STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF THE

EAST TENNESSEE MUTUAL INSURANCE COMPANY

BLOUNTVILLE, TENNESSEE

AS OF

DECEMBER 31, 2013

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Nashville, Tennessee
March 10, 2015

Honorable Julie Mix McPeak
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-22-115, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a full-scope individual financial examination and market conduct review as of December 31, 2013 has been made of the condition and affairs of:

EAST TENNESSEE MUTUAL INSURANCE COMPANY

3188 Highway 126
Blountville, Tennessee 37617

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

INTRODUCTION

This examination was arranged by the Commissioner of the Tennessee Department of Commerce and Insurance ("TDCI"), commenced on July 17, 2014, and was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

The last examination of the Company was completed as of December 31, 2008. This examination report covers the period from January 1, 2009, through December 31, 2013, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* and practices and procedures of the TDCI. The examination was planned to evaluate the financial condition and to identify prospective risks of the

Company, and to evaluate system controls and procedures used to mitigate those risks. The examination also assessed the principles used and significant estimates made by management. The examination also evaluated the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and annual statement instructions.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. 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 gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was not required to file audited financial statements with the TDCI. Therefore, the examination did not include a review of audit workpapers.

COMPLIANCE WITH PREVIOUS EXAMINATIONS FINDINGS

Our examination included a review to determine the current status of the comments and recommendations in our previous Report on Examination, dated December 31, 2008, which covered the period from January 1, 2004, through December 31, 2008.

In the previous Report on Examination, the TDCI directed the Company to comply with Tenn. Comp. R. & Regs. 0780-01-46.03(2)(a) by adding a provision to its custodial agreement with First Tennessee Bank, stating that the securities may be withdrawn immediately upon demand of the insurance company.

We determined that the Company satisfactorily addressed this item.

COMPANY HISTORY

The Company was incorporated on September 24, 1896, under the provisions of the Tennessee Business Corporation Act, as a non-profit mutual benefit corporation. Organized as a county mutual fire insurance company (county mutual) pursuant to Tennessee Code Annotated Title 56, Chapter 22, the Company commenced business on September 24, 1896. The business purpose, at the time of incorporation, was to insure loss or damage to property due to fire or lightning to residents of Sullivan County in the State of Tennessee.

During 2009, the Company applied to transact property business in Sullivan County, Tennessee, and all counties contiguous to Sullivan County. A Certificate of Authority was issued on March 5, 2009, reflecting the new business and authorized the Company to write Fire, Lightning, Hail, Extended Coverage, Tornado and Liability coverages.

The Company merged with Johnson County Mutual Fire Insurance Company (JCMFIC) on December 23, 2013. The Plan of Acquisition was approved by Order of the Commissioner No.13-152 dated December 23, 2013.

MANAGEMENT AND CONTROL

MANAGEMENT

Management of the Company is vested in a Board of Directors ("Board") elected annually. The Company's Bylaws define Members as parties having insurance with the Company. In accordance with the Bylaws, the Board shall consist of at least six (6) but not more than fifteen (15) Members, who are policyholders. The following persons were duly elected by the Members to serve on the Board, as of December 31, 2013:

Director	Home City and State
William H. Pierce	Bluff City, TN 37618
Mike Galloway	Bluff City, TN 37618
G. Julia Lambert	Bluff City, TN 37618
Eugene E. Lambert	Bluff City, TN 37618
James Mahaffey	Bristol, TN 37620
Ell J. Morrell	Bristol, TN 37620
Sara Morrell	Bristol, TN 37620
Charles Newland	Kingsport, TN 37660

Annual meetings of the Members are held on the first Wednesday in March at 9:00 a.m. The Secretary / Treasurer shall give all Members at least two weeks' notice of the annual meetings and any called meeting of Members. Notice of Member meetings must be published at least three (3) times on different dates in a newspaper published in Sullivan County. Such notice shall be deemed sufficient to all Members of annual and special meetings. Members elect Board members at the annual meeting. All Directors are Members. One third (1/3) of the Board is elected at each annual meeting and

serves a term of three (3) years. A majority of the Board constitutes a quorum as defined by the Bylaws.

Annual and special meetings of the Members shall be held at the call of the President and shall be held at the office of the Company, or at such place in the town where the office of the Company is located as the President may designate. Board meetings are held annually on the same day as the Members' meetings.

The bylaws of the Company instruct the Board to appoint the officers of the Company annually immediately following the annual meeting of the Members.

