# Report of Examination

of

# East Tennessee Mutual Insurance Company

Blountville, Tennessee

as of

**December 31, 2008**

G. Julia Lambert

Secretary/Treasurer

3188 Highway 126

Blountville, Tennessee 37617

July 7, 2010

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

Commissioner:

Pursuant TENN. CODE ANN. § 56-22-115 and your instructions, I have made an examination and submit the following report of the conditions and affairs of the

**East Tennessee Mutual Insurance Company**

**Blountville, Tennessee**

**Officers**

| Title | Name | Address | Term Expires |
|---|---|---|---|
| President | William H. Pierce | Bluff City, TN | 2008-2009 |
| Vice President | Jimmie D. Droke (died 6/13/09 | Gray, TN | 2008-2011 |
| Secretary & Treasurer | G. Julia Lambert | Bluff City, TN | 2008-2011 |

**Directors:**

| Name | Address | Term Expires |
|---|---|---|
| William H. Pierce, President | Bluff City, TN | 2009 |
| Jimmie D. Droke, Vice President | Gray, TN | 2011 (died 07/13/09) |
| G. Julia Lambert, Secretary & Treasurer | Bluff City, TN | 2011 |
| Mike Galloway | Bluff City, TN | 2010 |
| James Mahaffey | Bristol, TN | 2011 |
| Charles Newland | Kingsport, TN | 2009 |
| Eugene Lambert | Bluff City, TN | 2010 |
| Sara Morrell | Bristol, TN | 2009 |
| Ell J. Morrell | Bristol, TN | 2009 |
| Billy Geisier | Piney Flats, TN | 2010 (resigned 08/08) |

**Compensation of officers, directors, appraisers, adjusters, et al:**

Directors receive a one-time payment of $500 per year.
Secretary/Treasurer receives compensation of $20 per hour plus health ($167.50 per month) and dental insurance ($18.85 per month).
Agents receive $30 per inspection
Assistant Manager receives $16 per hour.
Agents receive $75.00 per policy written (one time payment and not on renewals) for dwelling fire policies
Independent Adjuster receives compensation of $250 per week.
One (1) part-time office worker receives $265 per month.

The President and Secretary/Treasurer are licensed agents but do not receive commission for writing policies. (Company has six agents, four active in writing policies)

**Report of changes in the Constitution or By-Laws, policy forms, or other agreements during the period covered by this examination.**

East Tennessee Mutual Insurance Company's (Company) Amended and Restated Charter was approved by the Department of Commerce and Insurance, State of Tennessee (Department), July 22, 2005.

On September 28, 2008 East Tennessee Mutual (1896) Agency, Inc. (ETM (1896) Agency) was incorporated as a privately held, for profit subsidiary of the Company. East Tennessee Mutual owns 100% of ETM (1896) Agency, 50 shares of common stock with a par value of $100 a share. TENN. CODE ANN. § 56-3-404(a)(2) allows a county mutual insurance company to form an agency and hold "[m]ore than 50% of the shares of outstanding voting stock of [the] domestic or foreign business corporation other than an insurance company, which corporation was formed or acquired for, and necessary and incidental to, the convenient operation of its insurance business . . . ." Upon the formation of ETM (1896) Agency on September 28, 2008 the Company became subject to the requirements of the Insurance Holding Company System Act of 1986, TENN. CODE ANN. § 56-11-101, *et seq.*

ETM (1896) Agency was formed to provide an option for members to obtain automobile insurance in an effort to improve the Company's competitiveness in the insurance market. The Company acts as an agent for ETM (1896) Agency for automobile insurance. ETM (1896) Agency has an agreement with Smart Choice Corporation. Smart Choice Corporation acts as an insurance broker and provides standard and non-standard automobile coverage to the Company's policyholders through various licensed insurers. ETM (1896) Agency receives a 70% commission and a 30% commission is retained by Smart Choice Corporation.

