REPORT ON EXAMINATION

OF THE

FARMERS AID ASSOCIATION OF LOUDON COUNTY, TENNESSEE
804 MULBERRY STREET
POST OFFICE BOX 384
LOUDON, TENNESSEE 37774

RECEIVED
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Dept. of Commerce & Insurance
Company Examinations

AS OF
DECEMBER 31, 2011

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT
A

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Date of Report: March 4, 2013

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

Dear Commissioner:

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

FARMERS AID ASSOCIATION OF LOUDON COUNTY, TENNESSEE

804 MULBERRY STREET
POST OFFICE BOX 384
LOUDON, TENNESSEE 37774

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

INTRODUCTION

This examination was called by the Department of Commerce and Insurance of the State of Tennessee ("TDCI") on November 28, 2011. Examination work commenced on December 3, 2012. An initial information request was sent to the Company which included a Planning Questionnaire. With the Company having authority to write business only in the state of Tennessee, the examination was not classified as an Association Examination under NAIC guidelines. The examination was performed by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2007, to the close of business on December 31, 2011, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of the examination.

The examination of the financial condition 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 and estimated

as of December 31, 2011. The financial condition of the Company and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to actual effect and potential impact on solvency.

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Holding Company System
Compensation Expense Ratio Tenn. Comp. R. & Regs. 0780-1-78-.03
Pecuniary Interest Tenn. Code Ann. § 56-3-103
Corporate Records
Fidelity Bonds and Other Insurance
Retirement Plan and Other Employee Benefits
Territory
Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance
Commission Equity
Statutory Deposits
Dividends or Distributions
Accounts and Records
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2006, by authorized representatives of the TDCI, and resulted in a decrease to surplus in the amount of two hundred ninety-five thousand, nine hundred fifteen dollars ($295,915). This was primarily due to non-admitting assets not held under a proper custodial agreement. Six recommendations were made and incorporated into the Commissioner's Order which is discussed under the caption, "COMMENTS – PREVIOUS EXAMINATION."

COMMENTS – PREVIOUS EXAMINATION

The Order Adopting Examination Report with Directives listed six Directives as follows:

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-108(b) by placing its investments in an institution authorized by Tenn. Code Ann. § 56-2-112, and establishing a proper custodial relationship with these entities in accordance with Tenn.

Comp. R. & Regs. 0780-1-46. Further, any investments not held according to these provisions shall be reported as non-admitted assets on financial statements submitted to the Division.

Corrective Action: These investments matured in January 2008, and the Company withdrew all assets from this institution and closed the account.

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-109(a)(4) by reporting the depreciated value of its home office land and building improvements costs on annual statements submitted to the Commissioner, in accordance with Tenn. Code Ann. § 56-3-405 and NAIC accounting procedures.

  Corrective Action: Since July 2007, the Company has properly calculated and reported the depreciated value of its home office land and building including improvement costs on annual statements submitted to the Commissioner.

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-53-111 by revising its application and claim forms to include the required fraud warnings.

  Corrective Action: The Company's application and claim forms were revised to include the required fraud warnings.

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-113 by requiring all persons who sell, solicit or negotiate insurance for the Company to hold an insurance producer license for property and/or casualty insurance, in accordance with Tenn. Code Ann. § 56-6-107.

  Corrective Action: Effective June 21, 2007, the Company's two agents were issued insurance producer licenses for property insurance by the Agent Licensing Section of the TDCI.

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-107(b) by ceasing to compensate persons responsible for accepting or rejecting insurance applications with a commission on the premiums, and offer compensation only as a fixed salary and/or share of the net profits as determined by the directors.

  Corrective Action: On October 13, 2008, the Company's Board of Directors approved the immediate discontinuation of compensating Agent/Directors with a flat fee per policy, and increased the monthly gross salary for Agent/Directors by five hundred dollars ($500).

- The Company is **DIRECTED** to comply with Tenn. Code Ann. § 56-22-109(b)(1) by setting premiums in accordance with rates filed and approved by the Division, and by filing future rate changes at least 30 days before the proposed effective date, pursuant to Tenn. Code Ann. § 56-5-305.

Corrective Action: As of March 2008, the Company had fully completed the process of transitioning from billing and collecting policyholder premiums in arrears to billing and collecting policyholder premiums in advance. Furthermore, the Company is setting and billing premiums at the rate of 0.6 percent per one thousand dollars ($1,000), which is in accordance with the rates filed and approved by the Rating Section of the TDCI.

