

EXHIBIT A



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF THE
FARMERS MUTUAL FIRE INSURANCE COMPANY
OF
WASHINGTON COUNTY
(NAIC # 15973)
JONESBOROUGH, TENNESSEE

AS OF
DECEMBER 31, 2016

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Jonesborough, Tennessee
March 7, 2018

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

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Code Annotated ("Tenn. Code Ann.") § 56-22-115, a full-scope financial examination and market conduct review as of December 31, 2016, has been made of the condition and affairs of:

Farmers Mutual Fire Insurance Company of Washington County

NAIC # 15973

125 E. Jackson Blvd, Suite 4

Post Office Box 436

Jonesborough, Tennessee 37659

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

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under the rules established by the State of Tennessee. The examination commenced on November 6, 2017, and was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2011. This examination report covers the period from January 1, 2012, through December 31, 2016, 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 rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the regulations and resolutions adopted by the National Association of Insurance

Commissioners (NAIC) and the NAIC *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions. The examination also included an assessment of prospective risks faced by the Company based on information obtained during the course of the examination.

Our examination reviewed the Company's business policies and practices, management and corporate matters, and reviewed and evaluated assets, liabilities, income, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we considered the concepts of materiality and risk, and our examination efforts were directed accordingly.

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

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

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

Our examination included a review to determine the current status of the comments and recommendations in the previous Report on Examination, as of December 31, 2011, which covered the period from January 1, 2007, through December 31, 2011. A summary of the report Comments and Recommendations and the corrective actions taken by the Company are discussed below:

Comment #1

The Company is encouraged to clarify its requirements as to the period of service or the number of Directors to be elected each year and amend the Company Bylaws accordingly.

Corrective Action

As of December 31, 2016, this issue had not been addressed. Subsequent to the examination period, at the January 27, 2018, Board of Directors (“Board”) meeting, the director’s length of service term and number of directors to be elected each year were addressed and the Bylaws were changed accordingly. See “Comments and Recommendations” and “Management” sections of this report.

Comment #2

The Company should address the position of the Claims Adjuster as an Officer which was not addressed in the Company Bylaws. The Bylaws as currently written assign the Claims Adjuster responsibility to each Director in their respective districts. It is recommended that the Board amend the Bylaws to reflect establishment of the Claims Adjuster as an Officer pursuant to the Bylaws.

Corrective Action

As of December 31, 2016, this had not been addressed. Subsequently, the Claims Adjuster position was elected as an Officer of the Company at the January 27, 2018, Board meeting. See "Comments and Recommendations" and "Management" sections of this report.

Comment #3

The Company is encouraged to establish a standard format for the reporting of all Board meeting minutes that includes reporting of Directors present and absent from the meeting. The Board discussions should be current and include discussion and voting on issues as they arise without undue delay or oversight.

Corrective Action

The Board meeting minutes have been corrected to name each Director present at all meetings rather than grouping them as one body. The meeting minutes appear to provide evidence of discussion and voting on matters in a timely manner and to reflect the actions of the Board.

Recommendation #1

It is recommended that the Company use the words "county mutual insurance company" in all future listings of the Company's name so that the Company will be in compliance with Tenn. Code Ann. § 56-22-106(g).

Corrective Action

The Company has added "county mutual insurance company" to its letterhead, and listed it on company paperwork. However, after review of the Company's website and social media websites, it did not display the phrase "county mutual insurance company," as required by Tenn. Code Ann. § 56-22-106(g). See the "Comments and Recommendations" and "Market Conduct Activities" sections of this report.

Recommendation #2

It is recommended that actions be taken by the Company to comply with statutory and Company Bylaw requirements to allow the members to elect the Board of Directors. This will meet the requirements for Tenn. Code Ann. § 56-22-107(a).

Corrective Action

The Company issues an annual Policyholders' letter that gives a brief review of the previous year's operations. The letter includes an invitation to the annual members' meeting, listing the time and location.