**If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report?**

The Company's custodial agreement, policy applications (approved December 12, 2007) and rate changes (submitted December 7, 2008) were filed with the State of Tennessee Department of Commerce and Insurance. However, rate changes will be attached with this report.

**Report on reinsurance assumed and / or ceded.**

The Company has a Property Per Risk Excess of Loss Reinsurance Agreement with SCOR Re Reinsurance Company, effective January 1, 2008.

Property Excess of Loss: Business covered includes fire, allied lines, inland marine and property sections of commercial multiple peril, homeowner's multiple peril, and farmowner's multiple peril policies. Retention limit of $450,000 each loss, each risk excess of $50,000 each loss, each risk, subject to an occurrence limitation of $1,350,000. In respect to terrorism, the maximum annual aggregate limit is $1,350,000, notwithstanding the previous retention limits with further stipulations. Coverage also bears stated exclusions that can be found in the reinsurance booklet. Deposit premium of $18,759 (or 5.07% of NWP) is payable in four equal installments March 31, June 30, Sept. 30, and Dec. 31.

Property Aggregate Excess of Loss: Business covered includes the same as property excess of loss. However, the retention and limit states that the reinsurer is liable for 100% of 1000% of the net earned premium income excess of an amount of aggregate ultimate net loss of 85% of the net earned premium income. Deposit premium of $16,650 (or 4.5% of NEPI) is payable in four equal installments March 31, June 30, Sept. 30, and Dec. 31.

**Appraisal and classification of risks taken.**

Property appraisals are done by an agent at the time of the application and are approved by the Director of the District in which the property is located. Finalization of the application is completed by the Secretary/Treasurer, G. Julia Lambert, who determines acceptance of the application and completes the underwriting process.

No property shall be insured for more than 80% of the full value.

Risks are taken on owner occupied and rental dwellings primarily farm dwellings, out buildings, personal household effects, farm equipment, livestock and heat pumps are also covered.

**Annual rate of assessment per $1,000.00 for period covered:**

Rental mobile homes will be assessed at $20.00 per $1,000 of insured value. Policyholders having 20 or more rental dwellings with the Company will be billed at $4.00 per 1000 of insured value. The higher deductible premium credit limits for $500 deductible and $1,000 deductible will be set at a $500 limit.

Rate schedule is attached to this report.

**Rate of membership, policy and initial fees charged.**

The Company has many different rates, which reflect the risk level of the insured property. Please see the entire rate schedule.

**Date of last assessment.**

The Company sets and approves premium rates at its annual meeting in March of each year.

**Amount delinquent.**

None

Premium notices are mailed out a month in advance and are to be paid by the renewal date. If premium is not paid by the renewal date a second notice is mailed. Upon mailing of a second notice an additional thirty day grace period is given to pay premium, but after thirty days and no received payment, the policy is cancelled. Cancellations are mailed by certified mail. A $7 fee is charged for late payments when a non-payment cancellation notice is sent to policyholder. A ten day notice of cancellation is sent to policyholders for non payment and a 30 day notice for non-renewal of policy is given to policyholders. However, the Company is now accepting partial payments in light of economic difficulties for policyholders.

The Company began assessing a $3 fee for partial receipt of payment in October 2006.

**Did that assessment provide for all losses, expenses and other liabilities, including borrowed money?**

Yes

**Amount of money borrowed since date of last assessment.**

The Company did not borrow any money during the period of examination.

**<u>Exhibit of Risks</u>**

| | | Amount |
|---|---|---|
| 1. | In force, December 31, Prior Year | 70,114,280 |
| 2. | Written or Renewed During Year | 79,701,060 |
| 3. | Expirations or Cancellations During Year | 79,787,480 |
| 4. | Gross in force, Dec 31, Current Year | 70,027,860 |
| 5. | Amount Re-insured | 25,717,950 |
| 6. | Net Amount In force, December 31, 2008 | 44,309,910 |
| 7. | Policy Count | 1,003 |

## Balance Sheet

There follows a statement of assets and liabilities as of December 31, 2008, together with a reconciliation of surplus, as established by this examination. The stated amounts on the following balance sheet and income statement were originally derived from the Company's Third Amended 2008 Annual Statement before any changes per examination were made.

