |
| Catherine Via         | Farmer/Education Supervisor                     |

The Board is charged with managing the business and affairs of the Company. Each director must be a member in good standing of the Tennessee Farm Bureau Federation and must be a member in good standing of a county Farm Bureau. Though not required by the Charter or Bylaws of the Company, historically eleven (11) members of the Board have also served on the Federation Board of Directors.

### Officers

The Bylaws of the Company provide that the Board shall elect annually a president, a first vice president, a chief executive officer (CEO), a secretary, a treasurer, and such additional officers as the CEO may propose and the Board approves. The following officers were duly elected and were serving in the positions indicated for the Company at December 31, 2015:

| <u>Name</u>              | <u>Office</u>                         |
|--------------------------|---------------------------------------|
| Lacy Upchurch            | President and Chairman of the Board   |
| Jeff Aiken               | First Vice President                  |
| Matthew M. Scoggins, Jr. | Chief Executive Officer               |
| Ed Lancaster             | Secretary and General Counsel         |
| Wayne Merrill            | Treasurer and Chief Financial Officer |
| Dennis Stephen           | Chief Operating Officer               |
| Steve Burt               | Chief Information Officer             |
| Jeff Pannell             | Chief Marketing Officer               |
| Neal Townsend            | Chief Administrative Officer          |

The President functions as the Chairman of the Board and presides over all meetings of the stockholders and the Board. The President also serves as a conduit to the executive personnel concerning policy established by the Board. Subject to the control of the Board, the CEO shall have general management and control of the affairs and business of the Company, and shall perform all other duties and exercise all other powers commonly incident to his office, or which are required by law.

### Committees

The Company's Investment Committee at December 31, 2015 was as follows:

| <u>Name</u>              | <u>Title</u>                          |
|--------------------------|---------------------------------------|
| Lacy Upchurch            | President                             |
| Matthew M. Scoggins, Jr. | Chief Executive Officer               |
| Wayne Merrill            | Treasurer and Chief Financial Officer |
| Dennis Stephens          | Chief Operating Officer               |
| Ed Lancaster             | Secretary and General Counsel         |

#### Non-Voting Members

|               |                              |
|---------------|------------------------------|
| Randy Maxwell | Investment Portfolio Manager |
|---------------|------------------------------|

David Williamson  
Jerry Cook

Investment Portfolio Manager  
Vice President of Accounting

The Company's Audit Committee at December 31, 2015 was as follows:

| <u>Name</u>   | <u>Title</u> |
|---------------|--------------|
| Jeff Aiken    | Director     |
| Eric Mayberry | Director     |
| Jason Luckey  | Director     |
| Jack Sanders  | Director     |
| Catherine Via | Director     |

Non-Voting Members

|                          |                                   |
|--------------------------|-----------------------------------|
| Matthew M. Scoggins, Jr. | Chief Executive Officer           |
| Wayne Merrill            | Treasurer/Chief Financial Officer |
| Edward Lancaster         | Secretary/General Counsel         |

The administrative and executive functions of the Company are performed by the home office staff. The Company has its own marketing division located in the home office in Columbia, Tennessee. The Company is a direct writer, marketing its insurance products through captive agents. Offices are typically located in county farm bureau offices throughout Tennessee. These offices are staffed by licensed agents who operate as independent contractors. Underwriting activities are also performed by home office staff.