The following persons served as the Company's officers, as of December 31, 2013:

Name	Title
William H. Pierce	President, Director
Mike Galloway	Vice President, Director
G. Julia Lambert	Secretary, Treasurer, Director

The Board installed committees to provide oversight for the affairs of the Company. The Board appointed the following Committees:

Executive Committee

Name	Title
William H. Pierce	President, Director
Mike Galloway	Vice President, Director
G. Julia Lambert	Secretary, Treasurer, Director

CONTROL

The Company is equally owned by its Members, who are referred to as policyholders. The Company has never issued any shares of capital stock or established guaranteed capital.

Each Member is entitled to one (1) vote irrespective of the number of policies owned by a Member. No Member shall be entitled to more than one (1) vote whether such policy is held individually, jointly or otherwise. No Member shall vote by proxy.

A quorum for the transaction of business is determined by the number of Members who attend such meetings, either annual or called. The affirmative vote of a quorum shall be necessary to pass any action.

The Company's Members held five (5) annual meetings and no special meetings during the examination period.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company has a Code of Ethics policy which governs the actions of all directors, officers and employees. The Company's policy requires directors, officers and employees sign conflict of interest disclosure statements when they join the Company. The last submission of the Code of Ethics policy was in March 2010.

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.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7), and as such, is subject to the "Insurance Holding Company System Act of 1986" set forth in Tenn. Code Ann. § 56-11-101, et seq. The Company made all required holding company filings during the examination period. East Tennessee Mutual (1896) Agency, Inc. (ETM (1896) Agency), the Company's subsidiary was established on September 28, 2008.

ORGANIZATIONAL CHART

East Tennessee Mutual Insurance Company
(Nonprofit Mutual Benefit Corporation)
Parent Company

•
•
•

East Tennessee Mutual (1896) Agency, Inc.
(Tennessee For-profit Corporation)
100% Owned

CORPORATE RECORDS

Charter

The Charter recites 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. During the period of examination, the Charter was amended for a name change.

Bylaws

The Company's Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board and the Members. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted by a majority vote of the Members present at any regular or called meeting of the Company.

Custodial Agreement

First Tennessee Bank National Association provided custodial services since 2007. An amendment to the custodial agreement allowing the Company to withdraw its securities on demand was executed on August 19, 2010. The Company amended the custodial agreement in effect as of December 31, 2013, which now exhibits language compliant with Tenn. Comp. R. & Regs. 0780-01-46 (revised effective May 26, 2013).

Software Licensing Agreement

On October 26, 2011, the Company entered into a software licensing agreement with Intuitive Web Solutions, LLC of Springfield, Missouri in order to implement the BriteCore software system into its business operations. This software includes policy administration, claims processing, billing, electronic quoting with underwriting and applications, and agency access.

Investment Advisory Services

Paul Burns with Edward Jones provides investment advisory services. This agreement gives the investment advisor the ability to supervise and direct the investment and reinvestment of all assets, subject to the limitations, needs and objectives imposed by the Company's Investment Policy. Mr. Burns is authorized to give instructions to the Company's custodian, First Tennessee Bank, with respect to all investment decisions.

Financial Statement and Tax Preparation Services

Rives & Associates, LLP provides accounting services related to regulatory filings, including preparation of statutory annual statements, payment of premium taxes, and federal income tax filings.

Legal Services

Herrin, Booze & McPeak provides legal services.

FIDELITY BONDS AND OTHER INSURANCE

Professional Liability Policy and Directors & Officers Coverage

The Company has professional liability and directors and officers coverage with occurrence/aggregate limit of $2,000,000, with $10,000 retention per claim. The Company's fidelity insurance coverage is above the minimum requirements suggested by the NAIC, which is in the range of $75,000 to $100,000.

Insurance Agents and Brokers Professional Liability Policy

The Company's combination insurance agents and brokers professional liability coverage has an occurrence/aggregate limit of $500,000, with $2,500 retention per claim.

Commercial General Liability and Business Owners Property Policy (Includes Building)

The Company's combination Commercial General Liability and Business Owners Property coverage provides coverage of $2,000,000 for general aggregate and products-completed operations aggregate limit, $1,000,000 for personal and advertising limit, and $300,000 damage to premises rented and $5,000 medical payments (any one person).

The policy's two (2) business property insurance limits are building (replacement cost) $156,000 and $188,000 and business personal property $50,000 and $40,000.
Various other coverages, including accounts receivable, have a $10,000 limit.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee pursuant to Tenn. Code Ann. § 56-22-106(a) and (b)(1).