### Assets

| | Net Admitted Assets Per Company | Examination Adjustments | Net-Admitted Assets Per Examination |
|---|---|---|---|
| Bonds and Long-term Certificate of Deposits | $2,188,004 | | $2,188,004 |
| Common Stocks | 128,950 | | 128,950 |
| Properties Occupied by the Company | 37,736 | | 37,736 |
| Cash and cash equivalents | 380,836 | ($23,239) | 357,597 |
| Aggregate write-ins for other invested assets | 1,300 | (1,300) | -0- |
| Premium receivables and agents balances | 248,676 | *(248,676) | -0- |
| Interest, dividends and real estate income due and accrued | 15,706 | | 15,706 |
| Furniture, equipment, and supplies | -0- | | -0- |
| Electronic data processing equipment and software | 2,815 | | **2,815 |
| Total Admitted Assets | $3,004,023 | ($273,215) | $2,730,808 |

* Please see comments below regarding premium receivables. **Please see comments on EDP below.

### Liabilities, Surplus and Other Funds

| | Liabilities and Surplus Per Company | Examination Adjustments | Liabilities and Surplus Per Examination |
|---|---|---|---|
| Unearned Premiums | $187,484 | $0 | $187,484 |
| Advance Premiums | 15,567 | 0 | 15,567 |
| Ceded reinsurance premiums payable | 8,852 | 0 | 8,852 |
| Account Payable and Accrued Expense Payable | 880 | 0 | 880 |
| Taxes, Licenses, and fees (excluding FIT) | 4,013 | 0 | 4,013 |
| Amounts withheld or retained by company for account of others | 1,286 | 0 | 1,286 |
| Total Liabilities | 218,083 | 0 | $218,083 |
| Policyholder's surplus | 2,785,940 | 0 | 2,512,726 |
| TOTAL LIABILITIES & SURPLUS | $3,004,023 | 0 | $2,730,808 |

## STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

*Underwriting Income*

| | |
|---|---|
| 1. Net Premiums and assessments earned | $320,978 |
| 2. Net losses incurred | 125,802 |
| 3. Loss expenses incurred including claims adjustment expenses | 9,293 |
| 4. Other underwriting expenses incurred | |
| 4.1. Commission and brokerage: | |
| a. Directors and officers compensation and allowances | 4,510 |
| b. Agents compensation and allowances | 7,732 |
| c. Non-employee compensation and allowances | 2,424 |
| d. Commissions received on reinsurance ceded | |
| e. Net commissions and brokerage | 14,666 |
| 4.2 Field supervisory expenses | |
| 4.3 Salaries and related items | |
| a. Employees' Salaries | 33,676 |
| b. Directors' and Officers' Salaries | 47,022 |
| c. Payroll taxes | 8,070 |
| d. Total salaries and related items | 88,768 |
| 4.4 Directors fees | 3,500 |
| 4.5 Advertising and subscriptions | 13,058 |
| 4.6 Boards, bureaus and association dues | 2,744 |
| 4.7 Surveys and underwriting reports | |
| 4.8 Employee relations welfare | 10,827 |
| 4.9 Insurance and fidelity bonds | 16,661 |
| 4.10Travel and travel items | 3,743 |
| 4.11Rent and rent items | 6,000 |
| 4.12Equipment | 7,169 |
| 4.13Cost or Depreciation of EDP equipment and software | 1,877 |
| 4.14Printing and Stationery | 7,815 |
| 4.15Postage, telephone and telegraph | 6,258 |
| 4.16Legal and auditing fees | 6,663 |
| 4.17Taxes, licenses, and fees: | |
| a. State and local insurance taxes | 10,741 |
| b. Insurance department licenses and fees | 735 |
| c. All other (excluding federal income tax and real estate) | |
| d. Total taxes, licenses and fees | 11,476 |
| 4.18Real estate expenses and repairs | 6,889 |
| 4.19Real estate taxes | 862 |
| 4.20Aggregate write-ins for underwriting expenses | 14,425 |
| 4.21Total underwriting expenses incurred | 223,401 |
| 5. Total underwriting deductions | 358,496 |
| 6. Net underwriting gain or (loss) | (32,772) |