The above actions were deemed to be in compliance with the Order.

COMPANY HISTORY

The Company was incorporated on January 2, 1901, under the provisions of the Tennessee Business Corporation Act as a non-profit mutual benefit corporation, and was organized as a county mutual fire insurance company ("county mutual") pursuant to Tennessee Code Annotated Chapter 56, Title 22 for the purpose of insuring loss or damage to property to residents of Loudon in the state of Tennessee.

The original incorporators were:

James R. Wilson
A. R. Merrick
J. D. Taliaferro
W. M. Roberson
Ben S. Brown

The Company commenced business in 1902, and has operated as a county mutual from that time to the present. The current Certificate of Authority was issued to the Company on July 1, 1986, and authorizes the transaction of Fire, Lightning, Hail, Extended Coverage and Tornado business in Loudon County and all counties contiguous to Loudon County. The Certificate is valid until suspended or revoked.

The Company operates as a mutual company and, therefore, reports no authorized or issued common stock.

The Company's capital structure appears in the 2011 Annual Statement as follows:

Policyholders' surplus	$739,123

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

Date	Earned Premium	Net Incurred Losses	Admitted Assets	Liabilities	Policyholders' Surplus	Net Income
12/31/2007	$197,070	$154,374	$1,558,130	$141,182	$1,416,948	($68,933)
12/31/2008	317,986	334,331	1,485,940	175,215	1,310,725	(106,223)
12/31/2009	308,952	346,464	1,379,718	162,564	1,183,155	(127,570)
12/31/2010	314,417	310,572	1,226,684	175,765	1,039,119	(144,036)
12/31/2011	330,457	471,827	1,027,226	288,103	739,123	(299,996)

Date	Gross In Force Business	Net In Force Business	Policy Count
12/31/2007	$60,315,338	$51,381,105	1,174
12/31/2008	73,261,631	65,819,701	1,257
12/31/2009	54,844,471	48,620,925	979
12/31/2010	54,813,415	47,858,969	943
12/31/2011	51,768,565	45,358,019	886

CHARTER AND BYLAWS

Charter:

The original Charter of the Company was filed and recorded with the Secretary of State, State of Tennessee, effective May 7, 1902. The Charter provided for the operation of a non-profit corporation with a perpetual existence and established its location in Loudon, Loudon County, Tennessee.

The Charter states, "The said Company...shall have the power to make insurance against losses by fire and lightning on farm buildings, stock, and products... ."

Changes to Tennessee law now allow the Company to additionally offer extended coverage.

The Charter on file with the TDCI is a copy of the original handwritten document. The Secretary of State website reflects the May 7, 1902 date.

Bylaws:

On April 2, 2007, the Company's Board of Directors approved the Amended and Restated

Bylaws which were then approved by the TDCI on April 18, 2007.

The Bylaws provide for an annual meeting of the members on the first Monday in the month of April. A Board of Directors is elected at this meeting. Officers are elected by the Board at the first board meeting after the annual meeting of members. The Bylaws charge the Board of Directors with managing the business and affairs of the Company.

The current Bylaws are such as are generally found in corporations of this type and contain no unusual provisions.

On April 6, 2009, the Company's Board of Directors approved amending the Bylaws to reduce the number of Directors on the Board from eight to six, and to elect one-third, rather than one-fourth, of the Directors each year at the Annual Membership Meeting. These amended Bylaws were filed with and approved by the TDCI on April 14, 2009.

MANAGEMENT AND CONTROL

Board of Directors:

Management of the Company is vested in the Board of Directors. In accordance with the Bylaws, the Board consists of six members. The Board of Directors is charged with managing the business and affairs of the Company. Each Director must be a member in good standing with the Company.

The following persons were duly elected and were serving as members of the Company's Board of Directors at December 31, 2011:

Name and Address

Jesse Burton Bilderback
Sweetwater, Tennessee

Kelly Rose Bilderback
Sweetwater, Tennessee

James Herman Lawhorn
Greenback, Tennessee

Larry Dennis Longmire
Philadelphia, Tennessee

Charles Elmer Viars
Loudon, Tennessee

James Douglas Weaver
Friendsville, Tennessee

Officers:

The Bylaws of the Company provide that the Board of Directors shall annually elect a President, Vice President, and a Secretary/Treasurer who are also members of the Company. The following Officers were duly elected and were serving in the positions indicated for the Company at December 31, 2011:

Jesse Burton Bilderback	President
Larry Dennis Longmire	Vice President
Kelly Rose Bilderback	Secretary/Treasurer

The Vice President functions as Chairman of the Board of Directors and presides over all meetings of the members and the Board of Directors. The President and the Secretary/Treasurer serve as joint managers for the affairs of the Company.