The Company writes business in Tennessee in the counties of Carter, Giles, Greene, Hamblen, Hawkins, Jackson, Johnson, Sullivan and Washington.

The Company writes business through two (2) licensed in-house agents and five (5) local insurance agencies. These agents are paid a ten percent (10%) commission for all new and renewal business.

The Company's agents perform a visual inspection of the property, photograph the property, and determine the value of the property prior to the issuance of a policy. Upon

the signing of the completed application and collection of the initial billed premium, the policy is bound. The Company's President has the authority to make the final approval for the binding of coverage.

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company is licensed and authorized to transact business of Fire, Lightning, Hail, Extended Coverage, Tornado and Liability insurance. Policies are typically written for eighty percent (80%) of the replacement value of the property insured, subject to policy limits of $50,000.00 per specific loss. The policy period for each policy is one (1) year. Policyholders have the option of paying premium annually, semi-annually, quarterly or monthly, and premiums are first due beginning on the policy anniversary date. The standard deductible is $500 and the policyholder has the option to lower the deductible to $250 with a ten percent (10%) premium increase. There is also an option for higher deductible of $1,000 and $2,500, with premium credits.

The Company provides its members coverage on dwelling homes (single & multi-family), rental homes (single & multi-family), modular homes, mobile homes, farm buildings, livestock, personal property, farm machinery and churches in case of loss due to fire, wind, hail, lightning and theft.

The Company also writes four (4) different types of liability policies: 1) Personal Liability Coverage; 2) Commercial Liability Coverage (Premises Only-Landlords); 3) Farm Personal Liability Coverage and; 4) Farm Employee Liability Coverage. Liability coverage is one hundred percent (100%) ceded to the SCOR Reinsurance Company. Written liability premium for 2013 totaled approximately $20,920.

GROWTH OF COMPANY

The following comparative data reflected the growth of the Company for the period under review:

Year	Premiums Earned	Net Incurred Losses	Admitted Assets	Liabilities	Policyholders' Surplus	Net Income
2013	$504,015	$235,696	$3,099,262	$369,536	$2,729,726	($73,340)
2012	$250,179	$61,716	$2,488,271	$209,132	$2,279,139	($1,498)
2011	$297,698	$252,078	$2,734,784	$264,863	$2,469,921	($78,416)
2010	$330,783	$134,894	$2,785,586	$204,764	$2,580,822	$24,057
2009	$314,168	$255,157	$2,851,722	$236,575	$2,615,147	($117,808)

Surplus growth in 2013 was attributed to a change in non-admitted assets and the merger of Johnson County Mutual Fire Insurance Company into the Company's operations.

LOSS EXPERIENCE

The following comparative data reflected the loss experience of the Company for the period under review:

Year	Premiums Earned	Incurred Losses & LAE	Underwriting Ratio	General & Adm. Expense	General & Adm. Expense to Premium	Combined Ratio
2013	$504,015	$359,354	71.29%	$328,613	65.19%	136.48%
2012	$250,179	$122,091	48.80%	$208,710	83.42%	132.22%
2011	$297,698	$288,971	97.07%	$221,935	74.55%	171.62%
2010	$330,783	$172,439	52.13%	$202,061	61.09%	113.22%
2009	$314,168	$296,874	94.50%	$196,962	62.69%	157.19%

ACCOUNTS AND RECORDS

Financial Records

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any deficiencies in these records.

Accounting records conformed to statutory accounting practices and procedures as reflected within the Company's operations during the period under examination and the status of the Company at the date of examination.

Prior to the merger with JCMFIC, the Company was exempt from filing an annual audited financial statement per Tenn. Comp. R. & Regs., 0780-1-65-.03. After the merger, the number of policies in force exceeded one thousand (1,000). Tenn. Comp. R. & Regs., 0780-1-65-.18(7) allows the Company two (2) years following the year the threshold of policyholders is exceeded to file an audited CPA Report. Therefore, the Company will be required to file an audited financial statement beginning as of December 31, 2015.

The Company is exempt from filing a Risk Based Capital (RBC) Report pursuant to Tenn. Code Ann. § 56-46-110.

The Company is exempt from filing an actuarial opinion by a qualified actuary with their Annual Statement with the Commissioner on or before March 1.

STATUTORY DEPOSITS

The following table reflects the securities that composed the Company's statutory deposit in accordance with Tenn. Code Ann. § 56-2-112 as of December 31, 2013.