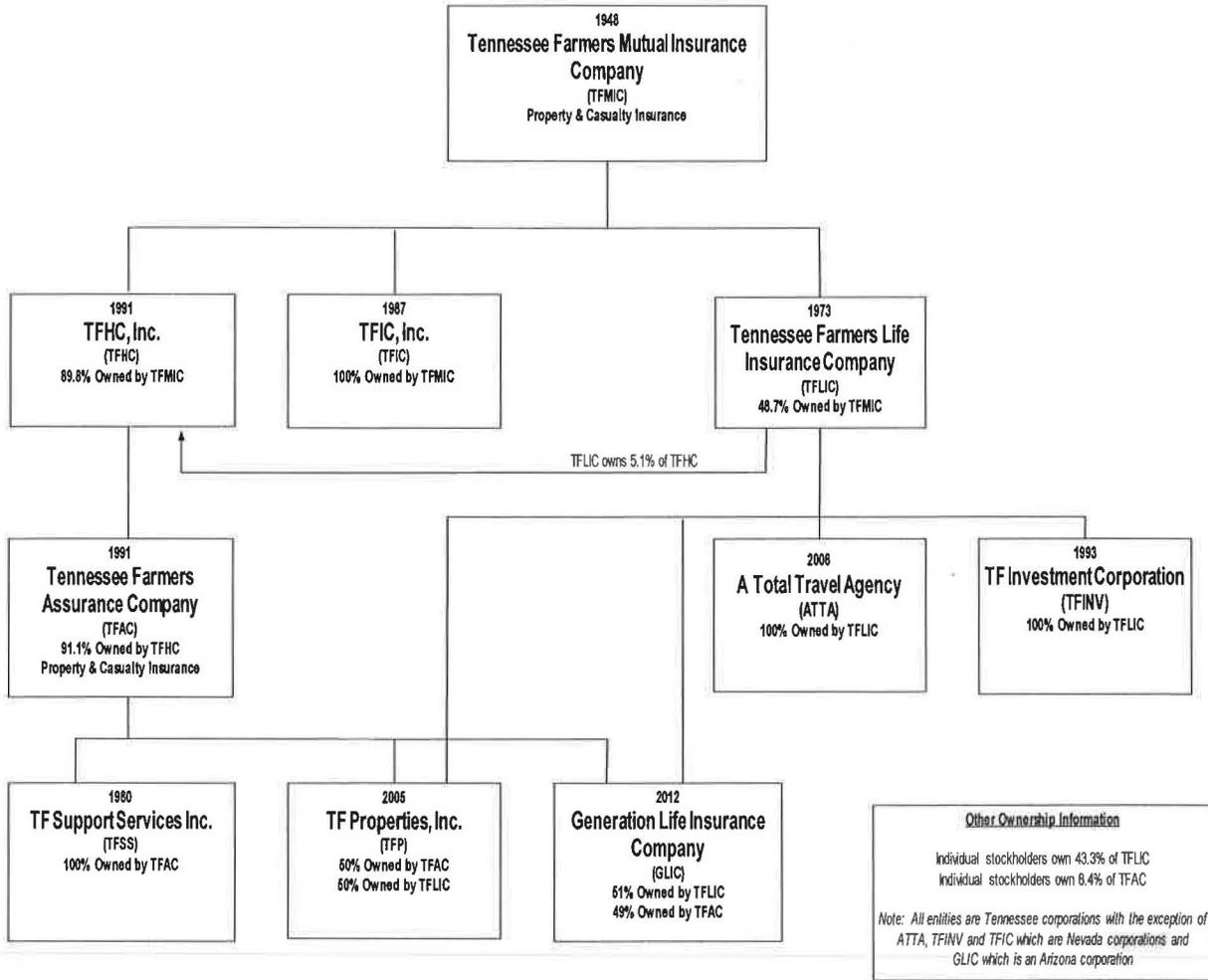
**CONTROL**

The Company's immediate and ultimate parent is Tennessee Farmers Mutual Insurance Company (TFMIC), a Tennessee domiciled property and casualty insurance company, which is the flagship of the Tennessee Farmers Insurance Group. TFMIC maintains a forty-eight and seven tenths percent (48.7%) interest in the Company. Additional owners of the Company are as follows: Tennessee Farm Bureau Federation – five and two tenths percent (5.2%), Tennessee Rural Health Improvement Association – two and nine tenths percent (2.9%), TFMIC Retirement Savings Plan – two percent (2%), and individual stockholders - approximately forty and nine tenths percent (40.9%).

**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 pecuniary interest in investment or disposition of Company funds. The officers and directors filed annual conflict of interest statements for each year under examination. No violations were noted.

## ORGANIZATIONAL CHART



### DIVIDENDS

Annually, during the period of examination, the Company declared and paid three percent (3%) stock dividends to its shareholders. The following table lists each dividend amount:

| <u>Year</u>  | <u>Shares</u>           |
|--------------|-------------------------|
| 2015         | 658,753                 |
| 2014         | 641,355                 |
| 2013         | 625,021                 |
| 2012         | 610,677                 |
| 2011         | <u>594,218</u>          |
| <b>Total</b> | <b><u>3,130,024</u></b> |

## **CORPORATE RECORDS**

The minutes of meetings of the Company's shareholders, Board, and committees were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies.