The administrative and executive functions of the Company are performed by the home office staff which consists of Ms. Kelly Bilderback and Ms. Michelle Wortham. The Company is a direct writer, marketing insurance products through its appointed agents, Ms. Kelly Bilderback and Ms. Michelle Wortham. Underwriting activities are also performed by home office staff with the assistance of reinsurer Farmers Mutual of Tennessee, which is located in Knoxville, Tennessee.

Limited accounting assistance is provided as needed by the following firm:

Warren & Tallent, CPA, PLLC
606 South Main Street, Suite C
Sweetwater, Tennessee 37874

HOLDING COMPANY SYSTEM

The Company is licensed as a county mutual insurance company and is owned by its members who are the policyholders. It does not meet the definition of a holding company system as defined by Tenn. Code Ann. § 56-11-201.[1]

1 Former part 2, §§ 56-11-201—56-11-215, was redesignated as part 1, §§ 56-11-101—56-11-115, by the code commission in 2008.

COMPENSATION EXPENSE RATIO - TENN. COMP. R. & REGS. 0780-1-78-.03

Tenn. Code Ann. § 56-22-107 and Tenn. Comp. R. & Regs. 0780-1-78-.03 both offer guidance on compensation for Directors and Officers as follows:

> (1) No county mutual insurance company's compensation expense ratio may exceed thirty percent (30%) for any given year.
>
> (2) Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for any given year shall be considered to be operating in a hazardous financial condition.

Year	Policy Count	Gross Premium	Total Compensation Expense	Compensation Expense Ratio
2007	1,174	$428,187	$101,171	23.6%
2008	1,257	352,363	57,900	16.4%
2009	979	345,258	69,467	20.1%
2010	943	328,505	67,336	20.5%
2011	886	321,787	73,183	22.7%

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

The Directors and Officers of the Company comply with the provisions of Tenn. Code Ann. § 56-3-103. The statute prohibits Officers and Directors from having a pecuniary interest in investment or disposition of Company funds.

CORPORATE RECORDS

The members of the Board of Directors met quarterly for each of the years under examination. An annual meeting of Members was held in April of each year.

During the period of examination and subsequent period in the 2012 calendar year, there were twenty-nine board meetings and six annual meetings of members. Minutes of the referenced meetings were reviewed and appear to properly reflect the acts of the respective bodies.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains insurance coverage as follows:

Type of Coverage	Coverage Limits
Commercial and Government Crime, And Employee Theft and Forgery Policy	$200,000

Coverage is underwritten by Western Surety Company which is licensed in Tennessee as a surplus lines carrier.

Type of Coverage	Coverage Limits
Business Owners Policy:	
Building	$113,000
Business Personal Property	$10,000
Liability and Medical Payments	$1,000,000
Medical Expenses	$10,000 each person
Products/Completed Operations	$2,000,000
Personal & Advertising Injury	$1,000,000
Money and Securities inside premises	$10,000
Business Income	60 days

Coverage is underwritten by Westfield Insurance Company which is licensed in Tennessee as a foreign property and casualty insurer.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company does not provide retirement benefits for Employees or Directors. The Company does provide health insurance for its employees.

TERRITORY

As of December 31, 2011, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee with approval to write coverage in Loudon County and counties contiguous to Loudon County.

Premium Written in Tennessee by County:

Blount	$ 16,911
Knox	2,011
Loudon	152,043
McMinn	7,954
Meigs	5,053
Monroe	36,301
Roane	96,772
Total	$317,045

PLAN OF OPERATION

The Company has been in existence since 1902, writing fire, lightning, hail and extended coverage insurance on structures in Loudon County. As allowed by statute, the county mutual also writes in the contiguous counties. Marketing is performed by the Company's two appointed agents. Net exposure is limited to fifty thousand dollars ($50,000) per risk through reinsurance. The largest single gross risk insured is seven hundred eighty-one thousand, seven hundred fifty dollars ($781,750).

Liability coverage is made available to the members of the Company if they wish to purchase this additional protection through Farmers Mutual of Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2011, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices:

A review was made of the Company's underwriting policies and policy forms. No unusual findings were noted.

