

REPORT ON EXAMINATION

of the

**TENNESSEE FARMERS LIFE REASSURANCE COMPANY
147 BEAR CREEK PIKE
COLUMBIA, TENNESSEE**

RECEIVED

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Dept. Of Commerce & Insurance
Company Examinations

as of

DECEMBER 31, 2005

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Columbia, Tennessee
June 13, 2008

Honorable Leslie A. Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

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

TENNESSEE FARMERS LIFE REASSURANCE COMPANY
147 BEAR CREEK PIKE
COLUMBIA, TENNESSEE 38401

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

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee on August 7, 2006. On-site examination work commenced on September 25, 2006. The examination was not classified as an Association examination due to the Company only having authority to write business in Tennessee; and therefore, was not called for any zone participation. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("TDCI") and was conducted simultaneously with three (3) other insurance companies in the Tennessee Farmers Insurance Group, all based in Columbia, Tennessee as follows:

Tennessee Farmers Life Insurance Company
Tennessee Farmers Mutual Insurance Company
Tennessee Farmers Assurance Company

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 2000, the date of the last previous examination, to the close of business on December 31, 2005,

and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2005. The financial condition of the Company and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on capital and surplus.

In addition, the following topics were reviewed:

- Comments – Previous Examinations
- Company History
- Charter and Bylaws
- Management and Control
- Corporate Records
- Fidelity Bonds and Other Insurance
- Territory (includes inforce/premium by state)
- Plan of Operation
- Reinsurance
- Retirement Plan and Other Employee Benefits
- Loss Experience
- Accounts and Records
- Statutory Deposits
- Agreements with Parent, Subsidiaries and Affiliates
- Pecuniary Interest Tenn. Code Ann. § 56-3-103
- Commission Equity
- Dividends or Distributions
- Litigation
- Subsequent Events
- Financial Statement

COMMENTS – PREVIOUS EXAMINATIONS

The previous full scope financial examination was conducted as of December 31, 2000, by authorized representatives of the Department of Commerce and Insurance, State of Tennessee. The previous examination resulted in no changes to surplus.

No regulatory requirements resulted from the previous examination. Several comments were made in the previous examination report to which the Company made a formal reply. These comments and replies are outlined as follows:

- **Registered Agent:** The report cited the comment from the examination as of December 31, 1995 stating that the Registered Agent for the Company had changed and that this was not reflected via a charter amendment. The Company advised that the change of registered agent is made in the annual filing with the State of Tennessee, Secretary of State and does not warrant a change in the charter. The Department of Commerce and Insurance has made regulatory requirement in this matter, and no charter amendment has been deemed necessary.
- **Corporate Records – Board Approval for Actuaries and Independent Auditors:** The report cited the fact that formal board approval was absent for the actuary and independent auditor for the years under examination. The Company agreed with the findings; however, their reply stated that formal approval was present for subsequent years. Said approval was also verified during the current examination.
- **Litigation and Contingent Liabilities:** The report referenced the Company has disclosed a possible contingent liability. The Internal Revenue Service conducted an audit for tax years 1991 – 1997 and requested documents for the years 1998 - 2000. Some adjustments resulted, and these adjustments were applied to tax years, 1998 through 2000. The Company agreed with the statement. No financial adjustments were made. It was for disclosure of the facts of the issue.
- **Cash:** The Company listed some money market investment accounts as cash rather than short term investments in the 2000 Annual Statement. The Company replied that they were in agreement with said interpretation of NAIC Accounting Practices and Procedures and made the proper classification on future financial filings.

Findings reviewed during the present examination indicated that the Company has addressed all comments made during the previous financial examination.

During 2004, the TDCI performed a Target Financial Examination of the Company. The Report on the Examination was made as of December 31, 2003 and was signed on December 22, 2004. The recommendations from that exam report are as follows:

- It is recommended that the Company file and report transactions within its holding company system in a holding company registration statement in accordance with Tenn. Code Ann. § 56-11-205.

- It is recommended that the Parent Company's investment subsidiary, TF Investment Corporation, should submit financial statements to the TDCI in accordance with SAP and NAIC Annual Statement Instructions.
- It is recommended that the Company should adopt a corporate investment policy for the Investment Committee with the Board of Director level supervision and periodic review and approval.
- It is recommended that the Company revise its conflict of interest policy and procedures such that investments by the Company that creates a conflict of interest in violation of Tenn. Code Ann. § 56-3-103 are identified and prevented.

Findings reviewed during the present examination indicated that the Company has complied with all the above recommendations. In reference to the last recommendation, Tenn. Code Ann. § 56-3-103 was amended on April 25, 2005, and the Company's practices are in compliance with the statute as amended.

COMPANY HISTORY

The Company was incorporated under the provisions of the General Corporation Act on January 16, 1987 with the name Tennessee Farmers Life Reassurance Company having its principal place office in Columbia, Maury County, Tennessee. The maximum number of authorized shares of common capital stock was originally established to be 60,000 with a par value of \$200.00 per share; also authorized were 40,000 shares of preferred stock with a par value of \$200.00 per share.