### **Charter**

The Charter of the Company, in effect as of December 31, 2015, is the Company's Amended Charter which was filed with the Secretary of State on July 14, 2005. The Charter provides for the operation of a for-profit corporation with a perpetual existence and establishes its location in Columbia, Maury County, Tennessee.

The Charter states that the purpose of the Company is "to insure the lives of persons and engage in the general business of life insurance". The Company made no amendments to its Charter during the period of examination.

### **Bylaws**

The Restated Bylaws of the Company, in effect as of December 31, 2015, were restated April 9, 1992, in order to comply with Tennessee Corporation Act of 1986 and alleviate any technical deficiencies that may have accumulated since the Company was incorporated. The Bylaws were last amended on April 4, 1994. No amendments have been enacted during the period of examination.

The current Bylaws are such as are generally found in corporations 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 shareholders.

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

The Company had multiple agreements with affiliated companies in effect, as of December 31, 2015. The following are summaries of the agreements:

### **Management Services Agreement**

The Company entered into a Management Services Agreement with TFMIC effective December 21, 1973. Under terms of the agreement, TFMIC performs all management, administrative, and other services that are reasonably necessary for the operation of the Company. These services include, but are not limited to: employees, legal, claims, managerial and accounting. The agreement ending date was December 31, 1993, with the option to renew on an annual basis.

The agreement provides for the Company to be paid for services and supplies in an amount determined in accordance with Treasury Regulation Section 1.482-2(b)(3) *et seq.* as codified in United States Internal Revenue Code Title 26. Payment of amounts due is to be remitted on a quarterly basis.

### **Management Services Agreement – Generation Life**

Effective May 18, 2012, the Company and TFMIC entered into a Management Services Agreement with Generation, following the acquisition of Generation by the Company and TFAC. Under the terms of the agreement, the Company and TFMIC will supply personnel, supplies, equipment, and other facilities as required by Generation to carry on its everyday operations. Generation will pay a sum equal to the costs or deductions, determined in accordance with Treasury Regulation Section 1.482-9 *et seq.*, incurred by the Company and TFMIC in rendering such services or making such supplies, equipment, or other facilities available.

### **Tax Allocation Agreement**

The Company entered into a tax allocation agreement with its subsidiaries, TFIC, and A Total Travel Agency, Inc., effective December 31, 2011. Under the terms of the agreement, the subsidiaries shall establish a liability to the Company for the amount of federal income tax that relates to the subsidiary's contribution to the total consolidated federal income tax liability. In the event that a subsidiary incurs a net operating loss, thus providing a tax benefit to the consolidated group, the Company shall credit to the subsidiary the amount of the tax benefit attributable to the subsidiary's net operating loss. Amounts are to be settled no later than forty-five (45) days after the date on which the consolidated tax return is required to be filed.

### **Equipment Lease Agreement**

The Company entered into a Lease Agreement with TFMIC on January 1, 2004. The lease automatically renews unless either party gives notice to discontinue. The Company purchases most of the equipment used within the holding company group and then leases it to various members. Expense is calculated based upon the expected useful life of the equipment and any other expense associated with the equipment.

### **Lease for Office Space**

The Company owns buildings in Davidson, Dickson, Hamilton, Loudon, Wayne, Shelby, Madison, Maury, Putman, Greene, Wilson, and Coffee counties that are leased to TFMIC for claims offices as well as other operations.

## FIDELITY BOND AND OTHER INSURANCE

Minimum fidelity bond coverage of \$1,750,000 to \$2,000,000 is suggested by guidelines published in the NAIC Handbook. Presently, the Company self-insures its employee dishonesty coverage (fidelity).

The Company's administrative and other services are performed under a Management Service Agreement with TFMIC. Therefore, any workers' compensation coverage would be provided under coverage issued to TFMIC.