*Investment Income*

| | |
|---|---|
| 7. Net investment Income earned | 97,719 |
| 8. Net realized capital gains or (losses) from sale or maturity of assets | |
| 9. Net investment gain or (loss) | 97,719 |

*Other Income*

| | |
|---|---|
| 10. Finance and service charges not included in premiums | -0- |
| 11. Aggregate write-ins for miscellaneous income | -0- |
| 12. Total other income | -0- |
| 13. Dividends to policyholders | |
| 14. Net income after dividends to policyholders and before federal income taxes | 60,201 |
| 15. Federal income taxes incurred | -0- |
| 16. Net income | 60,201 |

*Policyholders' Surplus Account*

| | | |
|---|---|---|
| 17. | Policyholders surplus, December 31 of previous year | 2,884,336 |
| | *Gains and (Losses) in Surplus* | |
| 18. | Net Income | 60,201 |
| 19. | Change in net unrealized capital gains or (losses) | (121,895) |
| 20. | Change in non-admitted assets from prior year | (11,636) |
| 21. | Cumulative effect of changes in accounting principles | -0- |
| 22. | Aggregate write-ins for gains and losses in surplus | (25,065) |
| 22. | Aggregate write-ins for gains and losses in surplus (Examination Adjustments) | (273,214) |
| 23. | Policyholders surplus as of statement date (Per Examination) | $2,512,726 |

## Assets

**Schedule of Bank Deposits:**

| Name of Bank | Amount on Bank Statement | Amount of O/S Checks | Adj. Items | Balance |
|---|---|---|---|---|
| BB& T, Checking | $109,201.86 | ($26,909.33) | $-0- | $82,292.53 |
| First Tennessee, Savings | $12,161.00 | | | $12,161.00 |
| Total | $121,362.86 | ($26,909.33) | $-0- | $94,453.53 |

**Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon:**

Cash Equivalents (Admitted per Examination):

| | |
|---|---|
| Bank of Tennessee | $10,928.00 |
| Goldman Sachs Financial Square Govt. Fund | $252,016.00 |
| Total Cash Equivalents | $262,944.00 |

Bonds and Long Term Certificates of Deposit (Admitted per Examination):

| | |
|---|---|
| Citizens Bank | 22,914 |
| Citizens Bank | 53,856 |
| BB&T CD | 81,944 |
| Bank of Hapolalim BM NY | 50,000 |
| Enerbank | 100.195 |
| Kansas State Bank | 50,000 |
| Lehman Brothers FSB | 50,119 |
| Morton Community Bank | 29,831 |
| Southwest Bank | 95,000 |
| State Bank of India NY | 50,000 |

| | |
|---|---|
| Westernbank Puerto Rico | 95,000 |
| Federal National Mortgage Assoc | 50,095 |
| Federal National Mortgage Assoc | 100,000 |
| Federal National Mortgage Assoc | 99,287 |
| Federal National Mortgage Assoc | 99,821 |
| Federal Home Loan Bank | 49,241 |
| Federal National Mortgage Assoc | 48,784 |
| Federal National Mortgage Assoc | 24,736 |
| Federal National Mortgage Assoc | 73,854 |
| Federal Home Loan Bank | 75,000 |
| Govt Natl Mtge Assn Pool | 18,033 |
| Govt Natl Mtge Assn Pool | 29,908 |
| Fedl Ntla Mtge Assn Pool | 48,561 |
| Washington Post Co | 25,028 |
| General Motors Acceptance Corp | 46,707 |
| Bear Sterns | 24,823 |
| MBNA America Bank | 24,803 |
| National Rural Utilities | 25,000 |
| Coca-Cola Enterprises | 25,004 |
| General Electric Capital Corp | 49,622 |
| American Express Bk | 49,791 |
| Kraft Foods Inc. | 24,768 |
| Goldman Sachs Group | 49,662 |
| Clorox Company | 24,801 |
| Morgan Stanley | 29,286 |
| Caterpillar Finl Svcs | 24,788 |
| Ford Motor Credit | 22,616 |
| Abbot Laboratories | 26,007 |
| Sara Lee Corp | 24,885 |
| HSBC Finance Corp | 48,155 |
| AT&T Inc | 24,261 |
| Hershey Company | 25,233 |
| Philip Morris Intl | 23,813 |
| Protective Life Secured Trust | 38,540 |
| Prudential Financial | 45,970 |
| General Electric Capital Corp | 17,804 |
| Anheuser Bush | 20,419 |
| Michigan State HSG Dev Auth | 50,035 |
| Total Bonds and Long Term Certificates of Deposit | $2,188,004 |