Jurisdiction	Description	Par Value	Statement Value	Market Value
Tennessee	Memphis, TN, 5.442%, due 07/1/2026, CUSIP # 586145WJ9	$10,000.00	$12,068.00	$11,085.00
Tennessee	Memphis, TN, 5.592%, due 7/1/2027, CUSIP # 586145WK6	$30,000.00	$36,577.00	$31,976.00
Tennessee	Memphis, TN, 5.892%, due 7/1/2031, CUSIP # 586145WP5	$25,000.00	$30,869.00	$26,884.00
Tennessee	Kingsport, TN, 3.25%, due 4/1/2032, CUSIP # 496443JW3	$35,000.00	$35,129.00	$29,464.00
Tennessee	Pennsylvania St TPK, 7.470%, due 6/12/25, CUSIP #709223UB5	$50,000.00	$52,526.00	56,536.00
Tennessee	Illinois St 5.363%, due 2/1/19, CUSIP #452152BH3	$25,000.00	$26,674.00	$26,631.00
Tennessee	Cuyahoga Cnty, OH 5.000%, due 12/1/19, CUSIP #232263GV9	$25,000.00	$24,868.00	$26,417.00
Totals		$200,000.00	$218,711.00	$208,993.00

COMMITMENTS AND CONTINGENCIES

No financially material commitments and contingencies are reported by the Company or its auditors at December 31, 2013.

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

During the period of examination, the maximum amount of coverage the Company was allowed to retain for a single risk was $81,891 in accordance with Tenn. Code Ann. § 56-22-106(c)(1).

The Company was a party to a Property Per Risk Excess of Loss Reinsurance Agreement with SCOR Reinsurance Company (New York; TN). The agreement, at the date of this examination, was effective January 1, 2012, through December 31, 2013. Under the terms of the agreement, the Company retained $50,000 on any one loss occurrence and SCOR Reinsurance Company's limit was $550,000 on any one loss occurrence, subject to an occurrence limitation of $1,650,000, including loss expense.

The Company entered into a Property Aggregate Excess of Loss Reinsurance Agreement with SCOR Reinsurance Company. The agreement, at the date of this examination, was effective January 1, 2012, through December 31, 2013. The agreement covers the Company's ultimate net losses in the aggregate for each calendar year in excess of ninety percent (90%) of the Company's net earned premium and SCOR Reinsurance Company's liability shall not exceed ninety-five percent (95%) of two hundred percent (200%) of the Company's net earned premium.

Quota Share Reinsurance

The Company entered into a Casualty Quota Share Reinsurance Agreement with SCOR Reinsurance Company. The agreement, at the date of this examination, was effective January 1, 2012, through December 31, 2013.

This agreement allowed for SCOR Reinsurance Company to reinsure the one hundred percent (100%) of the Company's liability coverage up to a $1,000,000 limit. The Company ceded one hundred percent (100%) of the premium collected for Other Liability and the Casualty sections of Homeowner's Multiple Peril, Farmowner's Multiple Peril, Mobile-Homeowner's Multiple Peril and Commercial (Church) Multiple Peril to SCOR Reinsurance Company, less a twenty percent (20%) ceding commission.

The aforementioned reinsurance agreements, in effect as of December 31, 2013, did not require approval by the TDCI pursuant to Tenn. Code Ann. § 56-11-106. The reinsurance agreements contained acceptable provisions of reporting responsibility of the ceding entity, payment terms, premium taxes, termination clauses and ceding clauses. The Company's reinsurance agreements transferred risk in accordance with SSAP Number 62 and NAIC guidelines.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Company as of December 31, 2013. The following areas were addressed:

Policy Forms and Underwriting Practices

The Rating Section of the TDCI received a copy of the Company's application, policy form and premium rates. This documentation was stamped "approved" on October 8, 2010, pursuant to Tenn. Code Ann. § 56-22-109(b)(1) and Tenn. Code Ann. § 56-5-303, 304 and 305.

On August 10, 2011, the Company's Executive Committee unanimously approved the following rate increases:

Dwelling and Contents	Coverage
T1	$3.00 to $4.00 per $1,000
T2	$5.00 to $6.00 per $1,000
T3	$6.00 to $7.00 per $1,000

Rental Dwelling	Coverage
T1	$4.00 to $5.00 per $1,000
T3	$6.00 to $7.00 per $1,000

Doublewide PF Dwelling and Contents	Coverage
T1	$5.00 to $6.00 per $1,000

Livestock Coverage F	Coverage
under 1 yr. Old	$6.00 to $7.00 per $1,000
over 1 yr. Old	$6.00 to $7.00 per $1,000

TDCI files do not contain a filed copy of the August 10, 2011, rate increases. This issue is further discussed in the "Recommendations" section of this examination report.

