REPORT ON EXAMINATION

of the

TENNESSEE FARMERS MUTUAL INSURANCE COMPANY
147 BEAR CREEK PIKE
COLUMBIA, TENNESSEE

RECEIVED

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Dept. of Commerce & Insurance
Company Examinations

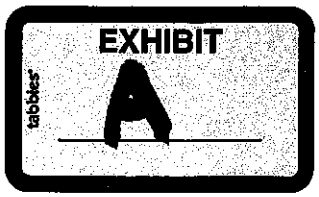
as of

DECEMBER 31, 2010

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE



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Columbia, Tennessee
June 14, 2012

Honorable Julie Mix McPeak
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 and market conduct review was made of the condition and affairs of the

TENNESSEE FARMERS MUTUAL INSURANCE 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 January 24, 2011. On-site examination work commenced on June 27, 2011. With the Company having authority to write business only in the state of Tennessee, the examination was not classified as an Association Examination under NAIC Guidelines. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, state of Tennessee ("TDCI") and was conducted simultaneously with two other insurance companies in the Tennessee Farmers Insurance Group, all based in Columbia, Tennessee as follows:

Tennessee Farmers Assurance Company
Tennessee Farmers Life Insurance Company

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2006 to the close of business on December 31, 2010, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Independent actuaries were used in the review of the Company's reserves.

In addition, the following topics were reviewed:

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

COMMENTS – PREVIOUS EXAMINATIONS

The previous examination was conducted as of December 31, 2005 by authorized representatives of the TDCI and made no changes to surplus. No recommendations were made as a result of the examination; however, during the course of the examination, the Company amended its two custodial agreements with The Northern Trust Company and First Farmers and Merchants Bank to clarify some technical language pursuant to Tennessee Regulations.

COMPANY HISTORY

The Company was incorporated on December 22, 1952 pursuant to the provisions of the General Corporate Act of Tennessee, Chapter 90 of the Public Acts of 1929, codified as Sections 3709-3771, inclusive, of the Williams Code of Tennessee.

The Company was organized as a successor corporation to the business and affairs of Tennessee Farmers Insurance Company, a stock Tennessee corporation, chartered on November 5, 1948 and located in Columbia, Tennessee. The effect of this reorganization was to convert the operations and business of Tennessee Farmers Insurance Company from a stock proprietorship to a mutual plan. On December 30, 1952 the Company commenced the transaction of insurance business as a state mutual insurance company.

During 1952 and 1953 the Company received subscriptions for advanced surplus and issued certificates in the aggregate amounts of $348,400 and $172,350 respectively, for a total of $520,750 of which $80,550 was advanced by the Tennessee Farm Bureau Federation of Columbia, Tennessee, and $440,200 was advanced by 910 members of the Farm Bureau Federation. Subsequent to the issuance of the original surplus receipts, transfers of receipts have been made to other members of the Tennessee Farm Bureau Federation and many of these receipts have been redeemed. Therefore, as of December 31, 2010 a total of surplus-receipts were issued and outstanding in the aggregate amount of $6,900.

Effective December 30, 1952 the Company was issued an initial Certificate of Authority by the Department of Insurance and Banking, state of Tennessee, (currently known as the Department of Commerce and Insurance, state of Tennessee) to transact the business of insurance in the state of Tennessee. On July 1, 1986 a perpetual certificate was issued which continues until suspended or revoked. This certificate was amended effective July 29, 1987 to include the Surety line of business. At the examination date, the Company is authorized to conduct the business of Property, Vehicle, Casualty and Surety in the state of Tennessee.

At December 31, 2010, the Company was licensed in one state, Tennessee.

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

Date	Earned Premiums	Incurred Losses	Admitted Assets	Liabilities	Total Surplus
12/31/2006	405,440,335	308,790,622	1,822,036,895	397,557,985	1,424,478,910
12/31/2007	434,164,912	262,620,314	1,977,606,510	412,149,273	1,565,457,237
12/31/2008	439,723,675	352,569,175	1,982,947,262	394,372,615	1,588,574,647

Date	Earned Premiums	Incurred Losses	Admitted Assets	Liabilities	Total Surplus
12/31/2009	466,968,981	418,164,278	2,064,524,101	436,765,613	1,627,758,488
12/31/2010	$490,192,403	$415,814,584	$ 2,137,009,005	$ 482,313,868	$ 1,654,695,137

CHARTER AND BYLAWS

Charter:

The Charter was filed and recorded with the Secretary of State, State of Tennessee on December 22, 1952. The Charter had been approved by the Department of Insurance and Banking, State of Tennessee on December 22, 1952.