The Company is covered under a Commercial General Liability Policy issued by its parent, TFMIC, with coverage as follows:

| <u>Type of Coverage</u>                          | <u>Coverage Limits</u> |
|--|------------------------|
| Commercial General Liability:                    |                        |
| Each occurrence                                  | \$2,000,000            |
| General aggregate                                | \$2,000,000            |
| Products-Completed operations<br>aggregate limit | \$2,000,000            |
| Personal & advertising limit                     | \$2,000,000            |
| Damage to premises rented                        | \$50,000               |
| Medical expense limit (any one person)           | \$5,000                |

The Company is presently a named insured under a policy issued to its parent, TFMIC, as follows:

| <u>Type of Coverage</u>   | <u>Coverage Limits</u> |
|---|------------------------|
| Executive Liability and Entity Security<br>Liability Policy Including Directors',<br>Officers', Insured Entity and Employment<br>Practices Liability Insurance<br>Limit of Liability (inclusive of costs of<br>Defense) | \$10,000,000           |

Coverage is underwritten by an insurer licensed in Tennessee. The following retention amounts apply: \$100,000 retention per claim applies to Employment Practices Claims; \$10,000 retention per claim applies to Fiduciary Claims; and \$100,000 retention applies to other specific defined claims outlined in sections of the policy.

## EMPLOYEE BENEFITS AND PENSION PLANS

The Company has no employees. Any services performed on behalf of the Company are provided by employees of TFMIC under recitals of a Management Services Agreement. This agreement is discussed under the caption, "Agreements with Parent, Subsidiaries, and Affiliates."

## TERRITORY AND PLAN OF OPERATION

### TERRITORY

As of December 31, 2015, and as of the date of this report, the Company was licensed to transact business in the state of Tennessee. The Certificate of Authority for that jurisdiction was reviewed and found to be in order.

Premium tax records were reviewed for Tennessee, and no exceptions were noted.

### SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

| <u>State</u> | <u>Life Insurance<br/>Premiums</u> | <u>Annuity<br/>Considerations</u> | <u>Deposit-Type<br/>Contracts</u> |
|--------------|------------------------------------|-----------------------------------|-----------------------------------|
| Tennessee    | <u>\$142,725,083</u>               | <u>\$49,370,568</u>               | <u>\$20,475,862</u>               |
| Totals       | <u>\$142,725,083</u>               | <u>\$49,370,568</u>               | <u>\$20,475,862</u>               |

### PLAN OF OPERATION

The Company markets individual interest-sensitive universal life insurance plans and a variety of individual annuity plans primarily to members of the Tennessee Farm Bureau Federation. Life insurance policies are issued with medical examination requirements or on a non-medical examination basis. The annuities are issued on both a qualified and non-qualified basis. The annuity plans include flexible premium deferred annuities, single premium deferred annuities, and single premium immediate annuities.

The insurance business of the Company was produced by a sales and production staff under the supervision of a Chief Marketing Officer assisted by Regional Agency Managers. The Company's captive agents are independent contractors serving as either Agency Managers or Agents. These agents also market business for the affiliated companies, TFAC and TFMIC.

The production offices are primarily located in local Farm Bureau offices in the ninety-five (95) counties of the state of Tennessee. Following a county office restructuring program that was completed in 2011, the County Farm Bureaus and Agency Managers

entered into Administrative Services and Lease Agreements with TF Support Services, Inc. (TFSS). TFSS administers the financial transactions between the Agency Manager and the County Farm Bureau Operations, allowing for a more accurate and defined allocation of operating expenses between the county office insurance operations and the Farm Bureau operations.

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 adjustment of claims is also performed in the home office.

## 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>Net Premium Written</u> | <u>Capital and Surplus</u> | <u>Death Benefits Paid</u> | <u>A&amp;H Benefits Paid</u> | <u>Net Income After Taxes</u> |
|-------------|------------------------|----------------------------|----------------------------|----------------------------|------------------------------|-------------------------------|
| 2015        | \$2,090,570,046        | \$184,515,203              | \$375,640,947              | \$129,869,228              | \$450,000                    | \$25,220,789                  |
| 2014        | \$2,003,743,242        | \$170,579,684              | \$356,986,139              | \$116,790,599              | \$618,334                    | \$35,230,587                  |
| 2013        | \$1,913,592,906        | \$185,506,141              | \$328,104,249              | \$108,777,493              | \$553,332                    | \$34,511,007                  |
| 2012        | \$1,790,589,296        | \$194,467,820              | \$292,713,621              | \$104,207,951              | \$500,000                    | \$31,889,975                  |
| 2011        | \$1,665,401,915        | \$207,834,226              | \$266,989,634              | \$99,776,954               | \$580,000                    | \$16,149,625                  |