Recommendation #3

During the period under examination, the Company's compensation expense ratio exceeded thirty (30) percent, identifying the Company as operating in a hazardous financial condition. It is recommended that the Company take actions to comply with Tenn. Comp. R. & Regs. 0780-1-78-.03 during all future years.

Corrective Action

The Company states it is considering multiple options to lower expenses and plans to continue addressing this each year. Its premium receipts have increased as business has grown. The Company's compensation expense ratio has declined to fifteen (15) percent, as of December 31, 2016. It is no longer identified as operating in a hazardous financial condition.

COMPANY HISTORY

The Company incorporated on June 4, 1898, under the provisions of the Tennessee Business Corporation Act. The Company is a non-profit mutual benefit corporation organized as a county mutual fire insurance company ("county mutual"), pursuant to Tenn. Code Ann. Title 56, Chapter 22. The Company's charter states that it was formed for the purpose of "insuring the members of said association against loss by fire, wind and lightning on the mutual plan." The Company commenced business in 1898.

As of December 31, 2016, the Company was licensed to transact business in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(a).

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board, elected annually by its policyholders ("members") at the annual members' meeting. On January 19, 2013, the Board amended the Bylaws to reduce the number of directors to five (5). The Bylaws allow for the sitting directors to remain on the Board and to reduce the number of directors as they retire. As of December 31, 2016, there were seven (7)

directors still on the Board. A majority of the Board constitutes a quorum, as defined by the Bylaws.

The following persons were duly elected by the members to serve on the Board, as of December 31, 2016:

<u>Name</u>	<u>Address</u>
Walter Huffine	Jonesborough, Tennessee
Henry Walker	Jonesborough, Tennessee
Sam Ford	Fall Branch, Tennessee
Carol Ramsey	Erwin, Tennessee
Daryl Rowe	Limestone, Tennessee
Rex Renfro	Jonesborough, Tennessee
William L. Carter	Johnson City, Tennessee

Officers

The Bylaws of the Company instruct the Board to annually elect the officers of the Company, immediately following the annual meeting of the members.

The following persons served as the Company's officers, as of December 31, 2016:

<u>Name</u>	<u>Title</u>
Walter Huffine	President, Director
Henry Walker	Vice President, Director
Sam Ford	Vice President, Director
Carol Ramsey	Secretary, Treasurer, Director

Subsequent to the examination period, the Bylaws were amended to reflect establishment of the Claims Adjuster as an Officer of the Company. See the "Comments and Recommendations" section of this report.

Committee

The Board appointed an Executive Committee to provide oversight for the affairs of the Company. The following persons served on the Executive Committee, as of December 31, 2016:

<u>Name</u>	<u>Title</u>
Walter Huffine	President, Director
Henry Walker	Vice President, Director
Sam Ford	Vice President, Director
Carol Ramsey	Secretary, Treasurer, Director
Jeff Snyder	Agent
David Little	Claims Adjuster

CONTROL

The Company's Charter defines a member as a person having insurance with the Company. The Company is equally owned by its members. The Company has never issued any shares of capital stock or established guaranteed capital.

Annual and special meetings of the members shall be held at the call of the Board and shall be held at the office of the Company, or at such place as the Board may designate. Pursuant to the Bylaws, members are given advance notice of the date, time, and location of all membership meetings.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company is required to comply with Tenn. Code Ann. § 56-3-103 prohibiting officers and directors of insurance companies from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. A review of the Company's compliance with Tenn. Code Ann. § 56-3-103 found no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds. However, the Company does not have a formal policy in place requiring conflict of interest disclosures. See the "Comments and Recommendations" section of this report.

CORPORATE RECORDS

Charter

The Charter recites the general and specific powers of the Company in detail. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded.

Bylaws

The Bylaws were reviewed and found to contain key provisions noted within insurance companies. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the affirmative vote of the majority of the members present at any regular or special meeting of the members. There was one (1) amendment to the Bylaws during the period of examination. This amendment, approved by the Board on January 9, 2013, reduced the size of the Board from nine (9) members to five (5). There being more than five (5) Board members at that time, the amendment specified that the existing members would remain on the Board until retirement or death. This amendment was not filed with the Department as required by Tenn. Code Ann. § 56-19-107(b)(2). See the "Comments and Recommendations" section later in this report.