The Charter provided for the operation of a mutual insurance company with a perpetual existence and established its location in Columbia, Maury County, Tennessee. The primary purposes are as follows:

1. "Operation of a mutual insurance company under and by virtue of the laws of the State of Tennessee, and particularly under and by virtue of Sections 6317-6440, inclusive, of Williams Code of Tennessee"

2. "Empowerment to make contracts of insurance and/or to reinsure or accept reinsurance upon a mutual basis for the kinds of insurance as follows

   Fire
   Liability
   Disability
   Automobile
   Steam Boiler
   Use and Occupancy
   Miscellaneous (except Life)"

3. "Authorization of general and specific rights, privileges and powers of the Company consistent with the provisions of Sections 6317-6340, inclusive, of the Williams Code of Tennessee pertaining to mutual insurance companies and by virtue of the General Corporation Act of Tennessee, Chapter 90 of the Public Acts of 1929, Sections 3709-3771, inclusive, of the Williams Code of Tennessee"

The Company's charter requires the term of all officers to be established by the bylaws not to exceed two years and a Board of Directors to be composed of not less than five nor more than 25 members.

Bylaws:

The Restated Bylaws of the Company in effect at December 31, 2010 were enacted effective April 9, 1992 in order to comply with the Tennessee Corporation Act of 1986 and alleviate any technical deficiencies that may have surfaced since the Company was incorporated.

The Bylaws provide for an annual meeting of members 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 is charged with managing the business and affairs of the Company. Each director must be a member in good standing of the Company and the Tennessee Farm Bureau Federation. Two directors shall be residents of each of the geographical divisions into which the state of Tennessee has been divided for membership purposes by the Tennessee Farm Bureau Federation. The remaining directors shall be selected or elected from the state at large.

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.

Said 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 shall consist of not less than five nor more than 25 members. The composition of the board has been identical for all three companies comprising the Tennessee Farmers Group. The following persons had been duly elected and were serving as members of the Company's Board of Directors at December 31, 2010:

Name, Address and County	Principal Occupation
Lacy Upchurch Crossville, TN (Cumberland)	President & Chairman of the Board/Farmer
Jeff Aiken Telford, TN (Washington)	Farmer
Willard Brown Cookeville, TN (Putnam)	Farmer
Malcolm Burchfiel Newbern, TN (Dyer)	Farmer

Name, Address and County	Principal Occupation
Martin Davis Shelbyville, TN (Bedford)	General Manager, Bedford County Utility District; Farmer
Robert Earhart Bristol, TN (Sullivan)	County Executive
Charles Hancock Bumpus Mills, TN (Stewart)	Farmer
Dan Hancock Smithville, TN (DeKalb)	Farmer
James Haskew, Jr. South Pittsburg, TN (Marion)	Farmer
Jason Luckey Humboldt, TN (Gibson)	Farmer
William Eric Mayberry Hurricane Mills, TN (Humphreys)	Farmer
Jane May Newbern, TN (Dyer)	State FB Women's Chairman/Farmer
David Mitchell Blaine, TN (Grainger)	Farmer
William Danny Rochelle Nunnelly, TN (Hickman)	Farmer
Jack Sanders Charleston, TN (Bradley)	Farmer
Catherine Via Bells, TN (Crockett)	Farmer/Homemaker

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, which in turn requires membership in good standing of a county farm bureau. Unlike the members of the other companies in the Tennessee Farmers Group, the Company's Bylaws further require two directors to be residents of each of the geographical divisions into which the state of Tennessee has been divided for membership purposes by the Federation, with the remaining directors to be elected from the state at large. 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, 2010:

Lacy Upchurch	President & Chairman of the Board
William Danny Rochelle	First Vice President
Matthew M. Scoggins, Jr.	Chief Executive Officer
John Law	Chief Operating Officer, P&C Operations
Wayne Harris	Treasurer
Edward Lancaster	General Counsel and Secretary
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, 2010:

Wayne Merrill	Vice President, Accounting/Controller
Steve Burt	Chief Information Officer

The President functions as the Chairman of the Board of Directors and presides over all meetings of the members 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, 2010 is as follows:

Name	Title
Wayne Merrill	Controller, Chairman of Committee
Lacy Upchurch	President
Matthew M. Scoggins, Jr.	Chief Executive Officer
Wayne Harris	Treasurer/Chief Financial Officer
Dennis Stephen	Chief Operating Officer – Life Operations
Edward Lancaster	Secretary/General Counsel
Non Voting Members	
Randy Maxwell	Investment Portfolio Manager
David Williamson	Investment Portfolio Manager

The Company's Audit Committee at December 31, 2010 is as follows:

Name	Title
Jeff Aiken	Director
Martin Davis	Director
Eric Mayberry	Director
William Danny Rochelle	Director
Jack Sanders	Director

Non Voting Members

Matthew M. Scoggins, Jr.	Chief Executive Officer
Wayne Harris	Treasurer/Chief Financial Officer
Edward Lancaster	Secretary/General Counsel
Wayne Merrill	Controller/Vice President Accounting

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:	Patrick J. Crowe, FCAS, MAAA 7371 Wolf Spring Trace Louisville, Kentucky
Auditing Services:	Johnson Lambert & Co., LLC 700 Spring Forest Road, Suite 115 Raleigh, North Carolina

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

CORPORATE RECORDS

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

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

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 file annual conflict of interest statements.