On January 16, 1987 Tennessee Farmers Life Insurance Company (insurance affiliate) purchased 6,000 common shares of Company stock for a consideration of \$4,800,000 of which \$3,600,000 was applied to paid-in and contributed surplus. On the same date, Tennessee Farmers Investment Company (affiliate) purchased 4,000 Series "A" Preferred shares for a consideration of \$3,200,000 of which \$2,400,000 was applied to paid-in and contributed surplus. As a result, the Company had common and preferred stock aggregating \$2,000,000 and paid-in and contributed surplus of \$6,000,000 at December 31, 1987.

On December 1, 1989 Tennessee Farmers Investment Company acquired 2,250 additional Series "A" preferred shares for a consideration of \$1,800,000 with \$1,350,000 applied to paid-in and contributed surplus.

On January 31, 1992 the Company issued 3,750 Series "A" shares of preferred stock to Tennessee Farmers Assurance Company for a consideration of \$5,000,000 with \$3,750,000 applied to paid-in and contributed surplus.

On October 24, 1997 the Company paid a 900% common stock dividend on the then 6,000 shares outstanding to Tennessee Farmers Life Insurance Company (insurance affiliate). Common stock shares issued for the dividend were 54,000, which made the total common stock issued and outstanding to be 60,000. Tennessee Farmers Life Insurance Company owns 100% of the common stock outstanding. The result of this transaction was \$10,800,000 being moved from unassigned surplus to common capital. At December 31, 2005 there existed \$12,000,000 (60,000 shares), in common capital stock, \$3,250,000 (16,250 shares), in preferred capital stock, and \$13,350,000 in paid-in and contributed surplus.

At December 31, 2005, the Company was licensed in one state, Tennessee.

The Company's common capital stock, gross paid-in and contributed surplus and unassigned surplus, as reported by the Company in its Annual Statements, for the period under review is as follows:

<u>Date</u>	<u>Common Capital Stock</u>	<u>Common Preferred Stock</u>	<u>Gross Paid In and (Surplus)</u>	<u>Unassigned Funds Surplus</u>	<u>Total Capital and Surplus</u>
12/31/2001	\$12,000,000	\$3,250,000	\$13,350,000	\$25,030,341	\$53,630,341
12/31/2002	12,000,000	3,250,000	13,350,000	18,047,207	46,647,207
12/31/2003	12,000,000	3,250,000	13,350,000	8,783,084	37,383,084
12/31/2004	12,000,000	3,250,000	13,350,000	37,079,652	65,679,652
12/31/2005	12,000,000	3,250,000	13,350,000	45,014,937	73,614,937

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

<u>Date</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Funds (Surplus)</u>	<u>Net Written Premiums</u>
12/31/2001	\$180,170,322	\$126,359,982	\$25,030,341	\$30,061,552
12/31/2002	195,494,059	148,846,852	18,047,207	33,743,215
12/31/2003	209,057,268	171,674,185	8,783,084	34,967,416
12/31/2004	221,231,528	155,551,876	37,079,652	37,182,266
12/31/2005	236,402,930	162,787,991	45,014,937	40,817,549

CHARTER AND BYLAWS

Charter:

The original Charter of the Company was filed and recorded with the Secretary of

State, State of Tennessee, effective March 27, 1973. The Charter provided for the operation of a for profit corporation with a perpetual existence and established its location in Columbia, Maury County, Tennessee.

The Charter in effect at the examination date states that the primary purposes of the Company are as follows:

“...to insure the lives of persons and engage in the general business of life insurance, including all forms of life insurance, credit life insurance, credit accident and health insurance, and disability insurance; and ...to grant, sell and administer annuities and all forms of retirement and pension plans, including variable annuities and plans; and,... to insure against all accidents to persons in traveling or otherwise and against all disabilities to persons by disease or sickness or bodily infirmities; and,... to engage in any other business pursuit approved for life insurance companies under the law of this state, as amended from time to time...”

In addition to the above, the Company's charter recites other general and specific powers. They are usual in nature and consistent with statute. The Company's charter was not amended during the period of examination.

Bylaws:

The restated Bylaws of the Company in effect at December 31, 2005 were enacted effective April 9, 1992 in order to comply with the Tennessee Corporation Act of 1986 and to alleviate any technical deficiencies that may have accumulated since the Company was incorporated.

The Bylaws provide for an annual stockholders meeting at which a Board of Directors is elected. Officers are elected by the Board annually at the first Board meeting after the annual meeting of members.

The Board of Directors 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. The Board of Directors shall consist of not less than five nor more than 25 members. The number of directors shall be set by the Board of Directors.

The current Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for regulation of the business and for the conduct of the affairs of the Company, directors and its members. The Company's Bylaws have not been amended during the period of examination.