Meeting Minutes

The minutes provided a brief summary of the actions of the Company's Board. During the period of examination, there were ten (10) meetings of the Board. Minutes of the referenced meetings were reviewed and appear to properly reflect the actions of the Board. Investment transactions were approved by the Board pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

The Company combined its January members' meeting with its Board meeting and did not hold a separate members' meeting, as required by Tenn. Code Ann. § 48-66-101(e)(4). See the "Comments and Recommendations" section later in this report.

SERVICE AGREEMENTS

Financial and Tax Preparation Services

Baylor & Backus, CPAs of Johnson City, Tennessee provides limited accounting services related to regulatory filings and federal income tax filings.

Claims Adjustment Services

David Little provides claims adjustment services on an as-needed basis.

Advertising

Dex Media of Bristol, TN administers the Company's website and social media presence.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on an employee dishonesty (fidelity) policy. The Company's coverage meets the minimum amount suggested in the NAIC Handbook. The policy coverages were inspected and appear to be in-force as of the date of this examination.

Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverages maintained by the Company as of December 31, 2016:

Forgery and Alteration	Employment Practices Liability
Property, Liability & Medical	Directors & Officers Liability
Release of Protected Information	Insurance Company Professional Liability

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

TERRITORY AND PLAN OF OPERATIONS

Territory

The Company's current Certificate of Authority was issued by the TDCI on October 15, 2008, and authorized the transaction of the business of fire, lightning, hail, extended coverage, and tornado in the State of Tennessee. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in Washington County and all counties contiguous thereto in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company writes policies in Washington, Greene, Carter, Sullivan, and Unicoi counties in Tennessee.

Plan of Operations

The Company provides its members with coverage on dwellings, rental homes, mobile homes, farm buildings, livestock, personal property, and farm machinery in case of loss due to fire, lightning, hail, extended coverage, and tornado. Liability coverage, provided by Farmers Mutual of Tennessee ("FMT"), is also available to the members of the county mutual if they wish to purchase this additional protection through the Company. This additional protection has been arranged by the Company through a verbal agreement with FMT.

The Company accepts premium payments for its policies and the FMT liability policies, often in one check. The Company remits the FMT liability policy premiums to

FMT after receiving a quarterly statement from FMT. There is no written agreement between the Company and FMT regarding the holding of funds. The Company receives a commission on every FMT liability policy sold. See the "Comments and Recommendations" section later in this report.

Policyholders have the option of paying premiums annually, semi-annually, or quarterly. Premiums are first due beginning on the policy anniversary date. The standard deductible is \$500 and \$750 for mobile homes.

The Company's agent performs a visual inspection, photographs the property, and determines its value prior to the issuance of a policy. The agent also reviews the county tax assessor's website to assess property value. The Agent will, if needed, consult with the Claims Adjuster when determining the value of a particular property. The Company's President approves or rejects all policy applications prepared by the agent. Upon the signing of the completed application by the Company's President and collection of the initial billed premium, the policy is bound. The policy is issued upon the signature of the President and then mailed to the member.

GROWTH OF COMPANY

The following comparative data reflects the growth of the Company for the period under review, as reported by the Company in its respective annual statements:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income (Loss)</u>
2016	\$353,355	\$371,714	\$2,975,948	\$142,731	\$2,833,218	(\$248,793)
2015	\$347,005	\$385,428	\$3,436,898	\$145,421	\$3,291,177	(\$263,093)
2014	\$342,774	\$403,101	\$3,691,593	\$137,323	\$3,554,270	(\$282,202)
2013	\$236,070	\$369,818	\$4,023,880	\$187,408	\$3,836,472	(\$357,380)
2012	\$219,568	\$348,525	\$4,392,187	\$198,336	\$4,193,851	(\$331,752)

