REPORT ON EXAMINATION OF

STATE VOLUNTEER MUTUAL INSURANCE COMPANY

BRENTWOOD, TENNESSEE

AS OF

DECEMBER 31, 2007

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT

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TABLE OF CONTENTS

Brentwood, Tennessee
June 12, 2009

Honorable Alfred W. Gross
Chair, NAIC Financial Condition (E) Committee
Virginia Bureau of Insurance
P.O. Box 1157
Richmond, Virginia 23218

Honorable Scott Richardson
Secretary, Southeastern Zone, NAIC
South Carolina Department of Insurance
P.O. Box 100105
Columbia, South Carolina 29202

Honorable Leslie A. Newman
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioners:

Pursuant to your instructions and in accordance with the Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review has been made concerning the condition and affairs of

STATE VOLUNTEER MUTUAL INSURANCE COMPANY
101 WESTPARK DRIVE
BRENTWOOD, TENNESSEE 37027

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

SCOPE OF EXAMINATION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee to commence on March 17, 2008. The examination field work started on March 31, 2008, and was conducted by examiners from the State of Tennessee Department of Commerce and Insurance (TDCI).

The examination was conducted at the Company's office in Brentwood, Tennessee where all books and records are located. The period covered by this examination is from January 1, 2003, to the close of business on December 31, 2007, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition of the Company was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook.

During the course of examination, assets were verified and valued, and liabilities were determined or estimated as of December 31, 2007. The Company's financial condition and its degree of solvency were thereby established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with statutes, to the extent hereinafter set forth.

All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amounts and potential impact on surplus. Additionally, an examination of the following items was made:

Company History	Charter and Bylaws	Management and Control
Corporate Records	Affiliated Companies	Fidelity Bond/Insurance
Employee Benefits	Territory	Plan of Operation
Reinsurance	Loss Experience	Statutory Deposits
Commitments/Contingencies	Accounts and Records	Financial Statements

The previous examination was made as of December 31, 2002, and resulted in no changes to the Company's surplus. The Company was directed to comply with Tenn. Code Ann. § 56-53-111(a) by preparing, implementing and maintaining an insurance fraud plan. The Company created an anti-fraud plan in July, 2004.

COMPANY HISTORY

The Company was incorporated under the laws of Tennessee on December 1, 1975. The Company was granted a certificate of authority on April 2, 1976, and commenced business on May 15, 1976.

Initially, capital contributions from potential insureds were a prerequisite to obtaining insurance from the Company. The capital contributions, ranging from $500 to $3,250, were assessed on the basis of the medical specialty of the applicant. The contributions were non-interest bearing and were held in an escrow account until the Company was licensed to do business, at which time the monies were transferred to the paid-in and contributed surplus of the Company. At December 31, 1979, contributions amounted to $4,444,211. A 25% refund of the contributions was made in 1979 and again in 1980. A 50% refund of the contributions was made in 1981. At December 31, 2007, contributions in the amount of $65,145 represents refunds owed to individuals the Company has been unable to locate.

In May, 2003, the Company issued a variable rate surplus note, approved by the TDCI Commissioner on April 24, 2003, in the amount of $15,000,000 in a pooled transaction to unrelated investors in exchange for cash of the same amount. The surplus note has a maturity of 30 years and bears interest at an annual rate equal to the three-month London Interbank Offered Rate (LIBOR) plus 4.10%. Interest is adjusted on a quarterly basis provided that prior to May, 2008 this interest rate shall not exceed 12.50%. No principal payments are required prior to maturity in May, 2033. The note is callable by the Company at par beginning May 24, 2008.

Simultaneous with the issuance of the surplus note described above, the Company entered into an interest rate swap agreement with a notional principal amount of $15,000,000 as a cash flow hedge of the variable interest rate on the note. The interest rate swap, which effectively fixes the Company's interest rate on the note at 6.86% until May, 2008, hedges the interest rate risk exposure. As the surplus note is carried at cost, the swap agreement is valued at an amortized cost of zero as required by Statement of Statutory Accounting Principle (SSAP) No. 86 of the NAIC Accounting Practices and Procedures Manual (AP&P).

All operations are performed at the Company's home office at 101 Westpark Drive Brentwood, Tennessee. The Company's development, since the previous examination, is depicted in the following table:

Date	Premiums Earned	Incurred Losses & LAE	Net Income	Admitted Assets	Surplus
12/31/03	$116,314,227	$117,513,834	$ 2,444,050	$704,540,005	$155,875,284
12/31/04	140,443,925	136,773,669	10,819,382	765,612,145	167,868,110
12/31/05	154,560,536	145,438,531	14,729,840	805,939,054	184,285,072
12/31/06	187,945,077	169,757,033	23,031,106	870,180,717	217,387,264
12/31/07	183,241,153	158,822,336	30,462,932	940,983,922	245,198,279

<u>CHARTER AND BYLAWS</u>

<u>Charter:</u>

Under the amended and restated Charter, approved April 10, 1997, the corporation is a non-profit corporation organized as a mutual liability insurance company. The purposes for which the corporation is organized are:

(a) To engage in the business of writing contracts of insurance or reinsurance in the State of Tennessee and other states for the following kinds of insurance:

(i) Liability insurance against loss, expense or liability by reason of bodily injury or death by accident, disability, sickness or disease suffered by others for which the insured may be liable or may have assumed liability. The writing of contracts of medical malpractice insurance is expressly authorized.

(ii) Disability insurance against bodily injury or death by accident and disability by sickness.