FIDELITY BOND AND OTHER INSURANCE

The Company has elected to self-insure its fidelity coverage. Minimum fidelity bond coverage of $2,000,000 is suggested by guidelines published in the NAIC Financial Condition Examiners Handbook. Following is a schedule of insurance that is maintained by the Company at December 31, 2010:

Type of Coverage	Coverage Limits
Workers Compensation & Employers Liability	
Workers compensation	Tennessee statutory limit
Employers' liability	
Bodily injury by accident	$1,000,000 each accident
Bodily injury by disease	$1,000,000 each accident
Aggregate limit	$1,000,000

Coverage is underwritten by Wausau Business Insurance Company which is licensed in Tennessee.

Executive Liability and Entity Security Liability Policy including Directors', Officers, Insured Entity and Employment Practices Liability Insurance

Limit of Liability (inclusive of costs of Defense)	$10,000,000

Coverage is underwritten by Federal Insurance Company which is licensed in Tennessee. A retention of $100,000 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.

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 Farm Bureau Federation, et al, with the Company listed as a named insured.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

At December 31, 2010, the following benefits were available to the Company's employees:

Group Life, Accidental Death and Dismemberment, Long Term Disability Insurance

The referenced benefits are provided to all full-time employees on a non-contributory basis and to dependents on a contributory basis. Each insurance plan has a six month waiting period and will become effective on the first day of the following month after their waiting period. The basic life insurance benefit is two times the employee's annual earnings. The accidental death benefit is equal to four times the life benefit. The long term disability benefit equals 66 2/3% of the employee's gross monthly income up to $9,000 per month. This amount is offset by benefits payable from Social Security, workers' compensation and any other government plans. The plan sponsor for these benefits is Tennessee Farm Bureau Federation and the plan administrator is Standard Insurance Company.

Health Insurance

Medical and dental insurance is provided to all full-time employees on a contributory basis. Employees may also elect and pay for dependent coverage. The plan additionally covers well care, psychiatric care and prescription drugs.

Tennessee Rural Health Improvement Association on behalf of the Company coordinates the self-funded employee health plans. The Administrative Coordinator is TRH Health Insurance Company and the Claims Administrator is BlueCross BlueShield of Tennessee. Participants in the plan are entitled to certain rights and protections under the Employee Retirement Income Security Act of 1974 (ERISA) and a Statement of ERISA Rights is included in the plan information summary provided to participants.

Retirement Plan (Defined Benefit Plan)

The Company sponsors a defined benefit pension plan for all eligible employees on a non-contributory basis. An employee becomes eligible for the plan when they have reached 21 years of age and have completed one year of eligible service. The benefits are based on years of service and the employee's highest three consecutive years' average compensation.

Retirement Age
65 years (normal retirement)
62 years with 22 years service
55 years with 25 years service

Retirement Savings Plan (Defined Contribution Plan, 401-K)

The Company offers a 401-K Plan for all eligible employees. An employee becomes eligible on the first April or October following their one year anniversary of employment and attainment of 21 years of age. The Company matches 30% of the employee contribution up to a maximum of six percent of eligible earnings. The match is made in the form of Tennessee Farmers Life Insurance Company and Tennessee Farmers Assurance Company common stock.

Years of Service Bonus Program

The Company has a tenure bonus program where the employee earns a bonus based on their years of service. The bonus is calculated using $20 per year for each year of service.

Other Benefits

Other benefits available for employees include holidays, sick leave, vacation leave, service recognition awards, and educational assistance. The time of service with the Company determines the eligibility and amounts of time available to the employee.

TERRITORY

As of December 31, 2010, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee. The Certificate of Authority for that jurisdiction was reviewed.

During 2010, the Company wrote direct premium in one state:

State	Amount
Tennessee	$983,817,706
Total	$983,817,706

PLAN OF OPERATION

The Company operates as a direct writer of property and casualty insurance under the mutual plan, insuring risks of the following lines of business:

Fire	Inland marine	Auto physical damage
Allied lines	Earthquake	Surety
Farmowners	Other liability occurrence	Burglary and theft
Homeowners	Auto liability	

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 441 captive agents at December 31, 2010 are independent contractors serving as either Agency Managers or Agents. These agents also market business for Tennessee Farmers Life Insurance Company.

The production offices are primarily located in local Farm Bureau offices in the 95 counties of the state of Tennessee. Historically, the Agency Managers have authorized 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 2009, a county office restructuring program was begun, whereby the actual operating costs of the local office insurance operations and County Farm Bureau operations were analyzed and defined. In the counties that have been restructured, 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. As of December 31, 2010, 50 of the 95 counties had been restructured. The remaining 45 counties were restructured during 2011.