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review, as reported by the Company in its respective annual statements:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Losses + LAE</u>	<u>Loss Ratio</u>	<u>Premiums Written</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2016	\$353,355	\$388,114	109.8%	\$350,655	\$228,019	65.03%	174.9%
2015	\$347,005	\$401,428	115.7%	\$355,103	\$221,775	62.45%	178.1%
2014	\$342,774	\$412,501	120.3%	\$292,689	\$230,680	78.81%	199.1%
2013	\$236,070	\$380,893	161.4%	\$282,642	\$226,748	80.22%	241.6%
2012	\$219,568	\$358,718	163.4%	\$237,078	\$209,280	88.27%	251.7%

ACCOUNTS AND RECORDS

The Company engaged Baylor and Backus, CPAs of Johnson City, Tennessee to provide certain accounting services, including the preparation of income tax returns.

The Company's 2016 annual statement was reconciled to the corresponding general ledger account balances. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies.

Pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(3), the Company was not required to file financial reports audited by a certified public accountant during the period under examination.

The Company was not required to file the Management's Discussion and Analysis Report (MD&A) section of the NAIC *Annual Statement Instructions for Property and Casualty Companies*, pursuant to Tenn. Comp. R. & Regs. 0780-01-37.

In accordance with Tenn. Code Ann. § 56-46-110, the Company was exempted from filing a Risk-Based Capital Report.

The Company was exempt from filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1, pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(4).

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

LITIGATION AND CONTINGENT LIABILITIES

The Company is not party to any pending legal proceedings, nor were any commitments or contingencies found that would materially affect the Company's financial position or operating results as of December 31, 2016.

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

The Company has an excess of loss reinsurance treaty in effect with FMT for the purpose of limiting exposure on larger risks. Under the terms of this agreement, the Company retains the first \$50,000 of each risk per occurrence and reinsures up to \$3,000,000 through a series of three (3) layers of coverage.

The agreement was 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). This agreement appears to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines. The agreement was found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Company, as of December 31, 2016. The following areas were addressed:

Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. §§ 56-5-303, 56-5-304, 56-5-305, and 56-22-109(b)(1), the Company's policy forms in effect from January 1, 2012, through December 31, 2016, were approved by the TDCI on January 2, 2007.

The Company's premium rates in effect from January 1, 2012, through December 31, 2012, were approved by the TDCI on January 2, 2007.

The Company's premium rates in effect from January 1, 2013, through December 31, 2016, were approved by the Board on July 21, 2012. These rates were never reviewed or approved by the TDCI. See the "Comments and Recommendations" section of this report.

The Company's policy application form signature page did not have the fraud warning required by Tenn. Code Ann. § 56-53-111(b). The Company revised its form to include the fraud warning. See "Comments and Recommendations" section of this report.

Advertising

The Company's advertising during the period of examination consisted of a listing in local restaurant menus and radio spots on local stations. The Company's internet presence consists of social media pages and a website. The Company's Board and agent communicate the Company's reputation and products to potential policyholders via word of mouth and social media.

A review of the Company's website and social media websites did not display the phrase "county mutual insurance company", as required by Tenn. Code Ann. § 56-22-106(g). See "Comments and Recommendations" section of this report.

Complaint Handling

Pursuant to Tenn. Code Ann. § 56-8-104(11), the Company is required to maintain a complete record of all of the complaints it receives. This record should indicate the total number of complaints received, classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. The Company did maintain complaint records, however it did not maintain a record such as is required by this statute. Subsequent to the period under

examination, the Company revised its complaint tracking process to be compliant with the statute.

Policy Cancellation

The Company mails a premium notice to its members thirty (30) days before the due date. Policyholders are given thirty (30) days to make their premium payment. Policyholders are notified of past due premium and given a ten (10) day grace period, before a cancellation notice is sent to the member and lienholder(s). If the premium payment is made during the ten (10) day grace period, the Company will pay any legitimate claim, after a reduction for the policy premium due and the deductible.

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2), which relate to the notice of intention to non-renew and the reason(s) for non-renewal.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of non-public personal information was reviewed. There were no instances noted of non-compliance with Tenn. Comp. R. & Regs. 0780-01-72.