MANAGEMENT AND CONTROL

Board of Directors:

Management of the Company is vested in a Board of Directors elected annually. In accordance with the bylaws, the Board of the Company shall consist of not less than five or more than 25 members. The composition of the board has been identical for all four 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, 2005:

<u>Name, Address and County</u>	<u>Principal Occupation</u>
Flavius Barker Columbia, TN (Sequatchie)	President & Chairman of the Board/Farmer
Lacy Upchurch Crossville, TN (Cumberland)	Vice President/Farmer
Jeff Aiken Telford, TN (Washington)	Farmer
Malcolm Burchfiel Newbern, TN (Dyer)	Farmer
Linda Davis Rutherford, TN (Gibson)	Farmer/Homemaker
Joan Fussell Erin, TN (Houston)	Farmer/Homemaker
Charles Hancock Bumpus Mills, TN (Stewart)	Farmer
Dan Hancock Smithville, TN (DeKalb)	Farmer
David Mitchell Blaine, TN (Grainger)	Farmer
William Danny Rochelle Nunnely, TN (Hickman)	Farmer
Bobby Willis Hillsboro, TN (Coffee)	Farmer
Willard Brown	Farmer

Cookeville, TN (Putnam)

Martin Davis
Shelbyville, TN (Bedford) Farmer

Robert Earhart
Bristol, TN (Sullivan) County Executive

Allen Peddy
Henderson, TN (Chester) Farmer

Jack Sanders
Charleston, TN (Bradley) Farmer

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

Officers:

The Bylaws of the Company provide that the Board of Directors shall elect annually a president, a first vice president, a chief executive officer, a secretary, a treasurer, and such additional officers as the chief executive officer may propose and the Board of Directors approve. The following officers were duly elected and were serving in the positions indicated for the Company at December 31, 2005:

Flavius Barker President & Chairman of the Board

Lacy Upchurch First Vice President

Matthew M. Scoggins, Jr. Chief Executive Officer

Wayne Harris Chief Financial Officer

Edward Lancaster General Counsel & Secretary

Dennis Stephen Chief Operating Officer, Life
Operations

Neal Townsend Chief Marketing Officer

The Board of Directors has given authority to the Chief Executive Officer (CEO) to appoint such other officers as needed to operate the Company. The following

officers were appointed by the CEO and serving in positions indicated for the Company at December 31, 2005:

Wayne Merrill Vice President, Accounting

Steve Burt Vice President, Information Services

The President functions as the Chairman of the Board of Directors and presides over all meetings of the stockholders and the Board of Directors. The President also serves as a conduit to the executive personnel concerning policy established by the Board of Directors. Subject to the control of the Board of Directors, the Chief Executive Officer 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.

The Company's Investment Committee at December 31, 2005 is as follows:

<u>Name</u>	<u>Title</u>
Flavius Barker	President
Matthew M. Scoggins, Jr.	Chief Executive Officer
Hulet Chaney	Chief Executive Officer Emeritus
Wayne Harris	Chief Financial Officer
Dennis Stephen	Chief Operating Officer – Life Operations

Non Voting Members

Randy Maxwell	Investment Portfolio Manager
David Williamson	Investment Portfolio Manager
Edward Lancaster	Secretary

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 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.

Certain services are purchased from outside contractors if needed and are not available from in house personnel. Such services include actuarial analysis and independent audit.

Actuarial Services: Ralph Sayre, MAAA
Actuarial Resources Corporation of Georgia, Inc.
4080 McGinnis Ferry Road, Suite 901
Alpharetta, Georgia

Auditing Services: PricewaterhouseCoopers, LLC
500 West Main
Louisville, Kentucky

A holding company organizational chart is included at the last page of this examination report.

CORPORATE RECORDS

The minutes of meetings of the Company's stockholders, Board of Directors including Executive Session, and Investment Committee were reviewed for the period under examination. The minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

The Company has elected to self-insure its fidelity coverage with the exception of its retirement plan. Minimum fidelity bond coverage of \$1,250,000 to \$1,500,000 is suggested by guidelines published in the NAIC Financial Condition Examiners Handbook. The outline of the bond coverage for the retirement plan is included in the schedule of insurance maintained by the Company at December 31, 2005 which follows:

<u>Type of Coverage</u>	<u>Coverage Limits</u>
1. Commercial General Liability	
Each occurrence	\$2,000,000
General aggregate	\$2,000,000
Products-Completed operations 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

Coverage is underwritten by the Company on their policy form. The policy is issued to the Tennessee Farmers Life Insurance Company with the Company listed as a named insured.

2. Directors and Officers	
Aggregate	\$10,000,000
Deductible each claim	\$100,000

Coverage is underwritten by Great American Insurance Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer".

3. Workers Compensation Excess Coverage

A. Workers compensation	Tennessee statutory limit
Specific retention	\$350,000 each accident, each employee
B. Employers liability	
Bodily injury by accident	\$1,000,000 each accident
Bodily injury by disease	\$1,000,000 each accident
Specific retention	\$350,000
Aggregate limit	\$1,000,000

Coverage is underwritten by Midwest Employers Casualty Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer".

TERRITORY

As of December 31, 2005, and as of the date of this examination report, the Company was licensed to transact business only in the State of Tennessee. The Certificate of Authority for that jurisdiction was reviewed.