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 through its regional claim offices located throughout the state of Tennessee.

The largest net amount insured by the Company in any one risk is $600,000. In order to purchase a policy with the Company, the potential insured must be a member of the Tennessee Farm Bureau Federation. The policies issued are non-assessable in relation to contingency premiums. Dividends may be paid to policyholders from earned surplus funds as declared by the Board.

LOSS EXPERIENCE

The loss experience of the Company for the period under examination, as reported in its Annual Statements, is as follows:

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
2006	$308,790,622	$35,123,288	$405,440,335	84.8%
2007	262,620,314	28,871,288	434,164,912	67.1%

Year		Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
2008		352,569,175	32,618,039	439,723,675	87.6%
2009		418,164,278	35,624,926	466,968,981	97.2%
2010		415,814,584	36,952,648	490,192,403	92.4%
	Total	$1,757,958,973	$169,190,189	$2,236,490,306	86.2%

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company meets the definition of a holding company pursuant to Tenn. Code Ann. § 56-11-101.

The insurance companies in the Tennessee Farmers Group had previously been exempt from the statute based upon an order from Commissioner Elaine McReynolds dated February 12, 1987 which granted the exemption pursuant to Tenn. Code Ann. § 56-11-205(j). (It is noted that the former part 2, §§ 56-11-201-56-11-215, was redesignated as part 1, §§56-11-101 – 56-11-115, by the code commission in 2008.)

During 2004, the TDCI performed a Target Financial Examination of the four companies (Tennessee Farmers Mutual Insurance Company, Tennessee Farmers Assurance Company, Tennessee Farmers Life Insurance Company, Tennessee Farmers Life Reassurance 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 four Companies subsequently agreed that, henceforth, all parties are subject to the registration requirements under Title 56, Chapter 11 Tennessee Code Annotated, "Insurance Holding Company System Act of 1986".

The Company started filing Form B "Insurance Company System Annual Registration Statement" and Form C "Summary of Registration Statement" with the TDCI for the year 2004. This information was filed on April 29, 2005 in compliance with Tenn. Code Ann § 56-11-205.

Management Services Agreements:

The Company is a party to Management Services Agreements with two of its affiliates, Tennessee Farmers Assurance Company and Tennessee Farmers Life Insurance Company. Under these agreements, the Company performs all management, administrative and other services that are reasonably necessary for the operation of the companies. These services include, but are not limited to: employee, legal, claims, managerial and accounting.

The agreements provide 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. The agreements call for settlement to be remitted on a quarterly basis.

The agreement with Tennessee Farmers Assurance Company was dated April 25, 1991 and had an ending date of December 31, 1991 with the option to renew on a calendar year basis thereafter.

The agreement with Tennessee Farmers Life Insurance Company was dated December 21, 1973 and had an ending date of December 31, 1973 with the option to renew on a calendar year basis thereafter.

During 2010, the Company was paid $4,952,244 by Tennessee Farmers Assurance Company and $7,742,792 by Tennessee Farmers Life Insurance Company.

Agreement To Allocate Consolidated Federal Income Tax Liability:

The Company files a consolidated tax return including the following named subsidiaries:

Tennessee Farmers Assurance Company
Tennessee Farmers Support Services
TFIC, Inc.
TF Support Services Corporation

The Agreement to Allocate Consolidated Federal Income Tax Liability was entered into effective December 31, 2010. The previous agreement had been effective as of December 31, 2009.

Equipment Lease:

The Company entered into a Lease Agreement with Tennessee Farmers Life Insurance Company on January 1, 2004 maturing December 31, 2004. The lease automatically renews unless either party gives notice to discontinue. Tennessee Farmers Life 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.

During 2010, the Company was billed $5,389,689 under this lease.

Lease for Office Space:

During 2010, Tennessee Farmers Life invested $914,690.66 into new claims offices in Maury and Hamilton Counties for the Company to use as District Claims Offices. Tennessee Farmers Life also owns office properties in

Davidson, Dickson, Wayne, Shelby, Madison, Putnam, Greene, Wilson and Coffee County that are leased to the Company for claims offices and other operations.

During 2010, the Company paid $1,252,212 under this arrangement.

MARKET CONDUCT

A market conduct review was made of the Company as of December 31, 2010, in conjunction with this examination. The following items were addressed:

Policy Rate and Form Filings:

A sample of eight Company policy rate and form filings were selected for examination for compliance with Tenn. Code Ann. § 56-5-305 (a) and § 56-7-2311 (a). It was found that all Company filings were made prior to their use in accordance with statutory requirements. The Company's filings with the Department are consistent in form and well documented.

Underwriting:

The Company uses a series of in-house underwriting manuals that are posted on the Company intranet for agent use. Changes to the manuals are posted as needed. All manuals were reviewed and found to be reasonable, easily understandable and user-friendly for use in agent and underwriter determination of acceptable risk.