## LOSS EXPERIENCE

The mortality experience on life insurance business and the loss experience on accident and health business, since the previous examination, as reported in its annual statements, are as follows:

### Life

| <u>Ordinary Life</u>            | <u>2015</u>      | <u>2014</u>      | <u>2013</u>      | <u>2012</u>      | <u>2011</u>      |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Net Death Benefits Incurred     | \$55,668,028     | \$45,020,033     | \$38,741,437     | \$40,616,854     | \$36,261,451     |
| Less Reserves Released by Death | <u>2,215,043</u> | <u>2,098,975</u> | <u>1,948,214</u> | <u>1,951,798</u> | <u>1,622,530</u> |
| Actual Death Benefits Incurred  | \$53,452,985     | \$42,941,058     | \$36,793,223     | \$38,665,056     | \$34,638,921     |
| Expected Mortality              | 115,946,139      | 106,193,840      | 103,975,768      | 98,893,014       | 87,181,113       |
| Mortality Experience Ratio      | 46.10%           | 40.44%           | 35.39%           | 39.10%           | 39.73%           |

## **Accident & Health**

| <u>Group A&amp;H</u>  | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Net Incurred Claims   | \$450,000   | \$618,334   | \$553,332   | \$500,000   | \$580,000   |
| Net Premiums Earned   | \$3,443,021 | \$3,425,402 | \$3,422,143 | \$3,443,119 | \$3,445,100 |
| Loss Experience Ratio | 13.07%      | 18.05%      | 16.17%      | 14.52%      | 16.84%      |

## **REINSURANCE AGREEMENTS**

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 SSAP No. 61 and NAIC guidelines. The following summary describes the significant reinsurance agreements in effect, as of December 31, 2015:

### **Reinsurance Assumed**

#### **Tennessee Farmers Mutual Insurance Company (TFMIC)**

The Company assumes, through two (2) quota share agreements, one hundred percent (100%) of the automobile blanket accidental death policies issued by TFMIC, effective January 1, 1995. These agreements cover liabilities that existed on and after January 1, 1995.

The company assumes, through a quota share agreement, one hundred percent (100%) of the property blanket accidental death policies issued by TFMIC, effective February 1, 1990. This agreement covers liabilities that existed on and after February 1, 1990.

### **Reinsurance Ceded**

#### **Excess of Loss Agreement**

Since 2006, the Company reinsures all new business applications on an excess of loss basis with SCOR Global Life USA Reinsurance Company (formerly known as Generali USA Life Reassurance Company) and RGA Reinsurance Company (RGA). The business is divided evenly between the (2) companies using an alphabetical split, whereby SCOR reinsures surnames beginning with letters A through L and RGA reinsures surnames beginning with M through Z. The Company's retention is a maximum of \$250,000 on any one life. The retention is graded down to zero (\$0) as the insured's issue age increases or as the insured's medical risk profile worsens.

### Accidental Death Carve Out/Catastrophe Reinsurance

In 2005, the Company began to reinsure its accidental death exposure in a separate agreement. This agreement is also utilized as the Company's catastrophe coverage. Effective January 1, 2015, the reinsurers included in the agreement were SCOR Global Life USA Reinsurance Company, fifty percent (50%) and Liberty Mutual Insurance Company, fifty percent (50%). For 2015, the attachment point at which benefits under the agreement are paid is \$6,000,000.

## LITIGATION AND CONTINGENT LIABILITIES

During the period of examination, and as of December 31, 2015, 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

In compliance with statutory and other requirements, the Company maintained deposits with the named jurisdictions or custodians below, as of December 31, 2015.