Common Stocks (Admitted per Examination):

| | |
|---|---|
| Ishares MSCI EAFE Index Fd (325 shares) | $14,580 |
| Ishares Russell 1000 Index Fd (650 shares) | 31,766 |

| | |
|---|---|
| Ishares Russell 2000 Index Fd (340 shares) | 16,741 |
| EverGreen Global Dividend Opportunity (1000 shares) | 9,540 |
| EverGreen Global Dividend Opportunity (200 shares) | 1,908 |
| EverGreen Global Dividend Opportunity (800 shares) | 7,632 |
| Goldman Sachs Connect S&P GSCI (500 shares) | 18,002 |
| Ishares MSCI Bric Index Fd (500 shares) | 12,485 |
| Ishares S&P Global 100 Index Fd (325 shares) | 16,296 |
| Total Common Stocks | $128,950 |
| Real Estate | |
| Building | $37,736 |
| Total Real Estate | $37,736 |

**Assets pledged or hypothecated:**

Assets were pledged with the State of TN on 12/30/2008. See Subsequent Events.

**Comments on Bonds, Stocks, Real Estate, and Other Assets:**

**Bonds & Common Stocks**

Executive committee approved to employ Spire Investment Partners for investment management and contracts First Tennessee Bank as custodian of the Company's investment portfolio.

**Real Estate**

Company reported a land improvement (paving) in 2004 and in 2007, Company purchased a metal storage facility.

**Cash**

Company holds $200 in petty cash.

**Premium Receivables and Agents Balances**

It was not possible for the Examiner to determine the accuracy of the $248,676 Premium Receivable asset amount shown on the 2008 Annual Statement because the Company did not provide an aged, detailed list of individual policy premiums due the Company as of December 31, 2008. The Examiner was informed that the CPA computed this line item for the Company. The Company believes that this line item is incorrect based on the premium posting report. The Company is not aware of how this number was computed incorrectly. The former CPA firm

(Baylor & Backus) noted on a worksheet the following statement: "All of the required information is not entered correctly in the AIMS program, therefore, we are unable to utilize the AIMS report for the refund amount." Moreover, the amount shown admitted was calculated by the CPA but most likely is not correct. In 2007, the Company reported this item with a $257,328 balance which carried over in the total of this amount. The Company has changed CPA firms (Rives & Associates) and as of this exam the Company is working on correcting the incorrect reporting of this amount.

**Electronic data processing, equipment and software**

According to this schedule EDP is depreciated over 5, and at times, 7 years. Depreciable assets have a total value of $3,886. However, the CPA reports a value of $2,815 as asset value in Annual Statement line 13. Examiner was not provided with depreciation schedule regarding the Annual Statement amount. In discussion with CPA and Secretary/Treasurer, the Examiner was informed that the EDP asset may be subject to inaccuracy due to some items not being properly depreciated. Thus, most of the equipment to be depreciated appears to have been purchased in 2007 and 2008. Anything prior to 2005 should have been written off for this examination.