Advertising

The Company's advertising during the period of examination consisted of a billboard located on the Company's office building, calendars distributed to the general public, local radio station advertisements, and advertisements placed in the local phone book and other publications. The Company maintains a web page as follows:

www.easttnmutualins.com

Policy Cancellation

Members were given ten (10) days from the delivery of the notice of premium to make their premium payment. After ten (10) days the Member is considered suspended and the Company is not liable for any loss until such time payment is made. To reinstate the policy, the Company requires all premiums to be paid in full. If a Member has been suspended for non-payment for more than sixty (60) days, the Company shall make an inspection of the insured's property prior to reinstatement of coverage, in addition to payment of all past due premium.

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. § 56-7-1901 and Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007) that relate to the notice of intention to non-renew and the reason for non-renewal.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of privacy of non-public personal information was reviewed. The examiner noted no instances of non-compliance with Tenn. Comp. R. & Regs. R. 0780-01-72, "Privacy of Consumer Information Regulations."

FINANCIAL STATEMENTS

There follows a balance sheet, a statement of income and a surplus balance as of December 31, 2013, for the period under review, as established by this examination:

BALANCE SHEET

Assets	
Bonds	$1,958,443
Common stocks	827,618
Real estate (properties occupied by the company)	52,144
Cash and cash equivalents	152,195
Investment income due and accrued	23,745
Uncollected premiums	78,629
Net deferred tax asset	6,226
Electronic data processing equipment and software	0
Furniture and equipment	0
Aggregate write-ins for other than invested assets	262
Total	$3,099,262

Liabilities, Surplus and Other Funds	
Losses	$0
Loss adjustment expenses	300
Commissions payable	980
Other expenses (excluding taxes, licenses and fees)	10,512
Taxes, licenses and fees (excluding federal income taxes)	7,975
Unearned premiums	268,132
Advance premium	59,587
Ceded reinsurance premiums payable	19,230
Amounts withheld or retained by company for account of others	2,820
Total Liabilities	369,536
Surplus as regards policyholders	2,729,726
Total	$3,099,262

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	$504,015
DEDUCTIONS:	
Losses incurred	235,696
Loss adjustment expenses incurred	123,658
Other underwriting expenses incurred	328,613
Total underwriting deductions	687,967
Net underwriting gain (loss)	(183,952)
INVESTMENT INCOME	
Net investment income earned	51,758
Net realized capital gains (losses)	56,278
Net investment gain (loss)	108,036
OTHER INCOME	
Aggregate write-ins for miscellaneous income	2,576
Total other income	2,576
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(73,340)
Dividends to policyholders	0
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(73,340)
Federal and foreign income taxes incurred	0
Net income	($73,340)

CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31 prior year	$2,279,139
Net income	(73,340)
Surplus change from JCMFIC merger	179,500
Change in net unrealized capital gains (losses)	(759)
Change in net deferred income tax	6,226
Change in non-admitted assets	339,310
Change in surplus as regards policyholders	450,587
Surplus as regards policyholders as of December 31, 2013	$2,729,726

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Although minor differences were found within various items, none were deemed to produce a material effect on surplus.

SUBSEQUENT EVENTS

The Company is changing its commission formula beginning with the 2015 year. No commission will be paid to salaried in-house staff. A commission of fifteen percent (15%) will be paid to outside agent producers.

COMMENTS AND RECOMMENDATIONS

Comments

- On May 31, 2013, the Company's Board of Directors unanimously approved a plan for the merger and acquisition of JCMFIC. On October 15, 2013, JCMFIC's Board of Directors unanimously approved the sale of JCMFIC to the Company.

- On October 23, 2013, the Company presented a Form A filing to the Commissioner of the TDCI requesting approval to acquire JCMFIC through a loss portfolio transfer agreement, whereby all policies, records, assets and liabilities would be procured.

- On December 23, 2013, the Commissioner of the TDCI issued an order approving the plan of merger and acquisition submitted by the Company to acquire JCMFIC.

Recommendations

- The meeting minutes of the Board of Directors and the Executive Committee during the period of examination do not reflect a review and ratification of the investment transactions by the Company's Directors or the Executive Committee.