During 2005, the Company had net written premiums in one (1) state:

<u>State</u>	<u>Amount</u>
Tennessee	<u>\$40,817,549</u>
Total	\$40,817,549

PLAN OF OPERATION

With the exception of interest-sensitive products, the Company currently writes all forms of traditional life insurance products. Tennessee Farmers Life Insurance Company, by quota share reinsurance, ceded all of its traditional life insurance products in force at April 1, 1987 with the Company. Policy plans currently offered by the Company and in force at December 31, 2005 are as follows:

Plan	Minimum Volume Amount (\$'s)
Annual Renewable Term	10,000
Secure Life (Whole Life)	5,000
Security Plus II (Whole Life)	5,000
Senior Plus (Whole Life)	5,000

10 year level term	10,000
20 year level term	10,000
30 year level term	10,000
10 year Mortgage Decreasing Term	10,000
15 year Mortgage Decreasing Term	10,000
20 year Mortgage Decreasing Term	10,000
30 year Mortgage Decreasing Term	10,000

Additional benefits are available as optional coverage to the basic policy plan and included guaranteed insurability, accidental death, disability waiver of premium, payor death benefit, spouse decreasing term rider, and children's term rider.

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 419 captive agents at December 31, 2005 are independent contractors serving as either Agency Managers or Agents. These agents also market business for the affiliated companies; Tennessee Farmers Life Insurance Company, Tennessee Farmers Mutual Insurance Company, and Tennessee Farmers Assurance Company.

The production offices are primarily located in local Farm Bureau offices in the 95 counties of the State of Tennessee. The Agency Managers authorize the Company to withhold certain prescribed amounts from earned commissions and fees in order to reimburse the individual county Farm Bureau for the cost of facilities and services used by the agents in the production of business.

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 administered by the Company in its home office.

REINSURANCE

The Company routinely assumes and cedes reinsurance with other insurance companies. The Company's significant reinsurance agreements are summarized below.

Assumed Reinsurance with Affiliates

Tennessee Farmers Life Insurance Company (TFLIC)

The company assumes 100% quota share of the life, waiver of premium and accidental death policies issued by Tennessee Farmers Life Insurance Company (TFLIC) thru a coinsurance agreement effective March 31, 1987. This agreement

covers policies issued by TFLIC and policies in force on March 31, 1987.

Tennessee Farmers Assurance Company (TFAC)

The company assumes, thru two quota share agreements, 100% of the automobile accidental death medical pay policies issued by Tennessee Farmers Assurance Company (TFAC) effective January 1, 1995. This agreement covers liabilities that existed on and after January 1, 1995.

Tennessee Farmers Mutual Insurance Company (TFMIC)

The company assumes, thru two quota share agreements, 100% of the automobile blanket accidental death policies issued by Tennessee Farmers Mutual Insurance Company (TFMIC) effective January 1, 1988. These agreements cover liabilities that existed on and after January 1, 1988.

The company assumes, thru a quota share agreement, 100% of the property blanket accidental death policies issued by Tennessee Farmers Mutual Insurance Company (TFMIC) effective February 1, 1990. This agreement covers liabilities that existed on and after February 1, 1990.

The company assumes, thru a quota share agreement, 100% of the blanket tractor and/or farm premises accidental death and broad form accidental death policies issued by Tennessee Farmers Mutual Insurance Company (TFMIC) effective January 1, 1988. This agreement covers liabilities that existed on and after January 1, 1988.

Ceded Reinsurance with Non-Affiliates

Business Men's Assurance Company of America (BMA), part of the Generali Group

The Company has the following agreement with BMA:

Effective Date:	March 1, 2000
Description:	An agreement for various term life and waiver of premium policies
Retention:	\$ 0 to \$ 250,000 depending on age and table, subject to a \$24,999 deductible
Maximum Ceded Amounts:	4 times the Company's retention

American United Life Insurance Company (AUL)

The Company has the following agreement with AUL:

Effective Date:	October 1, 1994
------------------------	------------------------

Description: An automatic/facultative YRT agreement that covers the Company's "Senior Plus Whole Life Non-Participating Indeterminate Plan" policies.

Retention: \$ 0 to \$ 150,000 depending on age and table, subject to a \$9,999 deductible.

Maximum Ceded Amounts: 4 times the Company's retention

Other Considerations:

All of the Company's significant reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 61 and NAIC guidelines.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

During the period covered by the examination, the Company had no employees. Its necessary functions were performed in accordance with a reinsurance agreement between the Company and its affiliate Tennessee Farmers Life Insurance Company (TFLIC). The Company remits its payment for services directly to its parent company, Tennessee Farmers Life Insurance Company. The cost of the services are calculated by a formula attached to reinsurance agreement which can be amended to reflect changes in costs based on expense studies conducted by Tennessee Farmers Life Insurance Company. The Company and Tennessee Farmers Life Insurance Company use a cost allocation arrangement that is based on generally accepted accounting principles.

MORTALITY AND LOSS EXPERIENCE

Ordinary Life

	Net Death Benefits	Reserves Released by	Actual Death Benefits	Expected	Mortality Experience
Year	Incurred	Death	Incurred	Mortality	Ratio
2001	\$8,341,978	\$118,112	\$8,460,090	\$8,982,571	94.18%
2002	8,822,366	129,111	8,951,477	7,798,134	114.79%
2003	12,133,146	154,179	12,287,325	10,604,457	115.87%
2004	11,911,524	128,338	12,039,862	30,693,446	39.23%
2005	13,851,649	131,691	13,983,340	39,336,874	35.55%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2001, 2002, 2003, 2004 and 2005.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination. The Company's Risk Based Capital Report was reviewed. The Company was in compliance with Title 56, Chapter 46, of the Tennessee Code Annotated (Risk Based Capital for Insurers).