(iii) Miscellaneous insurance against loss or damage by any hazard upon any risk not provided for under the Tennessee statutes relating to mutual insurance companies other than life insurance companies, not prohibited by statute or at common law. The writing of medical accident insurance is expressly authorized.

(b) To obtain reinsurance of risks as authorized by Tennessee Code Annotated Section 56-19-120, or any successor statute thereto.

(c) To undertake all other lawful activities as are not prohibited by the applicable statutes, rules, regulations or judicial interpretations of the jurisdiction(s) in which the corporation shall be active.

In addition to the preceding, the Charter recites other general and specific powers in detail. These are usual in nature and consistent with statute. The Charter, as currently amended, was inspected and found to have been duly issued and properly recorded.

Bylaws:

The bylaws are such as are generally found in corporations of this type and contain no unusual provisions. The bylaws may be amended, altered or repealed in whole or in part, and new bylaws may be adopted at any annual or special meeting of the members at which a quorum is present by vote in favor of such action of not less than two thirds of the members present or represented by proxy, provided notice of the substance or character of the proposed change shall be given in the notice of such meeting.

The bylaws of the Company in effect at December 31, 2007, were last amended on April 15, 2004, to delete the word "full-time" from the following provision:

> "At no time shall less than seventy-five percent (75%) of the physician membership of the Board of Directors be engaged in the full-time practice of medicine."

MANAGEMENT AND CONTROL

The Company is a non-stock, not-for-profit mutual insurance company. The primary control of the Company is vested in its policyholders. The policyholders elect a Board of Directors to manage the business and affairs of the Company. The Company's Board of Directors and Committees, as of December 31, 2007, were as follows:

Name	Address	Occupation
Steven Callaway Williams, MBA	Brentwood, TN	President & CEO of the Company
Michael Allen McAdoo, MD	Milan, TN	Milan Medical Center
Paul Carter McNabb, II, MD	Nashville, TN	Infectious Disease Specialist
Jackson Evans Butterworth, MD	Bristol, TN	Bristol Regional Hospital
James Thomas Craig, Jr., MD, MBA	Jackson, TN	Jackson Clinic
James Gibb Johnson, MD	Memphis, TN	Retired Nephrologist
Elise Emery Schriver, MD	Knoxville, TN	Knoxville Pulmonary Group
Warren Frederick McPherson, MD, MBA	Murfreesboro, TN	Neurosurgery
Gary Eugene Meredith, MD	Signal Mountain, TN	Pediatric Diagnostic Associates
John Reams Crockarell, Sr., MD	Collierville, TN	Retired Neurosurgeon
Lloyd George Langston, MD	Heber Springs, AR	Arkansas Otolaryngology Clinic
Raymond Shirley Martin, III, MD	Nashville, TN	The Surgical Clinic
William Alan Walker, MD	Johnson City, TN	CVT Surgery Group
Donald Harrison Alexander, MPH	Brentwood, TN	Tennessee Medical Association
John Ora Lytle, MD	Pine Bluff, AR	South Arkansas Orthopedic Center
James Tyler Swindle, MD	Jackson, TN	Retired-Ob/Gyn
Hugh Francis, III, MD	Memphis, TN	Memphis Surgery Associates

Committees are appointed by the Board of Directors. The following committees and respective committee members, as of December 31, 2007, were as follows:

Audit Committee

Gary E. Meredith, MD, Chairman
John R. Crockarell, Sr., MD
John O. Lytle, MD
Donald Voth, CPA

Arkansas Advisory Committee

Lloyd G. Langston, MD, Chairman
J. Greg Elders, MD
E. Scott Ferguson, MD

Investment Committee

Raymond S. Martin, III, MD, Chairman
William A. Walker, MD, Vice Chair
John R. Crockarell, Sr., MD
Hugh Francis, III, MD
John O. Lytle, MD
Michael A. McAdoo, MD
Paul C. McNabb, II, MD
Warren F. McPherson, MD, MBA

Wayne A. Hudec, MD
Randal F. Hundley, MD
John O. Lytle, MD
Brenda N. Powell, MD
Jane Sneed, MD
Dennis B. Yelvington, MD

Budget Committee

Raymond S. Martin, III, MD, Chairman
James T. Craig, Jr., MD, MBA
John R. Crockarell, Sr., MD
Hugh Francis, III, MD
Paul C. McNabb, II, MD
Warren F. McPherson, MD, MBA
Gary E. Meredith, MD
J. Tyler Swindle, MD
William A. Walker, MD

Claims Management Committee

John R. Crockarell, Sr., MD, Chairman
Raymond S. Martin, III, MD, Vice Chair
Jack E. Butterworth, Jr., MD
Hugh Francis, III, MD
Paul C. McNabb, II, MD
Warren F. McPherson, MD, MBA
Gary E. Meredith, MD
Elise E. Schriver, MD
J. Tyler Swindle, MD
William A. Walker, MD

Compensation Committee

J. Tyler Swindle, MD, Chairman

Jack E. Butterworth, Jr., MD
John R. Crockarell, Sr., MD
Hugh Francis, III, MD
Raymond S. Martin, III, MD
Paul C. McNabb, II, MD
Warren F. McPherson, MD, MBA
Gary E. Meredith, MD
William A. Walker, MD

Executive Committee

Hugh Francis, III, MD, Chairman
Jack E. Butterworth, Jr., MD
Gary E. Meredith, MD
J. Tyler Swindle, MD