In the examination of Company underwriting procedures and contract administration, contracts for open Auto and Property contracts and terminated Property contracts were reviewed in accordance with the requirements of Tenn. Code Ann. § 56-8-104 (Unfair methods of competition and unfair or deceptive acts or practices defined), Tenn. Comp. R. & Regs. § 0780-1-34 (Eliminating Unfair Discrimination) and established Company guidance. In the examination, 39 open auto and property and 26 terminated property contracts were selected. In the examination of the above contracts, there were no instances of unfair methods of competition or unfair or deceptive acts found, and underwriting procedures and policy administration complied with the Company's established underwriting guidance.

Advertising:

All advertising items including print, internet and television materials issued by the Company were examined in accordance with Tenn. Code Ann. § 56-8-104 (1) (Unfair methods of competition and unfair or deceptive acts or practices defined - False Information and Advertising) and the NAIC Market Regulation Handbook (Chapter 16 - Marketing and Sales). In the examination of the above materials, no incidents of misrepresentation or false advertising were found and all appear to be in

compliance with statutory requirements. The Company was also found to have strong controls in place for the production and use of all advertising materials with only company-approved materials authorized for use.

Complaints:

The Company has a complaint register as required by Tenn. Code Ann. § 56-8-104 (11). A sample of 26 complaint files out of the population of 611 provided by the Company was selected for examination. The Company's records were found not to be in compliance with the statute in the following areas:

- The Company's records do not show the time it took to process each complaint. Therefore, the Company's average complaint processing time could not be determined as part of this examination.

- The Company's complaint records do not include data on complaints received through the Tennessee Department of Commerce and Insurance. The Company stated that all complaints received through the Department are resolved quickly, with a response provided back to the Department in a timely manner; however no record of these complaints is maintained.

Nature of Complaints: In the 26 complaints selected, two types of complaints were prominent: 11 complaints (42%) were associated with agent rudeness or poor service, and 6 complaints (23%) concerned denied insurance coverage - either initial or renewal.

Claims:

A sample of 52 open and unpaid Auto and Property claims were examined for adequacy of the Company's claim process in accordance with Tenn. Code Ann. § 56-8-104 (8); and requirements listed in Chapter 16 (Claim Standards) of the NAIC 2010 Market Regulation Handbook. Listed below is a summary of examination findings:

- In the review of all file material, Company actions and dates were readily ascertained;

- In the review of actions once a claim is received, the Company appears in all cases to acknowledge and act promptly once the claim is received;

- Other than when legal issues beyond the Company's control cause a significant delay in settlement, the Company appears to settle claims in a timely manner once liability is determined.

- The Company appears to settle claims in good faith, providing equitable settlements based on the coverage purchased.

Because of legal issues that caused a significant delay in the settlement of claims selected, average payment processing time for the sample was not determined; however detailed review of each file showed that the Company acted promptly where required in response to claims involved in litigation.

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 Assurance Company (TFAC)

The Company assumes, through a quota share agreement, 50% of all lines of business issued by Tennessee Farmers Assurance Company (TFAC) effective August 1, 1999. This agreement covers liabilities that existed on and after August 1, 1999.

The Company assumes, through an all-lines aggregate agreement, business from TFAC of amounts in excess of 77% of TFAC's net earned premium effective January 1, 2009. The company's limit is 83.33% of $60 million annually ($180 million in aggregate).

Assumed Reinsurance with Non-Affiliates

American Agricultural Insurance Company (AAIC)

The Company assumes business from AAIC via a 25% assumption of the Columbus line of business effective January 1, 2010. The Columbus line relates to business assumed by AAIC and retroceded to the Company. The company utilizes the Columbus line of business to spread its geographical risk exposure.

The Company assumes property business from AAIC through a pooled multi-line and catastrophe agreement. The subject business is ceded to AAIC from other Farm Bureau insurance companies. Effective January 1, 2010, the Company's retention is $31.25 million (5% participation) with an $80 million cover.

Ceded Reinsurance with Affiliates

Tennessee Farmers Assurance Company (TFAC)

The Company cedes, through a quota share agreement, 50% of all lines of business issued by the Company to Tennessee Farmers Assurance Company (TFAC) effective August 1, 1991. This agreement covers liabilities that existed on and after August 1, 1991.

The Company cedes, through a quota share agreement, 50% of the business assumed from AAIC related to the Columbus line of business. This business is assumed by AAIC and retroceded to the Company. The Company uses the Columbus line of business to spread its geographical risk exposure.

Tennessee Farmers Life Insurance Company (TFLIC)

The Company cedes, through a quota share agreement, 100% of the automobile blanket accidental death policies issued by the Company to Tennessee Farmers Life Insurance Company (TFLIC) effective January 1, 1995. These agreements cover liabilities that existed on and after January 1, 1995.

The Company cedes, through a quota share agreement, 100% of the property blanket accidental death policies issued by the Company to Tennessee Farmers Life Insurance Company (TFLIC) effective February 1, 1990. This agreement covers liabilities that existed on and after February 1, 1990.