An annual audit of the Company is performed by an independent accounting firm, PricewaterhouseCoopers, LLP.

Books and records of the Company are kept at the home office location:

147 Bear Creek Pike
Columbia, Tennessee 38401

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2005.

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Tennessee			
United States of America Government 5.625%, Due 2/15/2006 Cusip # 912827-W8-1	\$ 1,000,000	\$ 1,501,287	\$ 1,502,820
Total general deposits held for the benefit of all policyholders and creditors of the Company	<u>1,000,000</u>	<u>1,501,287</u>	<u>1,502,820</u>
Total	<u>\$1,000,000</u>	<u>\$1,501,287</u>	<u>\$1,502,820</u>

The above deposit was confirmed with the custodian at the Division of Insurance.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company meets the definition of a holding company pursuant to Tenn. Code Ann. § 56-11-201.

The insurance company in the Tennessee Farmers Group had previously been exempt from the registration requirement under Tenn. Code Ann. § 56-11-205 based upon a letter from Commissioner Elaine McReynolds dated February 12, 1987 which granted the exemption pursuant to Tenn. Code Ann. § 56-11-205 (j).

During 2004, the TDCI performed a Target Financial Examination of the four (4) companies (Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Mutual Insurance Company, and Tennessee Farmers Assurance Company) in the Holding Company. The Report on Examination was made as of December 31, 2003 and was signed on December 22, 2004. The TDCI and the Companies subsequently agreed that, henceforth, all Companies would be subject to the regulation requirements under Title 56, Chapter 11, Tennessee Code Annotated, "Insurance Holding Company Act of 1986."

The Company started filing the Holding Company Statement, Form B and C with the TDCI for the year, 2004. It also files the appropriate Form D.

The Form D filing for the two (2) agreements referenced under this caption were filed with the TDCI on April 29, 2005 at the same time that the Holding Company Statement for 2004 was filed. Form B, Holding Company System Annual Registration Statement and Form C, Summary of Registration Statement are due to be filed with the Division of Insurance on April 30 of each year pursuant to Tenn. Code Ann § 56-11-205.

Management Services Agreement:

The Company operates under a Reinsurance Agreement between the Company and Tennessee Farmers Life Insurance Company. This agreement provides for, but is not limited to, the following: personnel, equipment, computer services, and other functional services required for issuing life insurance policies and maintaining on a continuous basis, the records on such policies. The Company remits its payments for services directly to Tennessee Farmers Life Insurance Company. The Company and Tennessee Farmers Life Insurance Company offset any amounts due from one party against any amount owed to the other under the reinsurance agreement. The cost of these services are calculated by a formula attached to the reinsurance agreement and can be amended to reflect changes in costs based on expense studies conducted by Tennessee Farmers Life Insurance Company. The Company and Tennessee Farmers Life Insurance Company use a cost allocation

arrangement that is based on generally accepted accounting principles.

Relative to the reinsurance agreement, the Company owed Tennessee Farmers Life Insurance Company \$2,022,032 at December 31, 2005, and the total paid between the Company and Tennessee Farmers Life Insurance Company during 2005 was \$7,131,877.

PECUNIARY INTEREST TENN. CODE ANN. § 56-3-103

The Company has 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 file annual conflict of interest statements.

COMMISSION EQUITY

The Company cedes premiums under reinsurance agreements on a written basis and in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. The reinsurance agreements remain in force until cancellation or expiry of the policies in the event of termination; therefore, no return of premium or ceding commission would be required. The agreements call for ceding commissions paid on a net premium basis (written premiums less the return premiums on policies that are cancelled prior to the end of the policy period). Through the aforementioned and other various provisions in the agreements, the Company has no ultimate or contingent liability for commission equity.

DIVIDENDS OR DISTRIBUTIONS

During the period of examination the Company paid the following amounts in policyholder dividends or stockholder dividends.

Policyholder Dividends

Year	Amount
2001	\$2,795,188
2002	2,359,355
2003	2,485,258
2004	2,599,045
2005	<u>2,722,879</u>
Total Paid During Period of Examination	\$12,961,725

Stockholder Dividends

Year	Amount
2001	\$593,125
2002	570,375
2003	497,250
2004	511,875
2005	<u>520,000</u>
Total Paid During Period of Examination	\$2,692,625

LITIGATION

As of December 31, 2005, the Company had no pending litigation, other than that arising out of the normal course of business, which would adversely affect the financial condition of the Company.

SUBSEQUENT EVENTS

The Company and its two (2) custodians, The Northern Trust Company and First Farmers and Merchants Bank completed amendments to their custodian agreements during the course of the examination to insure that the documents complied with the technical language pursuant to Tenn. Comp. R. & Regs. ch. 0780-1-46-.03 (2) (a). The rule, which became effective on July 12, 2005, states: "The custodial agreement required by this rule shall contain the following:

1. A provision stating that the standard of responsibility on the part of the custodian shall not be less than that of the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee;
2. A provision stating that the securities held by the custodian are subject to instructions of the insurance company;
3. A provision stating that the securities may be withdrawn immediately upon demand of the insurance company; and
4. A provision stating that the agreement is between the custodian and the insurance company, and not the parent or affiliate of the insurance company."