Legislative Liaison Committee

Warren F. McPherson, MD, MBA, Chair
Donald H. Alexander, MPH, Vice Chair
Jack E. Butterworth, Jr., MD
Hugh Francis, III, MD
James Gibb Johnson, MD
Timothy F. Linder, MD
Michael A. McAdoo, MD
Paul C. McNabb, II, MD
Charles W. White, MD

Risk Management Committee

Jack E. Butterworth, Jr., MD, Chairman
Elise E. Schriver, MD, Vice Chair
John R. Crockarell, Sr., MD
Daniel S. Ely, MD
JimBob Faulk, MD
Hugh Francis, III, MD
Katrina M. Hood, MD
Mary A. Hooks, MD
James Gibb Johnson, MD
Eugene C. Mangiante, Jr., MD
James L. Manning, MD
Paul C. McNabb, II, MD
Warren F. McPherson, MD, MBA
Douglas O. Olsen, MD

Underwriting Committee

James T. Craig, Jr., MD, MBA, Chairman
Lloyd G. Langston, MD, Vice Chair
Robert J. Berkompas, MD
Mark E. Bigler, MD
Chad T. Couch, MD
Anthony T. Everhart, MD
Hugh Francis, III, MD
Robert C. Hughes, MD
James Gibb Johnson, MD
Christine Kasser, MD
William I. Mariencheck, MD
Paul C. McNabb, II, MD

James T. Craig, Jr., MD, MBA	Warren F. McPherson, MD, MBA
John R. Crockarell, Sr., MD	Craig A. Myers, MD
Raymond S. Martin, III, MD	Matthew L. Perkins, MD
Paul C. McNabb, II, MD	David G. Stricklin, MD
J. Tyler Swindle, MD	William A. Walker, MD
William A. Walker, MD	Terry J. Witt, MD
Steven C. Williams, MBA	Lisa J. Young, MD

The Officers of the Company, as of December 31, 2007, were as follows:

Name	Office Held
Steven Callaway Williams, MBA	President & CEO
William Alan Walker, MD	Secretary
Raymond Shirley Martin, III, MD	Treasurer
Paul Carter McNabb, II, MD	Chairman of the Board
Hugh Francis, III, MD	Vice Chairman of the Board
Jackson Evans Butterworth, Jr., MD	Vice President
James Tyler Swindle, MD	Vice President
Robert Price Boren, CPA	Exec. Vice President & CFO
James Wright Howell, JD	Vice President – Claims
James Edward Smith, CPCU	Vice President – Underwriting
Deborah Beller Willis, JD	Vice President - Risk Management
Raymond Maxwell Meador, Jr., MBA	Vice President – Marketing
Robert Eldon Byrd	Vice President & Chief Analytics Officer
Thomas Harry Stearns, FACMPE	Vice President - Medical Practice Services
David Martin Sesler	Vice President - Information Systems
Susan Lynn Swatzell	Assistant Corporate Secretary/Controller
Renee Atwood Lewis	Assistant Corporate Secretary/Admin – Claims
Donna W. Berg, RN, LNC	Assistant Vice President – Special Projects
David Dowland, ARM	Assistant Vice President – Underwriting
Charmy M. Shrode, CIC	Assistant Vice President – Underwriting
Robert A. Zika, JD	Assistant Vice President – Claims
C. Alan Lancaster, JD	Assistant Vice President – Claims
Logan G. Fulks, Jr., JD	Assistant Vice President – Claims

JoAnn C. Cutting, JD	Assistant Vice President – Claims
Kenneth W. Rucker, JD	Assistant Vice President – Claims Manager
Rochelle E. Weatherly, JD	Assistant Vice President – Marketing
Susan Decareaux, CPCU, CISR, RPLU	Assistant Vice President – Marketing
Deborah D. Rose, RN, LNC	Assistant Vice President – Medical Information Services
Robert E. Patterson, FACMPE	Assistant Vice President – Medical Practice Services
Cynthia J. Flum, PHR	Director of Office Services and Human Resources

Conflict of Interests:

All directors and officers of the Company are required to complete an Annual Conflict of Interest Statement. The statements signed by the Company's directors and officers, for the period under examination, were reviewed without exception.

Pecuniary Interest:

A check for compliance with Tenn. Code Ann. § 56-3-103 found that no director or officer of the Company had pecuniary interest in the investment or disposition of Company funds.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors and Policyholders were reviewed for the period under examination. They were found to be complete as to necessary detail and appear to adequately reflect the acts of the respective parties. The review of the minutes indicates that all investment transactions were approved by the Board of Directors.

AFFILIATED COMPANIES

The Company has no parent. The Company owns 100% of the outstanding common stock of State Volunteer Real Estate, Inc. The Company and its subsidiary own in total 100% of the limited partnership, MFV, Ltd. MFV, Ltd. owns the building in which the Company's offices are located. The Company leases its office space from MFV, Ltd. The partnership has outstanding non-recourse, tax-exempt, industrial development revenue bond indebtedness of $2,071,000 at December 31, 2007. It is secured by the related building and land, which has a net book value of $2,408,000 at December 31, 2007. The revenue bonds are held by PNC Bank of KY., Inc. and bear interest at 85% of PNC's prime rate. The Company's annual payment obligation for principal and interest is $311,000 with the amount to be applied to principal dependent on the level of PNC's prime rate. Principal maturities for the years following 2007 are $185,000 in 2008 and $1,886,000 in 2009. An organizational chart is included on page 34 of this report.