### GENERAL DEPOSITS

| <u>Jurisdiction</u>                       | <u>Description of Security</u>                 | <u>Book/Adjusted Carrying Value</u> | <u>Fair Value</u>  | <u>Par Value</u>   |
|---|--|-------------------------------------|--------------------|--------------------|
| Tennessee -<br>Department of<br>Insurance | USTN 4.5%,<br>Due 5-15-17<br>CUSIP # 912828GS3 | \$2,019,044                         | \$2,096,580        | \$2,000,000        |
|   | <b>Total General Deposits</b>                  | <b>\$2,019,044</b>                  | <b>\$2,096,580</b> | <b>\$2,000,000</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), states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than five (5) consecutive years. The Company was audited by

Johnson Lambert LLP for all years under examination. The CPA firm is 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 of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. 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.

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

## **MARKET CONDUCT ACTIVITIES**

A market conduct review was made of the Company, as of December 31, 2015, 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, closed, and declined 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, no issues or concerns were identified.

### **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.

### **Antifraud Plan**

The Company does not have a formal antifraud plan, however, there are procedures in place 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.

## **SUBSEQUENT EVENTS**

On October 3, 2016, the Company sold all of its shares of Generation to iptiQ Americas, Inc., a Delaware corporation.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of revenue and expenses, as of December 31, 2015, together with a reconciliation of capital and surplus for the period under review, as reported by the Company in its 2015 Annual Statement.

|  | <u>ASSETS</u>          | <u>Non-admitted</u> | <u>Net Admitted</u>    |
|--|------------------------|---------------------|------------------------|
|  | <u>Assets</u>          | <u>Assets</u>       | <u>Assets</u>          |
| Bonds  | \$1,377,101,738        |                     | \$1,377,101,738        |
| Preferred Stocks   | 13,392,647             |                     | 13,392,647             |
| Common Stocks  | 536,103,492            |                     | 536,103,492            |
| Mortgage loans on real estate  | 3,204,812              |                     | 3,204,812              |
| Real estate:   |                        |                     |                        |
| Properties occupied by the company   | 15,092,949             |                     | 15,092,949             |
| Cash and short-term investments  | 18,415,044             |                     | 18,415,044             |
| Contract loans   | 18,861,225             | 286,481             | 18,574,743             |
| Other invested assets  | 15,402,233             |                     | 15,402,233             |
| Aggregate write-ins for invested assets: goodwill  | 540,108                | 540,180             |                        |
| Investment income due and Accrued Premiums and considerations:                           | 19,138,869             | 23,913              | 19,114,956             |
| Uncollected premiums and agents' balances in the course of collection                    | 322,171                |                     | 322,171                |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 174                    |                     | 174                    |
| Amounts recoverable from reinsurers  | 150,000                |                     | 150,000                |
| Current federal income tax recoverable   | 3,379,770              |                     | 3,379,770              |
| Net deferred tax assets  | 36,031,266             | 20,916,046          | 15,115,220             |
| Electronic data processing equipment and software  | 5,426,332              | 5,426,332           | 0                      |
| Furniture and Equipment  | 38,664                 | 38,664              | 0                      |
| Receivables from parent, subsidiaries and affiliates                                     | 1,473,658              |                     | 1,473,658              |
| Aggregate write-ins for other-than-invested assets:                                      |                        |                     |                        |
| Amounts due from agents/directors on stock purchase                                      | 325,464                | 325,464             |                        |
| Equipment for lease  | 6,917,497              | 6,917,497           |                        |
| Company-owned life insurance: cash surrender value                                       | 51,940,176             |                     | 51,940,176             |
| Miscellaneous accounts receivable  | 9,153                  |                     | 9,153                  |
| Purchased tax credits  | 1,777,110              |                     | 1,777,110              |
| Phone equipment  | 1,111,365              | 1,111,365           | 0                      |
| <b>Totals</b>  | <u>\$2,126,155,988</u> | <u>\$35,585,942</u> | <u>\$2,090,570,046</u> |