The original documents had protective language; however, that language was written in a more generic form than the specific four (4) provisions of the said rule. These amendments were transacted at the request of the Company.

The Northern Trust Company Amendment was effective on March 1, 2007

exhibiting language compliant with Tenn. Comp. R. & Regs. ch. 0780-1-46-.03 (2) (a). Signature date for the Company was March 22, 2007 and signature date for Northern Trust was April 19, 2007.

The First Farmers and Merchants Bank Amendment was effective on March 1, 2007 exhibiting language compliant with Tenn. Comp. R. & Regs. ch. 0780-1-46-.03 (2) (a). Signature date for the Company and First Farmers was June 6, 2007.

The Company determined in August, 2007 that a change would be made in their auditors from PricewaterhouseCoopers, LLP to Blackman Kallick Bartelstein, LLP. This change was related to customer service issues and did not involve any disputed audit findings. This was confirmed and attested by letter from PricewaterhouseCoopers, LLP dated September 24, 2007 in compliance with Tenn. Comp. R. & Regs. ch. 0780-1-65-.06. Official notice of the change was given to the TDCI via letter from the Company dated August 31, 2007.

On September 25, 2007 representatives of Tennessee Farmers Life Insurance Company and Tennessee Farmers Life Reassurance Company met with the Tennessee Department of Commerce and Insurance regarding the merger of Tennessee Farmers Life Insurance Company and Tennessee Farmers Life Reassurance Company. The order approving the merger, leaving Tennessee Farmers Life Insurance Company as the surviving company, was signed October 4th, 2007. The books and records of Tennessee Farmers Life Reassurance Company will be merged into Tennessee Farmers Life Insurance Company as of January 1, 2008.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2005, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$605,069,405		\$605,069,405
Cash and short-term investments	2,791,616		2,791,616
Contract Loans	5,742,487	41,627	5,700,661
Other invested assets	117,636		117,636
Receivables for securities	259,419		259,419
Investment income due and accrued	3,007,646		3,007,646
Premiums and considerations	370,515		370,515
Reinsurance Amounts recoverable from reinsurers	225,000		225,000
Current federal and foreign income tax recoverable and interest thereon	2,480,771		2,480,771
Net deferred tax asset	4,963,897		4,963,897
Receivables from parent, subsidiaries and Affiliates	<u>78,707</u>	<u>0</u>	<u>78,707</u>
Totals	<u>\$236,444,557</u>	<u>\$41,627</u>	<u>\$236,402,930</u>

LIABILITIES, SURPLUS, AND OTHER FUNDS

Aggregate reserve for life contracts	\$122,429,771
Aggregate reserve for accident and health contracts	70,510
Liability for deposit-type contracts	29,265,220
Contract claims:	
Life	3,064,991
Accident and health	228,000
Provision for policyholders' dividends and coupons payable in following calendar year-estimated amounts:	
Dividends apportioned for payment	2,748,189
Premiums and annuity considerations for life and accident and health contracts received in advance less \$0 discount; including \$0 accident and health premiums	81,988
Contract liabilities not included elsewhere	
Interest maintenance reserve	919,860
Commissions to agents due or accrued-life contracts and annuity contracts	381,938
Commissions and expense allowances payable on reinsurance assumed	2,630
General expenses due or accrued	1,259
Taxes, licenses, and fees due or accrued, excluding federal income taxes	226,989
Remittances and items not allocated	255,346
Dividends to stockholders declared and unpaid	131,625
Miscellaneous liabilities:	
Asset valuation reserve	948,684
Payable to parent, subsidiaries, and affiliates	2,022,032
Drafts outstanding	<u>8,959</u>
Total Liabilities	162,787,991
Common capital stock	12,000,000
Preferred capital stock	3,250,000
Gross paid in and contributed surplus	13,350,000
Unassigned funds (surplus)	<u>45,014,937</u>
Total capital and surplus	73,614,937
Totals	<u>\$236,402,929</u>

SUMMARY OF OPERATIONS

Premiums and annuity considerations for life and accident and health contracts	\$40,817,549	
Net investment income	9,614,019	
Amortization of investment maintenance reserve (IMR)	259,805	
Commission and expense allowances on reinsurance ceded	<u>1,164,485</u>	
Total Income		\$51,855,858
Death benefits	13,851,649	
Disability benefits and benefits under accident and health contracts	777,646	
Surrender benefits and withdrawals for life contracts	1,540,883	
Interest and adjustments on contracts or deposit-type contract funds	1,646,177	
Increase in aggregate reserves for life and accident and health contracts	<u>6,694,800</u>	
Total benefits		24,511,156
Commissions on premiums, annuity considerations, and deposit-type contract funds	4,519,002	
Commissions and expense allowances on reinsurance assumed	550,284	
General insurance expenses	6,881,201	
Insurance taxes, licenses, and fees, excluding federal income taxes	921,165	
Increase in loading on deferred and uncollected premiums	(32,540)	
Aggregate write-ins for deductions	52,462	
Total expenses		<u>12,891,574</u>
Total benefits and expenses		37,402,730
Net gain from operations before dividends to policyholders and federal income taxes		14,453,128
Dividends to policyholders		<u>2,722,879</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)		11,730,249
Federal and foreign income taxes incurred (excluding tax on capital gains)		4,062,506
Net gain from operations after dividends to policyholders and before federal income Taxes		7,667,743
Net realized capital gains (losses) (excluding gains (losses) transferred to IMR)		<u>0</u>
Net income		<u>\$7,667,743</u>