FIDELITY BOND AND OTHER INSURANCE

The following is a summary of the insurance maintained by the Company at December 31, 2007:

Type or Class of Coverage	Limits
Commercial Property	$8,025,000 buildings $2,019,135 personal property $2,250,678 data processing equipment $2,100,000 business income
Financial Institution Bond	$5,000,000

Commercial General Liability	$2,000,000 general aggregate $1,000,000 personal and advertising injury $2,000,000 complete operations $1,000,000 damage to premises rented $1,000 medical expense
Employee Benefits Liability	$2,000,000 aggregate $1,000,000 each employee
Commercial Crime	$25,000 employee theft
Business Automobile	$1,000,000 liability $5,000 medical payments $1,000,000 uninsured motorists ACV comprehensive & collision
Aircraft Liability	$20,000,000 each occurrence
Excess Liability – umbrella form	$20,000,000 each occurrence $20,000,000 aggregate
Workers' Compensation Employers Liability	Tennessee limit $1,000,000 each accident $1,000,000 disease – each employee $1,000,000 disease – policy limit
Management & Professional Liability	$10,000,000 directors and officers $5,000,000 employment practices $5,000,000 fiduciary $5,000,000 security & privacy $10,000,000 aggregate
Miscellaneous Professional Liability	$3,000,000 each claim $3,000,000 aggregate

The financial institution bond is in excess of the suggested minimum amount per the NAIC Financial Condition Examiners Handbook. All of the above insurance policies are written by companies licensed to write in Tennessee.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has qualified and nonqualified defined benefit retirement plans covering substantially all of its employees. The plans provide benefits based on the participants' years of service and compensation prior to retirement. The Company's funding policy for the qualified plan is to contribute amounts to the plans sufficient to satisfy minimum funding requirements, plus such additional amounts from time to time as are determined to be appropriate to improve the plans' funded status. The nonqualified plan is an unfunded supplemental executive retirement plan which restores benefits to certain employees that have been limited in the qualified retirement plan.

The Company also has defined contribution thrift plans under which all employees may elect to contribute up to 15% of their monthly salaries. The Company contributes an amount equal to 100% of the participants' monthly contribution up to a maximum of 6% of the participants' salary. Participants are at all times fully vested in their contributions and become fully vested in the Company's contributions by the end of the sixth year of service.

TERRITORY

The Company is licensed in ten states as a property and casualty insurance company but currently is only writing in seven. Each of these seven states are in the Southeastern Zone of the NAIC. The Company's principal line of business is underwriting professional liability risks for physicians. Additionally, the Company insures professional liability risks for other health facilities and providers. In 2007, premiums written in Tennessee accounted for 68.2% of all premiums written. The Certificate of Authority issued by the State of Tennessee was inspected and found to be in force both at the time of examination and inspection. Listed below is a tabulation of the Company's 2007 premiums and losses by state.

State	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
Alabama	$ 3,276,452	$ 3,265,621	$ 1,375,000	$ 1,024,760	$ 5,550,089
Arkansas	39,302,574	39,289,139	11,620,000	15,960,151	69,891,866
Georgia	3,132,623	3,170,988	2,500,000	1,264,642	5,435,708
Kentucky	21,742,026	21,759,042	7,663,000	8,148,445	39,001,175
Mississippi	3,232,069	3,065,205	2,150,000	483,324	4,681,175
Tennessee	176,017,082	178,032,511	62,832,551	53,097,927	374,394,527
Virginia	11,252,245	12,600,106	5,412,224	5,472,706	18,227,891
Totals	$257,955,071	$261,182,612	$93,552,775	$85,451,955	$517,182,431

PLAN OF OPERATION

The policy offered by the Company is primarily a modified claims made professional liability policy for physicians and surgeons. The policy modification provides for an endorsement which extends the coverage automatically, at no additional premium, for claims arising after a physician has retired, died or has become permanently disabled. In the event of termination of insurance for any reason other than death, disability or retirement, a policyholder has a right upon payment of additional premium to extend indefinitely the period in which claims otherwise covered by the policy may be reported. This affords coverage for claims arising out of treatment rendered during the time a policyholder has continuous coverage but had not been reported to the Company prior to termination of the insurance policy. All policies issued by the Company are non-assessable.

At December 31, 2007, the Company insured 16,155 physicians and 1,368 groups. No policyholder dividends have been paid during the examination period. Business is primarily written on a direct basis; however, in Arkansas and Virginia business is written on both a direct and an agency basis.

The Company provides extensive risk management as well as a broad range of critical management services and assistance to its policyholders. The risk management program includes loss prevention seminars, medical malpractice seminars, on-line case studies, on-line articles related to current issues and a self-study web-based course. Attendance or completion of some of these programs will qualify the policyholder for a premium credit. Medical practice services include operational assessments, new practice set-up, financial assessments, strategic planning, patient relations, coding consulting and resource materials.

REINSURANCE

Ceded Reinsurance with Non-Affiliates:

The Company maintains reinsurance agreements with a retention on individual claims of $1,000,000.

Primary and First Excess of Loss:

The Company maintains two separate agreements for its primary and first excess of loss reinsurance coverage. The Company's primary reinsurance agreement provides for provisional premiums that are adjusted on a retrospective basis.