Ceded Reinsurance with Non-Affiliates

American Agricultural Insurance Company

The Company cedes the following to American Agricultural Insurance Company:

1) Effective Date:	January 1, 2010
Description:	Covers certain: 1. Personal umbrella polices and endorsements 2. Farm and Ranch umbrella policies 3. Commercial umbrella policies
Retention:	$ 600,000
Maximum Ceded Amounts:	$ 2 million per occurrence ($5 million umbrella)
2) Effective Date:	January 1, 2010
Description:	Excess Liability and Umbrella
Retention:	$ 5 million
Maximum Ceded Amounts:	$ 10 million x/s $5 million
3) Effective Date:	January 1, 2010
Description:	An occurrence property catastrophe excess of loss for personal and commercial property coverages.
Retention:	$ 83 million
Maximum Ceded Amounts:	$ 405 million (5% participation)

4) Effective Date:	January 1, 2010
Description:	An occurrence property catastrophe (terrorism) excess of loss for personal and commercial coverages.
Retention:	$ 16,631,600
Maximum Ceded Amounts:	$ 33,263,200

5) Effective Date:	January 1, 2010
Description:	A property surplus share for personal and commercial coverages.
Retention:	$ 600,000
Maximum Ceded Amounts:	$ 40 million aggregate/$ 10 million per occurrence

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. 62 and NAIC guidelines.

COMMISSION EQUITY

The Company reports commission equity of $28,596,842 in the Notes to Financial Statements in compliance with NAIC Annual Statement Instructions. Of this amount, $28,503,012 is related to the Quota Share Reinsurance Agreement (50%) with its subsidiary, TFAC. The remaining $93,830 is related to treaties with various reinsurers and is considered an immaterial amount.

No contingent liability is proposed due to the financial strength of the subsidiary and the other reinsurers, together with the unlikelihood that the reinsurance agreements would be commuted.

ACCOUNTS AND RECORDS

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. General ledger trial balances were reconciled with copies of annual statements for the years 2006, 2007, 2008, 2009, and 2010. 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).

The Company is audited annually by Johnson Lambert & Co., LLP, Raleigh, North Carolina. Tenn. Comp. R. & Regs. § 0780-01-65-.08(4) requires that no partner or other person who has primary responsibility for rendering a report by a certified public accounting firm may act in that capacity for more than five consecutive years. The Company is in compliance with this regulation.

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 for the benefit of all policyholders, claimants, and creditors of the Company as of December 31, 2010.

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
Tennessee State General Oblig. Bond, 5.00%, Due 5/1/14 CUSIP# 8805404L0	$ 620,000	$ 628,169	$ 696,663
Tennessee State General Oblig. Bond, 5.00%, Due 5/1/24 CUSIP# 880541MR5	1,000,000	1,105,728	1,079,110
Total general deposits held for the benefit of all policyholders and creditors of the Company	**1,620,000**	**1,733,897**	**1,775,773**
Total	**$1,620,000**	**$1,733,897**	**$1,775,773**

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

DIVIDENDS OR DISTRIBUTIONS

During the period of examination the Company paid the following amounts in policyholder dividends:

Year	Amount
2006	$ 6,249,256
2007	12,603,538
2008	3,601,719
2009	3,235,347
2010	3,549,255
Total Paid During Period of Examination	$29,239,115

LITIGATION

As of December 31, 2010, the Company has committed no reserves to cover any contingent liability. Various lawsuits against the Company have arisen in the normal course of business relating to insurance claims settlements. Contingent liabilities arising from litigation are not considered material in relation to the financial position of the company.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2010, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$922,307,296		$922,307,296
Preferred stocks	0		0
Common stocks	1,029,011,358		1,029,011,358
Cash and short-term investments	20,813,231		20,813,231
Other invested assets	2,349,637		2,349,637
Investment income due and accrued	12,804,978		12,804,978
Uncollected premiums and agents' balances in course of collection	118,050,969		118,050,969
Deferred premiums, agents' balances and installments booked but deferred and not yet due	861,852		861,852
Amounts recoverable from reinsurers	2,012,544		2,012,544
Current federal income tax recoverable	6,885,862		6,885,862
Electronic data processing equipment	2,313,925	2,273,803	40,122
Receivable from parent, subsidiaries and affiliates	11,737,644		11,737,644
Healthcare and other amounts receivable	637,000	637,000	0
Aggregate write-ins for other than invested assets	155,119,537	144,896,828	10,133,512
Totals	$2,284,905,833	$147,896,828	$2,137,009,005