  It is recommended that the Company establish controls in order to comply with Tenn. Code Ann. § 56-3-408(b)(1) so that all investment transactions are reviewed and approved by the Company's board of directors or by a committee appointed by the board directors.

- As required by Tenn. Code Ann. § 56-22-109(b)(1) and Tenn. Code Ann. § 56-5-303, 304 and 305, it is recommended that the Company file with the TDCI its most recent rate increases for Dwelling and Contents, Rental Dwelling and

Livestock Coverage, which were approved by the Company's Executive Committee on August 10, 2011. The Company had a letter on file dated December 1, 2011 which indicated the intent to file with the TDCI; however, the TDCI records the most recent filing as dated October 8, 2010.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of liabilities of East Tennessee Mutual Insurance Company of Blountville, Tennessee.

In such manner, it was determined that, as of December 31, 2013, the Company had admitted assets of $3,099,262 and liabilities, exclusive of unassigned funds, of $369,536. Thus, there existed for the additional protection of the policyholders unassigned funds (surplus) of $2,729,726.

Tenn. Code Ann. § 56-22-106(b)(1) requires the Company to provide "the same financial security to policyholders, and meets all other requirements applicable to [stock] insurance companies writing the same insurance transactions" in order to "provide comprehensive personal liability, farmers comprehensive personal liability, premises liability for dwellings [of] up to four (4) families, ... and medical payments coverage associated therewith, subject to the same limitations that apply to [stock] companies[.]"

The minimum amount of capital and surplus necessary for a stock insurance company to be licensed in Tennessee is $1,000,000 and $1,000,000, respectively, as required by Tenn. Code Ann. § 56-2-114 and Tenn. Code Ann. § 56-2-115. Therefore, based upon the results of this financial examination the Company, during the period of examination, exceeded the $2,000,000 minimum amount of capital and surplus requirement imposed upon stock insurance companies licensed in Tennessee and thus provided "the same financial security to policyholders..." that is "applicable to [stock] insurance companies writing the same insurance transactions..."

Finally, Tenn. Code Ann. § 56-22-106(b) also requires the Company to "meet all other requirements applicable to [stock] insurance companies writing the same insurance transactions". Except for the above stated "Recommendations", the Examiner found the Company to be fully compliant with Tenn. Code Ann. § 56-22-106(b).

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

Respectfully submitted,

Keith M. Patterson
Insurance Examiner
State of Tennessee

AFFIDAVIT

The undersigned deposes and states that he has duly executed the attached examination report of East Tennessee Mutual Insurance Company dated March 10, 2015, and made as of December 31, 2013, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further states 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.

Keith M. Patterson
Insurance Examiner
State of Tennessee

State Tennessee

County Gibson

Subscribed to and sworn before me

this 12th day of June, 2015

Notary Cathy Knott

My Commission Expires: 11-21-17

CATHY KNOTT
STATE OF TENNESSEE NOTARY PUBLIC
GIBSON COUNTY

EXHIBIT B

East Tennessee
MUTUAL
Insurance
A County Mutual Insurance Company
PROPERTY & CASUALTY INSURANCE

Serving Northeast Tennessee Since 1896

P.O. Box 328, 3188 Highway 126
Blountville, Tennessee 37617
Phone: (423) 323-5361 * Fax: (423) 323-2247
www.easttnmutualins.com

June 16, 2015

Tennessee Department of Commerce and Insurance
Examination Department
500 James Robertson Parkway
Nashville, TN 37243

RE: East Tennessee Mutual Insurance Company – Report of Examination

Dear Mr. Pearce:

It was a pleasure working with you on the completion on East Tennessee Mutual Insurance Company's Examination. My Board of Directors and I have reviewed the Examination Document and have no additions or correction suggestions.

We would like to thank you and the State for a thorough review and acknowledge all of the hard work that went into completing this examination. We would also like to report that the suggestion/recommendations made by the State in the report have been addressed and we are working on getting those issues resolved.

Sincerely,

Barbara Lambert
Manager
East Tennessee Mutual Insurance Company

East Tennessee
MUTUAL
Insurance
A County Mutual Insurance Company
PROPERTY & CASUALTY INSURANCE

Serving Northeast Tennessee Since 1896

P.O. Box 328, 3188 Highway 126
Blountville, Tennessee 37617
Phone: (423) 323-5361 * Fax: (423) 323-2247
www.easttnmutualins.com

June 16, 2015

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

RE: East Tennessee Mutual Insurance Company – Report of Examination

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for East Tennessee Mutual Insurance Company. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

Barbara Lambert, Manager