Primary Excess of Loss:

Effective Date:	September 1, 2007
Basis:	Claims made
Company Retention:	$1,000,000 per occurrence
Reinsurer Limit:	$4,000,000 (subject to maximum policy limit of $2,000,000) per occurrence and $9,000,000 per occurrence when two or more insureds/claimants are involved
Deductible and Loss Corridor:	Five percent of earned premium for the contract year (inner aggregate deductible). After reinsurers participating on this treaty pay losses such that the premium reaches the maximum premium amount, a loss corridor applies. Under the loss corridor, the next losses up to 4% of earned premiums from the overlying First Excess of Loss reinsurance are paid by participating reinsurers. The loss corridor is limited to a maximum of 60% of the premium ceded to the overlying First Excess of Loss reinsurance. After the loss corridor is exhausted, the reinsurers pay all additional losses.
Premium Rate:	Six percent of earned premiums (provisional rate) subject to minimum of 2.5% and maximum of 13%. There is a 7.5% loss conversion factor
Reinsurer Participation:	Endurance Reinsurance Corp. (7.5%) Odyssey America Reinsurance Corp. (15%) Transatlantic Reinsurance Co. (15%) Axis Reinsurance Company (10%) Hannover Ruckversicherungs AG (15%) Platinum Underwriters Reinsurance, Inc. (5%) Various Lloyd's syndicates (32.5%)

A similar agreement was in effect for the period of September 1, 2004 through September 1, 2007.

At December 31, 2007, this agreement was not in conformance with SSAP No. 62, Property and Casualty Reinsurance, which requires the agreement to provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis. See the Comments and Recommendations section of this report (page 30) for additional information.

First Excess of Loss:

Effective Date:	September 1, 2007
Basis:	Claims made
Company Retention:	$2,000,000 per occurrence
Reinsurer Limit:	$10,000,000 per occurrence each policy and $12,000,000 in the aggregate each policy
Loss Corridor:	Under the loss corridor, the next losses up to 4% of earned premiums are to be used to pay losses applicable to the Company's underlying Primary Excess of Loss reinsurance. The loss corridor is limited to a maximum of 60% of the First Excess of Loss reinsurance ceded premium. After the loss corridor is exhausted, the reinsurers pay all additional losses in the Primary Excess of Loss reinsurance. Reinsurers are responsible for all losses under the First Excess of Loss reinsurance.
Premium Rate:	100% of earned premiums with a 11.5% ceding commission to the Company
Reinsurer Participation:	Endurance Reinsurance Corp. (7.5%) Odyssey America Reinsurance Corp. (15%) Transatlantic Reinsurance Co. (15%) Axis Reinsurance Company (10%) Hannover Ruckversicherungs AG (15%) Platinum Underwriters Reinsurance, Inc. (5%) Various Lloyd's syndicates (32.5%)

A similar agreement was in effect for the period of September 1, 2004 through September 1, 2007.

At December 31, 2007, this agreement was not in conformance with SSAP No. 62, Property and Casualty Reinsurance, which requires the agreement to provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis. See the Comments and Recommendations section of this report (page 30) for additional information.

Catastrophe Excess of Loss:

First Catastrophe Excess of Loss:

Effective Date:	September 1, 2007
Business Covered:	Losses (on a claims made basis) under policies issued on or after May 15, 1976 and classified by the Company as Medical Professional Liability, Office Premises Liability, and Managed Care Organization Liability for awards in excess of policy limits
Company Retention:	$10,000,000 per occurrence
Reinsurer Limit:	$25,000,000 per occurrence each policy ($50,000,000 in the aggregate)
Premium Rate:	.046% of earned premiums
Reinsurer Participation:	Aspen Insurance Ltd (6.003%) Various Lloyd's syndicates (83.997%) Company retains 10%

A similar agreement was in effect for the period of September 1, 1993 through September 1, 2007.

Second Catastrophe Excess of Loss:

Effective Date:	September 1, 2007
Business Covered:	Losses (on a claims made basis) under policies issued on or after May 15, 1976 and classified by the Company as Medical Professional Liability, Office Premises Liability, and Managed Care Organization Liability for awards in excess of policy limits
Company Retention:	$25,000,000 per occurrence
Reinsurer Limit:	$20,000,000 per occurrence each policy
Premium Rate:	.115% of earned premiums
Reinsurer Participation:	Various Lloyd's syndicates (90%) Company retains 10%

A similar agreement was in effect for the period of September 1, 2005 through September 1, 2007.

Aggregate Stop Loss:

Effective Date:	January 1, 2006
Business Covered:	The Company's occurrence and claims made policies that are in force at the effective date and time of this agreement or issued or renewed during the term of this agreement, and classified by the Company as casualty business.
Company Retention:	The company retains the difference between the Company's expected accident year loss ratio as determined by Tillinghast and 16%, subject to a maximum of 145%. At inception, this amount was 73.8% (89.8% expected loss ratio – 16%).
Reinsurer Limit:	145% maximum loss ratio
Premium Rate:	19.66% of earned premiums
Reinsurer Participation:	Berkley Risk Solutions (80%) Hannover Ruckversicherungs AG (20%)
Experience Account:	The balance in the notional experience account will be paid to the Company upon commutation of this agreement. The balance is calculated as follows: Reinsurance premium paid to reinsurer less losses paid by reinsurer less reinsurer fixed expenses (6.25%) plus an interest credit.

A similar agreement was in effect for the period of January 1, 2003 through December 31, 2005.

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.