CAPITAL AND SURPLUS

Capital and surplus, December 31, prior year		\$65,679,652
Net income	\$7,667,743	
Change in net unrealized capital gains (losses)	10	
Change in net unrealized foreign exchange capital gain (loss)	0	
Change in net deferred income tax	574,249	
Change in non-admitted assets and related items	74,911	
Change in reserve on account of change in valuation basis, (increase) or decrease	167,077	
Change in asset valuation reserve	(28,696)	
Capital changes:		
Paid in	0	
Transferred from surplus (Stock Dividend)	0	
Surplus adjustment:		
Paid in	0	
Transferred to capital (Stock Dividend)	0	
Dividends to stockholders	(520,000)	
Net change in capital and surplus as regards policyholders for the year		7,935,284
Capital and surplus, December 31 current year		<u>\$73,614,936</u>

**RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION**

Capital and surplus December 31	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Previous Year	\$51,583,069	\$53,630,341	\$46,647,207	\$37,383,084	\$65,679,652
Net Income	(3,292,228)	(6,244,151)	(10,783,400)	28,835,008	7,667,743
Change in net unrealized capital gains (losses)	0	0	0	0	0
Change in net unrealized foreign exchange capital gain (loss)	0	0	0	0	0
Change in net deferred income tax	0	(65,746)	102,352	204,836	574,249
Change in non-admitted assets and related items	2,159,350	(81,225)	789,161	(32,255)	74,911
Change in liability for reinsurance in unauthorized companies	0	0	0	0	0
Change in reserve on account of change in valuation basis (increase) or decrease	(244,398)	(386,975)	1,937,353	(91,493)	167,077
Change in asset valuation reserve	(130,535)	365,339	(812,335)	(107,653)	(28,896)
Change in treasury stock	0	0	0	0	0
Surplus (contributed to) withdrawn From Separate Accounts	0	0	0	0	0
Other changes in surplus in Separate Accounts Statement	0	0	0	0	0
Change in surplus notes	0	0	0	0	0
Cumulative effect of changes in accounting principles	4,148,206	0	0	0	0
Capital changes:					
Paid in	0	0	0	0	0
Transferred from surplus (Stock Dividend)	0	0	0	0	0
Transferred to surplus	0	0	0	0	0
Surplus adjustment:					
Paid in	0	0	0	0	0
Transferred to capital (Stock Dividend)	0	0	0	0	0
Transferred from capital	0	0	0	0	0
Change in surplus as a result of Reinsurance	0	0	0	0	0
Dividends to stockholders	(593,125)	(570,375)	(497,250)	(511,875)	(520,000)
Aggregate write-ins for gains and losses in surplus	0	0	0	0	0
Net change in capital and surplus For the year	<u>2,047,270</u>	<u>(6,983,133)</u>	<u>\$(9,264,118)</u>	<u>\$28,269,569</u>	<u>\$7,935,284</u>
Capital and surplus, December 31, current year	<u>\$53,630,339</u>	<u>\$46,647,208</u>	<u>\$37,383,089</u>	<u>\$65,679,652</u>	<u>\$73,614,936</u>

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS
RESULTING FROM EXAMINATION**

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds, as regards policyholders, either singly or in aggregate.

**SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES
IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM
EXAMINATION" AS THEY AFFECT SURPLUS**

No schedule or comment is applicable. All noted differences were within the tolerable error and planning materiality established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

- Investments

The Company amended its two (2) custodial agreements with The Northern Trust Company and First Farmers and Merchants Bank during the course of the examination to clarify some technical language pursuant to Tennessee Regulations. These agreements were discussed previously in the report under the caption "Subsequent Events."

Recommendations:

None

CONCLUSION

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

In such manner, it was determined that, as of December 31, 2005, the Company had admitted assets of \$236,402,930 and liabilities, exclusive of unassigned funds, of \$162,787,991. Thus, there existed for the additional protection of the policyholders, the amount of \$73,614,939 in the form of capital, gross paid in and contributed surplus and unassigned funds (surplus).

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, Keith M. Patterson, David N. Bobo, Gregory Bronson, Mitchell Walker, Jr., and Stephanie D. Brooks, Insurance Examiners for the State of Tennessee, Michael A. Mayberry, FSA, MAAA, of the contracting actuarial firm, Lewis and Ellis, Inc. Richardson, Texas, and Norman Chandler, CPA, CPCU, AIAF, ARC, ACP, of the contracting reinsurance specialist firm, TaylorChandler, LLC, Montgomery, Alabama, participated in the work of this examination.