Claims Review

A random sample of claims closed during 2016 was examined for compliance with the Company's policy terms and Tenn. Code Ann. § 56-8-105.

The Company's Claims Adjuster adjusted or supervised the adjudication of all claims tested. Tested claims were handled properly, in accordance with policy provisions and applicable statutes.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. Subsequent to the period under examination, the Company amended its Bylaws to change the number of directors elected each year. This amendment also adjusted the directors' terms to result in three-year terms.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income as of December 31, 2016, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company:

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,070,700		\$1,070,700
Cash, cash equivalents, and short-term investments	1,933,688		1,933,688
Reinsurance Recoverable on paid losses and LAE	68,800		68,880
Furniture, equipment, and supplies	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Totals	<u>\$3,083,188</u>	<u>\$10,000</u>	<u>\$3,073,188</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	\$142,731
Rounding	<u>(1)</u>
Total Liabilities	<u>142,730</u>
Policyholders' surplus	<u>2,930,458</u>
Total liabilities and policyholders' surplus	<u>\$3,073,188</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$353,355</u>
DEDUCTIONS	
Net losses incurred	371,713
Loss adjustment expenses incurred	16,400
Other underwriting expenses incurred	<u>228,018</u>
Total underwriting deductions	<u>616,131</u>
Net underwriting gain (loss)	(262,776)

INVESTMENT INCOME

Net investment income earned	8,099
Net realized capital gains (losses) less capital gains tax	<u>0</u>
Net investment gain (loss)	8,099

OTHER INCOME

Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	<u>5,885</u>
Total other income	<u>5,885</u>
Net income before dividends to policyholders and federal income taxes	(248,792)
Federal income taxes incurred	<u>0</u>
Net income	<u>(\$248,792)</u>

POLICYHOLDERS' SURPLUS ACCOUNT

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Policyholders' Surplus					
December 31, previous year	<u>\$3,291,177</u>	<u>\$3,554,270</u>	<u>\$3,836,472</u>	<u>\$4,193,851</u>	<u>\$3,755,092</u>
Net income or (loss)	(248,792)	(263,093)	(282,202)	(357,380)	(331,752)
Change in non-admitted assets from prior year	0	0	0	0	52,109
Aggregate write-ins for gains and losses in surplus	<u>(111,927)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>654,209</u>
Net change in capital and surplus for the year	<u>(360,719)</u>	<u>(263,093)</u>	<u>(282,202)</u>	<u>(357,380)</u>	<u>374,566</u>
Policyholders' Surplus					
December 31, current year	<u>\$2,930,458</u>	<u>\$3,291,177</u>	<u>\$3,554,270</u>	<u>\$3,836,472</u>	<u>\$4,193,851</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$2,930,458

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2016 Annual Statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2016.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Management and Control" section of this report, the Company does not have a formal conflict of interest policy to govern the actions of its officers and directors. As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, the Company is advised to implement such a policy and require annual disclosures of conflicts or potential conflicts of interest.
2. As noted in the "Market Conduct Activities" section of this report, the Company did not maintain a complaint register that was compliant with Tenn. Code Ann. § 56-8-104(11). The Company did have a record of its complaints, but did not have a formal complaint register with all of the required information per this statute.

Subsequent to the current examination period, the Company revised its complaint tracking process to be compliant with the statute.

3. As noted in the "Market Conduct Activities" section of this report, the Company's policy application form signature page did not have the fraud warning required by Tenn. Code Ann. § 56-53-111(b).

Subsequent to the current examination period, the Company revised its application form to add the required fraud warning.

4. As noted in the "Compliance with Previous Examination Findings" and "Management and Control" sections of this report, the Company had not complied with the previous examination report's comments and recommendations by clarifying a director's period of service or the number of directors to be elected each year, and amending the Company's Bylaws accordingly.

Subsequent to the current examination period, the Company amended the Bylaws to change the number of directors elected each year. It also adjusted the directors' terms to three (3) years.

5. As noted in the "Compliance with Previous Examination Findings" and "Management and Control" sections of this report, the Company had not complied with the previous examination report's comments and recommendations regarding the appointment of a Claims Adjuster.