LOSS EXPERIENCE

The loss experience of the Company, since the previous examination, as reported in its annual statements, is as follows:

Year	Premiums Earned	Losses Incurred	LAE Incurred	Loss Ratio	Other Underwriting Expenses	Combined Ratio
2003	$116,314,227	$60,125,284	$57,388,550	101.0%	$16,197,865	115.0%
2004	140,443,925	76,140,408	60,633,261	97.4%	17,129,748	109.6%
2005	154,560,536	71,318,756	74,119,775	94.1%	18,534,672	106.1%
2006	187,945,077	93,032,542	76,724,491	90.3%	20,411,091	101.2%
2007	183,241,153	73,747,385	85,074,951	86.7%	19,830,459	97.5%
Total	$782,504,918	$374,364,375	$353,954,028	93.1%	$92,103,835	104.9%

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2007:

Where Deposited and Description	Par Value	Statement Value	Market Value
Georgia			
USTN, 3.625%, Due 5/15/13	$ 35,000	$ 35,446	$ 35,241
North Carolina			
USTN, 4.375%, Due 8/15/12	205,000	208,113	213,936
Tennessee			
USTN, 4.375%, Due 8/15/12	100,000	101,519	104,359
FHLB, 5.8%, Due 9/2/08	1,300,000	1,304,917	1,312,597
Virginia			
USTN, 4.375%, Due 8/15/12	250,000	253,797	260,898
Total	$1,890,000	$1,903,792	$1,927,031

The deposits held by Tennessee are for the benefit of all policyholders, claimants and creditors of the Company. All other states are holding deposits for the protection of policyholders in their respective states. Pursuant to Tenn. Code Ann. § 56-1-405, the North Carolina deposit was non-admitted by the Company because it is in excess of direct written premiums in North Carolina. The above deposits were verified by direct correspondence with the regulating jurisdiction.

COMMITMENTS AND CONTINGENCIES

From the examination data made available, it appears that the only matters of law in which the Company was involved, during the period under review, were those arising out of the normal course of business and the outcome of such actions should not have a material effect on the financial position of the Company.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings. General ledger trial balances were reconciled with copies of annual statements for the years 2003, 2004, 2005, 2006 and 2007. 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 was reviewed and found to be in compliance with requirements. The Company is audited annually by Ernst & Young, LLP, Nashville, Tennessee. There is no violation as respects Tenn. Comp. R. & Reg., ch. 0780-1-65.07(3).

ACTUARIAL REVIEW

TDCI contracted with the independent actuarial firm of Lewis & Ellis, Dallas, Texas, to assist with this examination. Based on their review, they concluded that loss and loss adjustment expense reserves carried by the Company were reasonable.

MARKET CONDUCT ACTIVITIES

Policy Forms and Rates:

A review of the filings of policy forms and rates with the TDCI indicates compliance with the exception of policy endorsements. See the Comments and Recommendations section of this report (page 31) for additional information on policy endorsements.

Advertising:

The advertising file was reviewed and no exceptions were noted.

Policyholder Complaints:

The NAIC database shows only 2 complaints during the period under examination.

Claims Review:

A review of open and closed claims was made. The review indicates that claims are being handled properly, timely and in accordance with policy provisions.

SUBSEQUENT EVENTS

1. The following note is from the Company's 2007 Annual Statement:

   "The Company's federal income tax returns for the years ended December 31, 2005 and 2006 are under examination by the IRS. Management has been informed that the IRS intends to contest the deferral of the recognition of Tennessee premium tax credits for 2005 and 2006, which amounted to $6.8 million. It is the opinion of management, that ultimate resolution of this matter will not have a material affect on the Company's financial position, results of operations or cash flows."

An Internal Revenue Service Examination Report was issued on April 23, 2008, showing the proposed tax changes for the periods ending December 31, 2005 and December 31, 2006. Based on these proposed changes, the Company would have an additional tax liability of $2,336,953 and an understatement penalty of $466,806.

The Company (with the assistance of its independent auditors, Ernst & Young) filed a written protest appealing the proposed adjustments. An appeals conference was held with the IRS on October 16, 2008. As of the date of this report, this matter has yet to be resolved.

2. Due to financial market conditions in the third quarter of 2008, the Company wrote down its bond and stock investments by approximately $7.6 million.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2007, together with a reconciliation of surplus for the period under review, as established by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 711,411,573	$ 208,114	$ 711,203,459
Stocks:			
Common stocks	55,732,185	0	55,732,185
Real estate:			
Properties occupied by company	600,000	0	600,000
Cash, cash equivalents and short term investments	54,640,796	0	54,640,796
Other invested assets	698,801	0	698,801
Receivables for securities	14,905,098	0	14,905,098
Subtotals, cash and invested assets	837,988,453	208,114	837,780,339
Investment income due and accrued	7,651,587	0	7,651,587
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	2,900,009	606,922	2,293,087
Deferred premiums, agents' balances and installments booked but deferred	45,572,074	19,253	45,552,821
Reinsurance:			
Amounts recoverable from reinsurers	4,326,329	0	4,326,329
Other amounts receivable under reinsurance contracts	29,158,386	0	29,158,386
Net deferred tax asset	20,974,000	7,410,000	13,564,000
Guaranty funds receivable or on deposit	106,329	0	106,329
Electronic data processing equipment	5,324,496	5,021,192	303,304
Furniture and equipment	1,978,353	1,978,353	0
Aggregate write-ins for other than invested assets:			
Reinsurance premiums receivable	202,740	0	202,740
Prepaid insurance	217,209	217,209	0
Prepaid other	476,115	476,115	0
Miscellaneous receivables	58,516	13,516	45,000
Total assets	$ 956,934,596	$ 15,950,674	$ 940,983,922