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses	$184,562,057
Reinsurance payable on paid loss and loss adjustment expenses	0
Loss adjustment expenses	47,971,495
Commissions payable, contingent commissions and other similar charges	8,005,374
Other expenses (excluding taxes, licenses and fees)	21,588,635
Taxes, licenses and fees (excluding federal and foreign income tax)	1,293,894
Federal and foreign income taxes	0
Net deferred tax liability	3,572,360
Unearned premiums	177,050,530
Advance premiums	9,887,685
Dividends declared and unpaid: policyholders	3,680,550
Ceded reinsurance premiums payable (net of ceding commissions)	3,022,660
Amounts withheld or retained by company for account of others	2,246,235
Payable to parent, subsidiaries and affiliates	6,819,152
Payable for securities	3,602,125
Aggregate write-ins for liabilities (related to retirement and deferred benefits)	9,011,116
Total Liabilities	482,313,868
Aggregate write-ins for special surplus funds	6,900
Common capital stock	0
Gross paid in and contributed surplus	0
Unassigned funds (surplus)	1,654,688,237
Surplus as regards policyholders	1,654,695,137
Total liabilities and surplus	$2,137,009,005

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned		$490,192,403
Deductions: Losses incurred	$415,814,584	
Loss expenses incurred	36,952,648	
Other underwriting expenses incurred	73,714,571	
Total underwriting deductions		526,481,803
Net underwriting gain (loss)		(36,289,400)

INVESTMENT INCOME

Net investment income earned	49,022,072	
Net realized capital gains (losses)	1,017,452	
Net investment gain		50,039,524

OTHER INCOME

Finance and service charges not included in premiums	4,167,626
Aggregate write-ins for miscellaneous income	144,059
Total other income	4,311,685
Net income before dividends to policyholders and before federal income taxes	18,061,809
Dividends to policyholders	3,549,255
Federal income taxes incurred	(7,652,615)
Net income	$22,165,169

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		$1,627,758,488
Net income	$22,165,169	
Change in net unrealized capital gains (losses)	25,799,494	
Change in net deferred income tax	(4,002,682)	
Change in non-admitted assets	(16,415,282)	
Cumulative effect of changes in accounting principles	0	
Capital changes: Paid in	0	
Capital changes: Transferred from surplus (Stock Dividend)	0	
Surplus adjustments: Paid in	0	
Surplus adjustments: Transferred to capital (Stock Dividend)	0	
Aggregate write-in for gains and losses in surplus	(610,060)	
Change in surplus as regards policyholders for the year		26,936,649
Surplus as regards policyholders, December 31 current year		$1,654,695,137

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	2006	2007	2008	2009	2010
Previous Year	$1,331,077,507	$1,424,478,910	$1,565,457,237	$1,588,574,647	$1,627,758,488
Net Income	38,497,648	105,052,374	38,150,951	(9,112,629)	22,165,169
Net unrealized capital gains or (losses)	0	0	0	0	0
Change in net unrealized capital gains or (losses)	51,395,367	79,207,598	(11,288,848)	45,586,687	25,799,494
Change in net deferred income tax	11,239,636	(1,292,575)	6,328,472	23,277,819	(4,002,682)
Change in non-admitted Assets	(5,826,999)	(41,678,545)	(10,938,674)	(20,307,574)	(16,415,272)
Change in provision for Reinsurance	0	0	0	0	0
Cumulative effect of changes In accounting principles	0	0	0	0	0
Capital changes: Paid in	0	0	0	0	0
Capital changes: Transferred From surplus (Stock Dividend)	0	0	0	0	0
Surplus adjustments: Paid in	0	0	0	0	0
Surplus adjustments: Transferred To capital (Stock Dividend)	0	0	0	0	0
Aggregate write-ins for gains and losses in surplus	(1,904,249)	(310,525)	865,509	(260,462)	(610,060)
Surplus as regards policyholders, December 31 current year	**$1,424,478,910**	**$1,565,457,237**	**$1,588,574,647**	**$1,627,758,488**	**$1,654,695,137**

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:

The Company has a complaint register as required by Tenn. Code Ann. § 56-8-104 (11); however, the Company's records were found not to be in compliance with the statute in the following areas:

- The Company's records do not show the time it took to process each complaint. Therefore, the Company's average complaint processing time could not be determined as part of this examination.

- The Company's complaint records do not include data on complaints received through the Tennessee Department of Commerce and Insurance. The Company stated that all complaints received through the Department are resolved quickly, with a response provided back to the Department in a timely manner; however no record of these complaints is maintained.

Prior to completion of the examination, the Company upgraded its complaint handling system so that the date each complaint is received is logged. The system also tracks the date that the complaint was resolved. In addition, complaints received from the Tennessee Department of Commerce and Insurance are now tracked using the complaint register.

It appears that the Company is now in compliance with Tenn. Code Ann. § 56-8-104 (11).

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 Mutual Insurance Company of Columbia, Tennessee.