Subsequent to the current examination period, this issue was addressed by appointing a Claims Adjuster as an Officer of the Company at the January 27, 2018, Board meeting.

Recommendations

1. As noted in the "Compliance with Previous Examination Findings" section of this report, the Company's website does not contain the phrase, "county mutual insurance company", as required by Tenn. Code Ann. § 56-22-106(g). It is recommended that the Company add the required phrase to its website.
2. As noted in the "Management and Control" section of this report, the Company amended its Bylaws on January 9, 2013, in order to reduce the size of its Board. It did not file this amendment with the TDCI as required by Tenn. Code Ann. § 56-19-107(b)(2). It is recommended that the Company comply by filing with the TDCI any amendments to its Bylaws within 30 days of the amendment.
3. As noted in the "Management and Control" section of this report, the Company did not keep a clear record of the annual members' meeting as required by Tenn. Code Ann. § 48-66-101(e)(4). It is recommended that the Company maintain the required records for its members' meetings.
4. As noted in the "Territory and Plan of Operations" section of this report, the Company facilitates the sale of liability insurance coverage on behalf of FMT as a service to policyholders who wish to obtain such coverage on properties insured by the Company. The Company accepts premium payment for its policies and the FMT liability policies, often in one check. The Company remits the FMT liability policy premiums, minus a commission, to FMT after receiving a quarterly statement from FMT. There is no written agreement between the Company and FMT regarding the holding of funds. It is recommended that the Company either discontinue the practice of accepting FMT's premiums or enter into a written

agreement with FMT which provides how FMT's funds should be held by the Company and for the monthly settlements of premiums.

Receipt of commissions on the liability policies sold on behalf of FMT is a violation of Tenn. Code Ann. § 56-6-113(b). It is recommended that the Company discontinue the practice of accepting commissions on policies sold on behalf of other companies.

5. As noted in the "Market Conduct Activities" section of this report, the Company did not receive approval from the TDCI, as required by Tenn. Code Ann. § 56-22-109(b), for a 2013 premium rate change. It is recommended that the Company comply by filing all rate changes for approval prior to implementing them.

CONCLUSION

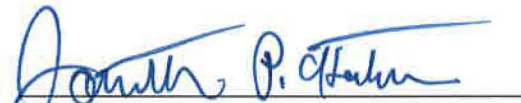
Rules and procedures as prescribed by the statutes of the State of Tennessee, and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Mutual Fire Insurance Company of Washington County

In such manner, it was determined that, as of December 31, 2016, the Company had admitted assets of \$3,073,188 and liabilities, exclusive of policyholders' surplus, of \$142,730. Thus, there existed for the additional protection of the policyholders surplus funds of \$2,930,458. Tenn. Code Ann. § 56-22-105(c) requires an insurer of this Company's type to maintain a minimum surplus of \$200,000. For this examination, as of December 31, 2016, the Company was in compliance with the requirements of Tenn. Code Ann. § 56-22-105(c).

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

In addition to the undersigned, Jay Uselton, CFE and Dustin Rice, Insurance Examiners from the State of Tennessee, participated in the work of this examination.


Respectfully submitted,



Jonathan P. Habart, CPA
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual Fire Insurance Company of Washington County located in Jonesborough, Tennessee, dated March 7, 2018, and made as of December 31, 2016, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.


Jonathan P. Habart, CPA
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 15th day of June, 2018



(NOTARY)

My Commission Expires: 5/19/18



EXHIBIT B



Farmers Mutual
INSURANCE COMPANY
-SINCE 1898-

A County Mutual Insurance Company
125 E. Jackson Blvd., Suite 4 P O Box 437
Jonesborough, TN 37659
Phone 423 753 2891; Fax 423 753 2891

June 18, 2018

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

Re: Report of Examination – Farmers Mutual Fire Insurance Company of Washington County

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Farmers Mutual Fire Insurance Company of Washington County**.

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

Sincerely,

Carol Ramsey
Secretary-Treasurer
Farmers Mutual Fire Insurance Co. of Washington County