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 287,445,340
Loss adjustment expenses	187,808,691
Commissions payable	605,062
Other expenses	15,648,798
Taxes, licenses and fees	994,654
Current federal and foreign income taxes	2,169,201
Unearned premiums	104,705,964
Advance premium	12,042,352
Funds held by company under reinsurance treaties	82,356,284
Provision for reinsurance	11,000
Payable for securities	1,998,297
Total liabilities	695,785,643
Surplus notes	15,000,000
Gross paid in and contributed surplus	65,145
Unassigned funds	230,133,134
Surplus as regards policyholders	245,198,279
Totals	$ 940,983,922

STATEMENT OF INCOME

Underwriting Income	
Premiums earned	$ 183,241,153
Deductions:	
Losses incurred	73,747,385
Loss expenses incurred	85,074,951
Other underwriting expenses incurred	19,830,459
Total underwriting deductions	178,652,795
Net underwriting gain (loss)	4,588,358
Investment Income	
Net investment income earned	33,318,188
Net realized capital gains (losses)	1,011,526
Net investment gain (loss)	34,329,714
Other Income	
Net gain (loss) from agents' or premium balances charged off	(55,285)
Aggregate write-ins for miscellaneous income:	
Other income	59,719
Gain (loss) on sale of fixed assets	426
Ground rent	30,000
Total other income	34,860
Net income before federal income taxes	38,952,932
Federal income taxes incurred	8,490,000
Net income	$ 30,462,932

RECONCILIATION OF SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders, December 31, 2002	$ 129,287,212
Net income	2,444,050
Change in net unrealized capital gains or (losses)	5,316,517
Change in net deferred income tax	2,033,000
Change in nonadmitted assets	1,587,551
Change in provision for reinsurance	206,954
Change in surplus notes	15,000,000
Change in surplus as regards policyholders for the year	26,588,072
Surplus as regards policyholders, December 31, 2003	$ 155,875,072
Net income	10,819,382
Change in net unrealized capital gains or (losses)	1,066,110
Change in net deferred income tax	(501,000)
Change in nonadmitted assets	759,334
Change in provision for reinsurance	(151,000)
Change in surplus as regards policyholders for the year	11,992,826
Surplus as regards policyholders, December 31, 2004	$ 167,868,110
Net income	14,729,840
Change in net unrealized capital gains or (losses)	847,520
Change in net deferred income tax	(692,000)
Change in nonadmitted assets	1,476,602
Change in provision for reinsurance	55,000
Change in surplus as regards policyholders for the year	16,416,962
Surplus as regards policyholders, December 31, 2005	$ 184,285,072
Net income	23,031,106
Change in net unrealized capital gains or (losses)	3,547,865
Change in net deferred income tax	(1,205,000)
Change in nonadmitted assets	7,721,221
Change in provision for reinsurance	7,000
Change in surplus as regards policyholders for the year	33,102,192
Surplus as regards policyholders, December 31, 2006	$ 217,387,264
Net income	30,462,932
Change in net unrealized capital gains or (losses)	295,362
Change in net deferred income tax	(1,603,000)
Change in nonadmitted assets	(68,332)
Change in provision for reinsurance	89,000
Prior period correction to reinsurance ceded (including tax impact)	(1,364,947)
Change in surplus as regards policyholders for the year	27,811,015
Surplus as regards policyholders, December 31, 2007	$ 245,198,279

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Although minor differences were found in various items, none were considered to produce a material effect on surplus funds either singly or in the aggregate.

COMMENTS AND RECOMMENDATIONS

Comments:

1. At December 31, 2007, the Company had foreign investments of $11,106,327 or 1.18% of net admitted assets. This amount exceeds the 1% limitation pursuant to Tenn. Code Ann. § 56-3-403(c). The difference is allowed as an admitted asset pursuant to the "Basket Clause" Tenn. Code Ann. § 56-3-402(15).

2. The Company had an Aggregate Stop Loss Reinsurance Agreement in effect January 1, 2003 through December 31, 2005 with Cologne Reinsurance Company (Dublin) Ltd (Cologne Re). Since Cologne Re is not licensed or accredited in Tennessee, a trust agreement and account were established to secure the Company's ceded reinsurance recoverables. At December 31, 2007, the trust account assets consisted of both domestic and international investments; however, the trust agreement did not stipulate that trust assets could consist of international investments. Subsequent to the examination date and prior to completion of the examination, the trust agreement was amended to allow for international investments.

3. As noted in the Reinsurance section of this report (pages 16 & 17), the Primary Excess of Loss Agreement and the First Excess of Loss Agreement, as of December 31, 2007, were not in conformance with SSAP No. 62. Subsequent to the examination date and prior to completion of the examination, these treaties were amended to require quarterly reporting thus bringing the agreements into compliance with SSAP 62.

4. At December 31, 2007, the Company's custodial agreements did not contain all the provisions as required by Tenn. Comp. R. & Reg., ch. 0780-1-46-.03(2)(a). Subsequent to the examination date and prior to completion of the examination, these custodial agreements were amended to include all the necessary provisions.