## LIABILITIES, CAPITAL, AND SURPLUS

|   |                    |                               |
|---|--------------------|-------------------------------|
| Aggregate reserve for life contracts                    |                    | \$1,524,642,249               |
| Liability for deposit-type contracts                    |                    | 122,868,830                   |
| Contract claims:  |                    |                               |
| Life  |                    | 10,669,945                    |
| Accident and health                                     |                    | 110,000                       |
| Dividends apportioned for payment                       |                    | 3,424,338                     |
| Premiums and annuity considerations received in advance |                    | 141,059                       |
| Interest maintenance reserve                            |                    | 6,695,767                     |
| Commissions to agents due or accrued                    |                    | 1,257,441                     |
| General expenses due or accrued                         |                    | 1,161,358                     |
| Taxes, licenses and fees due or accrued                 |                    | 1,120,473                     |
| Unearned investment income                              |                    | 224,163                       |
| Remittances and items not allocated                     |                    | 2,385,947                     |
| Liability for benefits for employees and agents         |                    | 6,713,907                     |
| Miscellaneous liabilities:                              |                    |                               |
| Asset valuation reserve                                 |                    | 28,776,470                    |
| Payable to parent, subsidiaries and affiliates          |                    | 2,698,007                     |
| Drafts outstanding                                      |                    | 279,858                       |
| Payable for securities                                  |                    | <u>1,759,268</u>              |
| <b>Total Liabilities</b>                                |                    | <b>1,714,929,080</b>          |
| Common capital stock                                    | \$22,566,220       |                               |
| Gross paid in and contributed surplus                   | 10,794,009         |                               |
| Surplus adjustment                                      | 19                 |                               |
| Unassigned funds (surplus)                              | <u>342,280,718</u> |                               |
| Total Capital and Surplus                               |                    | <u>375,640,966</u>            |
| <b>Totals</b>   |                    | <b><u>\$2,090,570,046</u></b> |

## STATEMENT OF INCOME

|   |                   |                            |
|---|-------------------|----------------------------|
| Premiums and annuity considerations for life and A&H contracts  | \$184,515,203     |                            |
| Net investment income   | 81,889,793        |                            |
| Amortization of Interest Maintenance Reserve (IMR)  | 2,089,537         |                            |
| Commissions and expense allowances on reinsurance ceded   | 915,191           |                            |
| Aggregate write-ins for miscellaneous income  | <u>8,186,044</u>  |                            |
| <b>Total Income</b>   |                   | <b>\$277,595,768</b>       |
| Death benefits  | 55,668,027        |                            |
| Matured endowments  | 10,000            |                            |
| Annuity benefits  | 15,685,358        |                            |
| Disability benefits and benefits under A&H contracts  | 450,000           |                            |
| Surrender benefits and withdrawals for life contracts   | 58,505,843        |                            |
| Interest and adjustments on contract funds  | (44,860)          |                            |
| Increase in aggregate reserves for life and A&H contracts   | <u>62,267,112</u> |                            |
| <b>Total Benefits</b>   |                   | <b>192,541,480</b>         |
| Commissions on premiums and annuity considerations  | 12,962,469        |                            |
| Commissions and expense allowances on reinsurance assumed   | 286,804           |                            |
| General insurance expenses  | 24,164,446        |                            |
| Insurance taxes, licenses and fees  | 3,542,455         |                            |
| Increase in loading on deferred and uncollected premiums  | 35,435            |                            |
| Aggregate write-ins for deductions  | <u>436,589</u>    |                            |
| <b>Total Expenses</b>   |                   | <b><u>233,969,678</u></b>  |
| Net gain from operations before dividends to policyholders and federal income taxes                           |                   | 43,626,090                 |
| Dividends to policyholders  |                   | <u>3,406,394</u>           |
| Net gain from operations after dividends to policyholders and before federal income taxes                     |                   | 40,219,696                 |
| Federal and foreign income taxes incurred   |                   | <u>9,774,516</u>           |
| Net gain from operations after dividends and federal income tax and before realized capital gains or (losses) |                   | 30,445,180                 |
| Net realized capital gains or (losses) less capital gains tax   |                   | <u>(5,224,391)</u>         |
| <b>Net Income</b>   |                   | <b><u>\$25,220,789</u></b> |