Using straight-line depreciation with a three year life, Examiner depreciated assets total is $3,014, which is $199 more than the depreciated assets provided on the annual statement. This $199 difference is immaterial.

**Comments on claims, borrowed money and other liabilities:**

Claims appear to be paid promptly and to the satisfaction of the policyholders. However, record keeping displayed an inconsistent number of paid claims in comparison to the reported number.

Losses were reported in annual statement as 18 paid losses and net incurred losses of $125,802. According to the detail paid losses totaled $124,860.27 including $597.80 of 2007 unpaid losses. There were 34 reported claims for 2008. According to the detail only 22 claims were paid, the remaining 12 policyholder reported claims were not actual claims.

Julia Lambert stated that the inconsistency may be related to her and the Assistant Manager reporting claims on different computers which results in inaccuracy. Also, she stated that the adjusted claims total was treated as an expense. Mrs. Lambert has allowed the new CPA firm to develop a spreadsheet for more accurate recording of claims for 2009.

No money was borrowed during the period of examination.

Company has decreased its compensation ratio from last years ratio, respectively 2007 ratio was 36% and 2008 ratio is 30%

## Analysis of Changes in Financial Statement and Comments Resulting From Examination

**Cash and Cash Equivalents** **$357,597**

The above amount is $23,239 less than the $380,836 amount reported by the Company on its Assets Page on line 5 in its 2008 Annual Statement. This $380,836 statement value as of year-end 2008 did not include an adjustment for the total amount of outstanding checks issued from its B B & T Business Checking account.

**Aggregate Write-Ins for Other Invested Assets** **$-0-**

The above captioned amount is $1,300 less than the $1,300 net admitted amount reported by the Company on its Assets Page on line 6 and line 29 in its 2008 Annual Statement. As of year-end 2008 the Company had not yet received "the approval of the commissioner" to "acquire and hold" its wholly-owned subsidiary ETM (1896) Agency pursuant to Tenn. Code Ann. § 56-3-404(a). Therefore, this $1,300 receivable from ETM (1896) Agency will be non-admitted for purposes of this examination.

**Premium Receivables and Agents Balances** **$-0-**

The above amount is $248,676 less than the $248,676 amount reported by the Company on its Assets Page on line 8 in its 2008 Annual Statement. The Company did not provide the Examiner an aged, detailed list of individual policy premium due the Company as of December 31, 2008 in order to verify the accuracy of this asset. Therefore, this $248,676 Premium Receivable asset total is considered a non-admitted for purposes of this examination.

**Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business:**

As previously stated in this report, the Company became subject to the requirements of the Insurance Holding Company System Act of 1986, TENN. CODE ANN. § 56-11-101, *et seq*, upon the formation of ETM (1896) Agency on September 28, 2008. However, the Company did not attach a Schedule Y to their annual statement filing for 2008 in violation of TENN. CODE ANN. § 56-11-105(b)(2), and the Department did not receive the Company's 2008 Holding Company Registration Statement until August 13, 2009 in violation of TENN. CODE ANN. § 56-11-105(a). Furthermore, the Department did not receive a formal request for approval from the Commissioner to form and hold ETM (1896) Agency until Sept. 30, 2009 in accordance with TENN. CODE ANN. § 56-3-404(a).

The location of the Company's books and records during the examination was 3188 Highway 126, Blountville, TN 37617

**Subsequent Events:**

The Company was approved to write liability on March 5, 2009 and pledged $200,000 to the State of TN DOI. The Company is now subject to TENN. CODE ANN. § 56-22-106(b).

The Company filed an original 2008 Annual Statement that was received by the Department on March 2, 2009. Subsequent to this original filing the Company filed three (3) Amended 2008 Annual Statements. The third Amended Annual Statement was received by the Department on September 1, 2009.

**Recommendations:**

It is recommended that the Company implement the following measures of corrective action for purposes of complying with statutory requirements:

1. Pursuant to TENN. COMP. R. & REGS. 0780-1-46-.03(2)(a)3., the Company should add a provision to its custodial agreement with First Tennessee Bank stating that the securities may be withdrawn immediately upon demand of the insurance company.