Respectfully submitted,



Bryant Cummings, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Tennessee Farmers Life Reassurance Company dated June 13, 2008, and made as of December 31, 2005, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.


Bryant Cummings, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

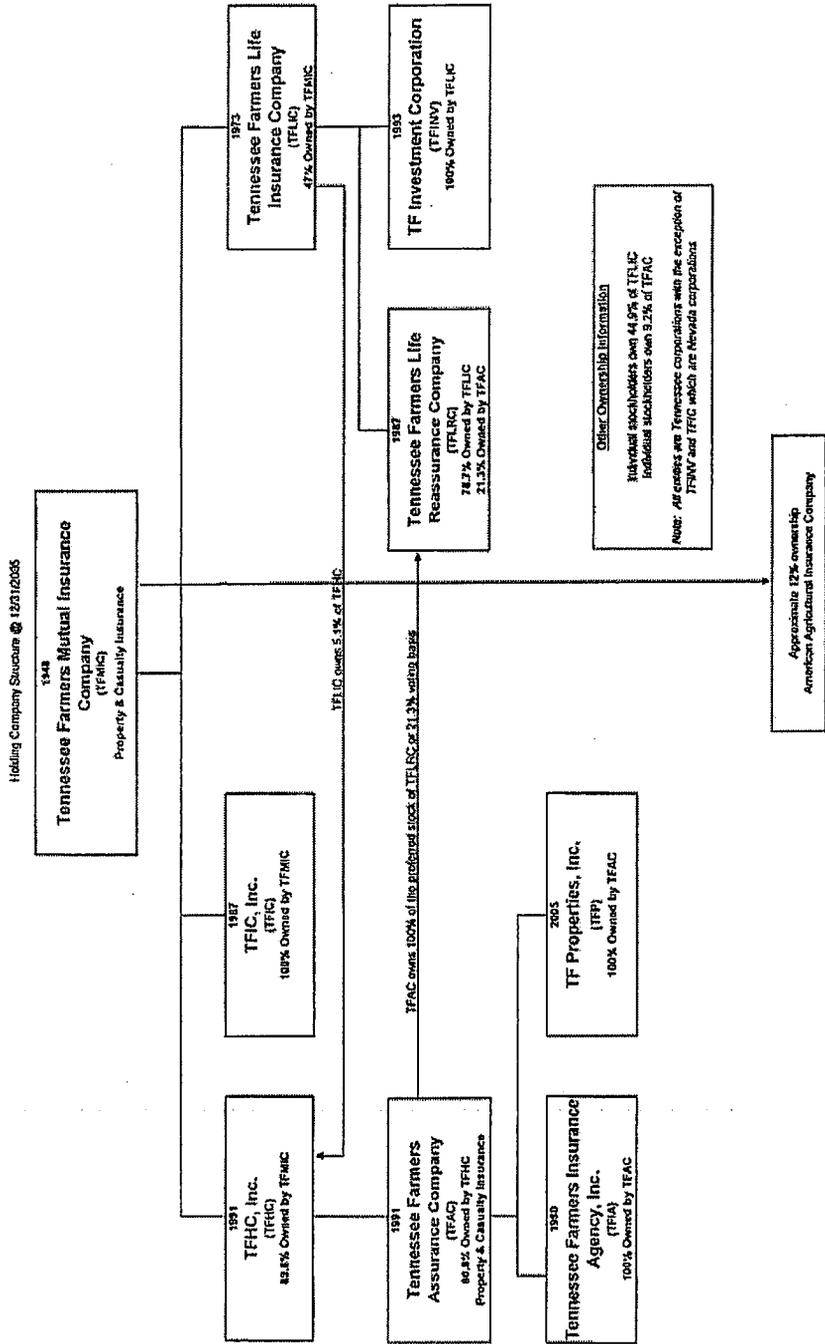
Subscribed and sworn to before me

this 13th day of
June, 2008

Notary Jessica M. Sheppard
County Shelby
State TN
Commission Expires 10/12/2011



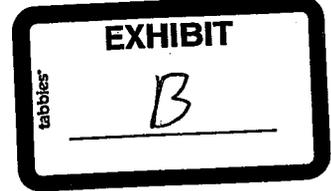
ORGANIZATIONAL CHART



The Board of Directors for each of the four insurance Companies (TFAC, TFAC, TFLIC and TFLIC) is identical and share some common directors with the Tennessee Farm Bureau Federation.



Tennessee Farmers
Insurance Companies
Corporate Headquarters
Post Office Box 998 • Columbia, TN 38402-0998
931.388.7872 • www.tennesseefarmers.com



June 20, 2008

RECEIVED

JUN 24 2008

Dept. Of Commerce & Insurance
Company Examinations

Phil Blustein
Chief Examiner
TN Department of Commerce and Insurance
Nashville, TN 37243

RE: Financial Condition Examination made as of December 31, 2005 for
Tennessee Farmers Life Insurance Company
Tennessee Farmers Life Reassurance Company

Dear Phil:

We are satisfied with the Final Reports for the companies referenced above and hereby waive our right of rebuttal. Thank you.

Yours,

Wayne Harris
CFO

C: Matthew M. Scoggins, Jr.
Ed Lancaster