## CAPITAL AND SURPLUS ACCOUNT

|   | <u>2015</u>          | <u>2014</u>          | <u>2013</u>          | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Capital and surplus                                 |                      |                      |                      |                      |                      |
| December 31, prior year                             | \$356,986,148        | \$328,104,249        | \$292,713,621        | \$266,989,634        | \$256,558,756        |
| Net Income  | 25,220,789           | 35,230,587           | 34,511,007           | 31,889,975           | 16,149,625           |
| Change in net unrealized capital gains or (losses)  | 1,140,254            | 1,313,645            | 8,024,254            | (1,273,128)          | (5,230,798)          |
| Change in net deferred income tax                   | 2,448,334            | 973,179              | 75,476               | (320,049)            | 6,196,269            |
| Change in non-admitted assets                       | (9,144,071)          | (2,385,685)          | 4,250,625            | 999,536              | (5,029,999)          |
| Change in asset valuation reserve                   | 1,469,346            | (3,302,792)          | (7,845,123)          | (1,064,165)          | (309,505)            |
| Capital changes:                                    |                      |                      |                      |                      |                      |
| Paid in   | (51,620)             | (66,661)             | (89,027)             | (116,325)            | (44,958)             |
| Transferred from surplus (stock dividend)           | 658,753              | 641,355              | 625,021              | 610,677              | 594,218              |
| Surplus adjustments:                                |                      |                      |                      |                      |                      |
| Paid in   | 490,159              | 512,415              | 438,851              | 782,694              | 468,586              |
| Transferred to capital (stock dividend)             | (658,753)            | (641,355)            | (625,021)            | (610,677)            | (594,218)            |
| Aggregate write-ins for gains and losses in surplus | (2,918,381)          | (3,392,789)          | (3,975,436)          | (5,174,549)          | (1,768,341)          |
| Rounding  | <u>8</u>             | <u>0</u>             | <u>1</u>             | <u>(2)</u>           | <u>(1)</u>           |
| Net change in capital and surplus for the year      | <u>18,654,818</u>    | <u>28,881,899</u>    | <u>35,390,628</u>    | <u>25,723,987</u>    | <u>10,430,878</u>    |
| Capital and surplus                                 |                      |                      |                      |                      |                      |
| December 31, current year                           | <u>\$375,640,966</u> | <u>\$356,986,148</u> | <u>\$328,104,249</u> | <u>\$292,713,621</u> | <u>\$266,989,634</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, 2015, based on the results of this examination.

## COMMENTS

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

### Comments

None.

### Recommendations

None.

## CONCLUSION

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 Tennessee Farmers Life Insurance Company.

In such manner, it was found that, as of December 31, 2015, the Company had admitted assets of \$2,090,570,046 and liabilities, exclusive of capital and surplus, of \$1,714,929,080. Thus, there existed for the additional protection of the policyholders, the amount of \$375,640,966 in the form of common capital stock of \$22,566,220, gross paid in and contributed surplus of \$10,794,009, and unassigned funds, including a surplus adjustment, of \$342,280,737. Tenn. Code Ann. §§ 56-2-114 and 56-2-115 require an insurer of this Company's type to maintain a minimum capital of \$1,000,000 and minimum surplus of \$1,000,000. Therefore, the Company as of December 31, 2015, for this examination maintains capital and surplus in excess of the amounts required pursuant to 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, Daniel Clements, CPA, and Jonathan Habart, CPA, Insurance Examiners for the state of Tennessee, and Eric Dercher, CFE, Vitaliy Kyryk, CFE, Carol Riley, AES, CISA, and Stefan Obereichholz-Bangert, CISA, Insurance Examiners with the firm, Noble Consulting Services, Inc., Indianapolis, Indiana, representing the state of Tennessee, participated in the work of this examination. An actuarial review was performed by Michael Mayberry, 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 Tennessee Farmers Life Insurance Company, located in Columbia, Tennessee, dated June 2, 2017, and made as of December 31, 2015, 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*

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

State Tennessee

County Davidson

Subscribed to and sworn before me

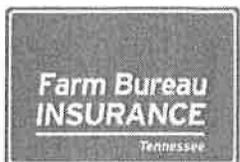
this 20<sup>th</sup> day of June, 2017

Mindy C. Walker  
(NOTARY)

My Commission Expires: 7.6.2020



# **EXHIBIT B**



Auto • Home • Life

**Tennessee Farmers  
Insurance Companies**

Corporate Headquarters

Post Office Box 307

Columbia, TN 38402-0307

931.388.7872 • [www.fbitn.com](http://www.fbitn.com)

June 20, 2017

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 – Tennessee Farmers Life Insurance Company**

Dear Ms. Little:

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

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Pannell", written in a cursive style.

**Jeff Pannell**  
**Chief Executive Officer**  
**Tennessee Farmers Insurance Companies**