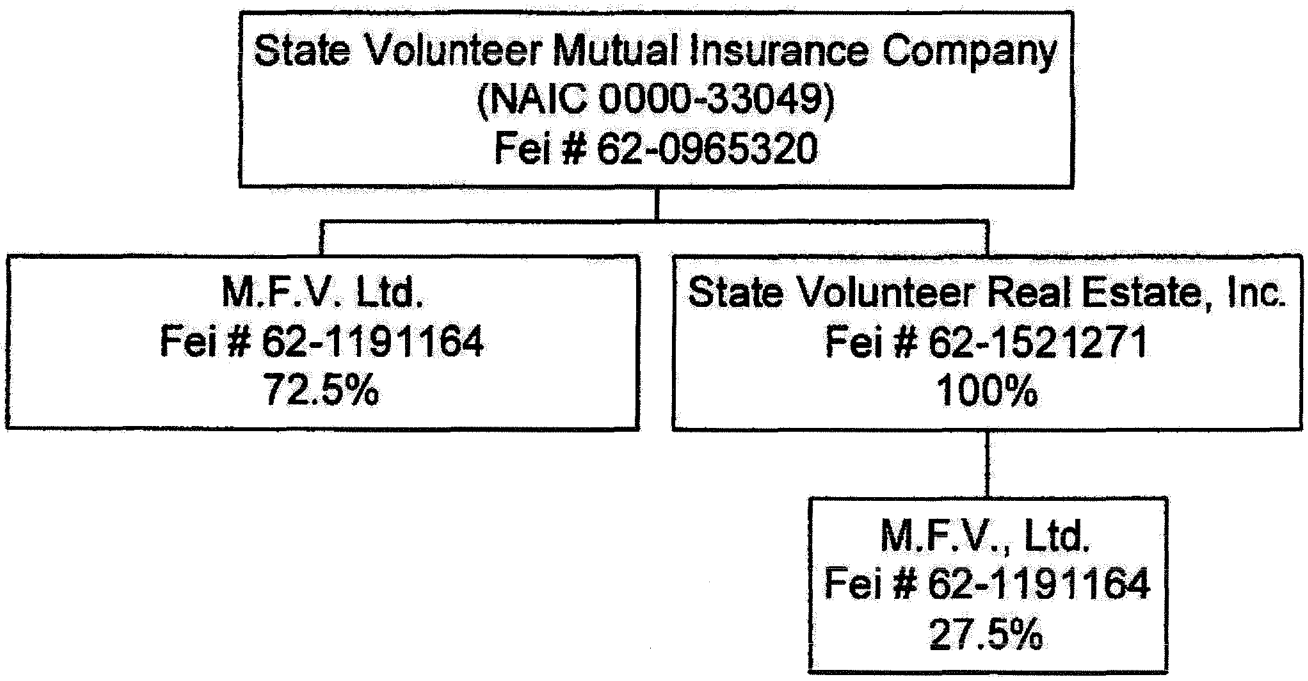
5. As of December 31, 2007, not all of the Company's policy endorsement forms had been filed with the TDCI as required by Tenn. Code Ann. § 56-5-306(a)(1). Subsequent to the examination date and prior to completion of the examination, all policy endorsement forms not previously on file were filed with the TDCI.

Recommendations:

1. One of the Company's insurance application forms contains a "fraud warning" that is exclusive to residents of Kentucky but does not address Tennessee applicants.

Based on the above, it is recommended that the Company comply with Tenn. Code Ann. § 56-53-111(b)(1)(A) by amending its insurance application form to include a "fraud warning" to Tennessee applicants.

ORGANIZATIONAL CHART



CONCLUSION

The customary insurance examination practices and procedures, as established by the NAIC, have been utilized in connection with the verification and valuation of assets and the determination of liabilities in the financial statement of this report.

In such manner, it was determined that, as of December 31, 2007, the Company had net admitted assets of $940,983,922 and liabilities of $695,785,643. Thus, there existed for the additional protection of the policyholders, the amount of $245,198,279 in 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, Donnie R. Nicholson and Mitchell Walker, State of Tennessee Insurance Examiners, Glenn A. Tobleman, FCAS, FSA, MAAA and Gregory S. Wilson, FCAS, MAAA of Lewis & Ellis, Inc., Actuaries & Consultants, and Norman Chandler, CPA, CPCU, ARe, AIAF, ARC, ACP of TaylorChandler, LLC, participated in the work of this examination.

Respectfully submitted,

David R. White, CFE	Kurt A. Polasko, CFE
Examiner-in-Charge	Examiner
State of Tennessee	State of Tennessee
Southeastern Zone, NAIC	Southeastern Zone, NAIC

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of State Volunteer Mutual Insurance Company dated June 12, 2009, and made as of December 31, 2007, on behalf of the TDCI. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

David R. White, CFE
Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

Subscribed and sworn to before me this

12TH day of June, 2009

Notary Kristina D. Rust

County DAVIDSON

State TN

Commission Expires 3/10/12

KRISTINA D. RUST
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

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Southeastern Zone, NAIC

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Examiner-in Charge
State of Tennessee
Southeastern Zone, NAIC

KRISTINA D. RUST
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

Subscribed and sworn to before me this

12TH day of June, 2009

Notary Kristina D. Rust

County DAVIDSON

State TN

Commission Expires 3/10/12

SVMIC®
State Volunteer Mutual Insurance Company

101 Westpark Drive, Suite 300
Brentwood, TN 37027-5031
Phone 615.377.1999
Fax 615.370.1343
www.svmic.com

June 22, 2009

RECEIVED
JUN 24 2009
Dept. of Commerce & Insurance
Company Examinations

Philip Blustein, CFE
Financial Affairs Section
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Dear Mr. Blustein:

We have reviewed the copy of the Examination Report of State Volunteer Mutual Insurance Company made as of December 31, 2007. We are in agreement with this report and wish to waive our right to a rebuttal.

Thank you for the opportunity to review this examination report.

Very truly yours,

Steven C. Williams
President & Chief Executive Officer

cc: Robert P. Boren

EXHIBIT
B