2. It is recommended that Company refrain from disclosing balance sheet or income statement amounts without documentation to substantiate the amounts recorded in their Annual Statement. It is further recommended that Company reconcile its different accounting and record keeping systems (Peachtree Accounting) in order to maintain consistent record keeping among its internal records maintained in-house. Subsequent to the date of this examination, the Company has employed a new CPA firm for assistance in providing on-going accurate accounting details of its premium receivables, claims incurred and claims paid.

**Conclusion**

It was determined that, as of December 31, 2008, the Company had admitted assets of $2,730,808 and liabilities, exclusive of capital, of $218,083. Thus, there existed for the additional protection of the policyholders, the amount of $2,512,726in the form of unassigned funds (surplus).

The complete and courteous cooperation of Barbie Lambert, Office Manager/Agent and Mrs. G. Julia Lambert, Secretary/Treasurer, extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Sandy M. Banks
Insurance Examiner in Charge
State of Tennessee

**Examination Affidavit:**

The undersigned deposes and says that she has duly executed the attached examination report of The East Tennessee Mutual Insurance Company dated July 7, 2010 and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. 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.

Sandy M. Banks
Insurance Examiner II
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 9th day of
July, 2010.

Helen W. Dorsey
(Notary)

HELEN W DORSEY STATE OF TENNESSEE NOTARY PUBLIC DAVIDSON COUNTY

Commission expires:
03/03/2014

*East Tennessee Mutual Insurance Company*
*A County Mutual Company*
P.O. Box 328
3188 Highway 126
Blountville, TN 37617
**Tel 423-323-5361 Fax 423-323-2247**

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JUL 27 2010
Dept. of Commerce & Insurance
Company Examinations

*July 16, 2010*

*State of Tennessee*
*Department of Commerce and Insurance*
*500 James Robertson Parkway*
*Nashville, Tennessee 37243*

***RE: Report on Financial Examination of***
***East Tennessee Mutual Insurance Company***
***Made as of December 31, 2008***

*Dear Mr. Gaddis:*

*I acknowledge receipt of the above-described report of Financial Examination of East Tennessee Mutual Insurance Company as of December 31, 2008. I would like to make the following comments regarding that submission.* ***On page 4, Appraisal and classification of risks taken****, states "property appraisals are done by an agent at the time of the application and are approved by the Director of the District in which the property is located". The Directors no longer approve applications for those properties in their district. The Secretary/Treasurer/Manager, G. Julia Lambert, who completes the underwriting process, completes the final acceptance of the application.*

*Pertaining to* ***page 13, "Recommendations", Item*** *#1, I have requested the added provision to our custodial agreement with First Tennessee Bank that the securities may be withdrawn immediately upon demand of the insurance company. Item #2, your recommendation is appreciated and we have already implemented new spread sheet detail for claims reporting, a new system of investment transaction detail and our insurance software program for reporting premium receivables thanks to the new CPA firm that we now have. I'm confident that our annual statement and quarterly reports reflect that change. In retrospect, the year 2008 for our Company was very much a year of change and preparation for the future of the Company of which some changes were very new to our Company and we now have better knowledge.*

EXHIBIT
B

*Regarding the* ***Conclusion, page 14,*** *Barbara Lambert, Assistant Office Manager and G. Julia Lambert, Manager/Secretary/ Treasurer wish to thank Sandy Banks for being very pleasant and courteous during the audit process.*

*Sincerely,*

William H Pierce

*William H. Pierce*
*President*

East Tennessee Mutual
Insurance Company
A County Mutual Company
P.O. Box 328
Blountville, TN 37617

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JUL 27 2010

Dept. of Commerce & Insurance
Company Examinations

*State of Tennessee*
*Department of Commerce and Insurance*
*Attn: Horace E. Gaddis, Jr., CFE*
*500 James Robertson Parkway*
*Nashville, Tennessee 37243*