In such manner, it was determined that, as of December 31, 2010, the Company had admitted assets of $2,137,009,005 and liabilities, exclusive of unassigned funds, of $482,313,868. Thus, there existed for the additional protection of the policyholders, the amount of $1,654,695,137 in the form of surplus receipts 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, David N. Bobo and Gregory Bronson, CIE, MCM, Insurance Examiners for the state of Tennessee, and Norman Chandler, CPA, CPCU, CFE, ARe, AIAF, ARC, ACP of the firm TaylorChander, LLC, Montgomery, Alabama, participated in the work of this examination. An actuarial review was performed by Gregory S. Wilson, FCAS, MAAA of the actuarial firm Lewis & Ellis, Inc. of Richardson, Texas.

Respectfully submitted,

Rhonda Bowling-Black, CFE
Examiner- in-Charge
State of Tennessee
Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Tennessee Farmers Mutual Insurance Company dated June 14, 2012, and made as of December 31, 2010, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black

Rhonda Bowling-Black, CFE
Examiner-in-Charge
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 15th day of

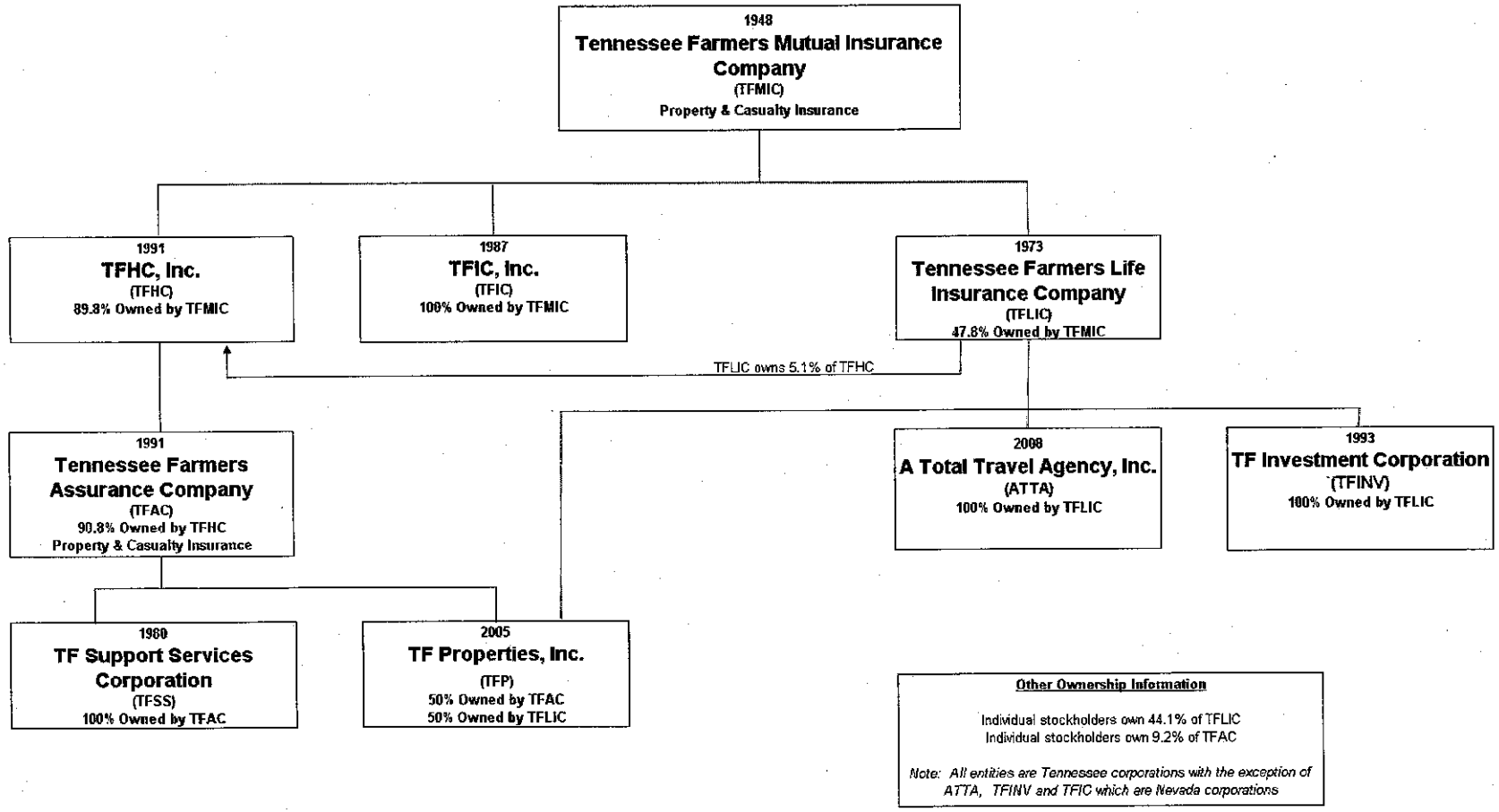
June, 2012

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

Tennessee Farmers Mutual Insurance Company
Organizational Chart
December 31, 2010