The Company offers a payment plan to its members on an annual, semi-annual, or quarterly basis.

Policies are typically written for the full value of the property insured subject to policy limits. The retained amount of risk is fifty thousand dollars ($50,000). The reinsurance program is further described under the caption, "REINSURANCE." An agent performs an appraisal on the property during the application process prior to the issuance of a policy. Property eligible to be insured includes dwellings, outbuildings, well pumps, barns, tractors, livestock, and silos, and the contents of each of the aforementioned structures.

Advertising:

The Company does not have a formal advertising program. The Company's products and services are marketed throughout the community by the Board Members and the Company's appointed agents. All policies are written by the Company's two appointed agents, Kelly Bilderback and Michelle Wortham, who are licensed in the state of Tennessee for property casualty lines of business.

The Company and its appointed agents are in compliance with the licensing requirements of Tenn. Code Ann. § 56-22-113.

Claims Review:

A sample of paid claim files reviewed during the examination indicated claims were being paid in accordance with policy provisions, and settlements were made properly upon receipt of proper evidence of the Company's liability.

Policyholder Complaints:

Inquiries made to the various Sections within the Division of Insurance indicated no specific regulatory concerns with the Company during the period under examination. No unusual practices, transactions, or items warranting significant concern with regard to the Company were noted.

Privacy of Nonpublic Personal Information:

The Company's privacy policies and practices were reviewed. No instances of non-compliance with Tenn. Comp. R. & Regs. 0780-1-72 were noted.

LOSS EXPERIENCE

Year	Net Premiums Earned	Net Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
2007	$197,070	$154,374	78.3%	$2,370	1.2%	79.5%
2008	317,986	334,331	105.1%	1,969	0.6%	105.8%
2009	308,952	346,464	112.1%	(3,440)	(1.1%)	111.0%
2010	314,417	310,572	98.8%	20,166	6.4%	105.2%
2011	330,457	471,827	142.8%	(1,074)	(0.3%)	142.5%

REINSURANCE

Effective January 1, 2008, through the end of year 2011, the Company ceded excess of loss reinsurance with Farmers Mutual of Tennessee headquartered in Knoxville, Tennessee as follows:

Type: Exhibit A – Combination Per Risk and Aggregate Layer

Coverage: Part 1 – Property Risk Excess of Loss covers each loss in excess of the Company's $50,000 maximum retention up to the Reinsurers $100,000 maximum per risk, each loss occurrence.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 75% of the Company's gross net premium income or $230,000 and shall not exceed 100% of the lesser of 50% of the Company's gross premium income or $230,000.

Type: Exhibit B – Second Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 75% of the Company's gross net premium income or $230,000 plus the lesser of 50% of gross net premium income or $230,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 75% of the Company's gross net premium income or $230,000 plus the lesser of 50% of gross net premium income or $230,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net premium income or $570,000 in the aggregate, during each annual period this agreement is in effect.

Type: Exhibit C – Third Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross net premium income or $760,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 250% of the Company's gross net premium income or $760,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's gross net premium income or $3,420,000 in the aggregate, during each annual period this agreement is in effect.

During the period of examination, the Company's losses have not exceeded the amount necessary to trigger the second or third aggregate layer of reinsurance coverage. Farmers Mutual of Tennessee is licensed as a domestic property and casualty insurer by the TDCI.

COMMISSION EQUITY

The reinsurance agreements with Farmers Mutual of Tennessee, under which the Company cedes a portion of its losses, are excess of loss agreements and do not create any commission equity.

DIVIDENDS OR DISTRIBUTIONS

No dividends or distributions were paid during the period under examination.

ACCOUNTS AND RECORDS

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. All of the Company's bank accounts were confirmed with various financial institutions. General ledger trial balance and AIMS policy system information were reconciled to copies of annual statements for the years 2007 through 2011.

County mutual insurance companies are exempt from filing the NAIC's Risk Based Capital Report.

The Company's accounting system is maintained on Microsoft Excel and on hand written work papers. Accounting records appear to properly reflect the operations of the Company during the period under examination.

The Company's books and records are kept at the home office located at:

804 Mulberry Street
Loudon, Tennessee 37774

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2011, the Company had no pending litigation which could have a material financial effect.

SUBSEQUENT EVENTS

Effective January 1, 2012, the Company entered into a new Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee, which canceled and replaced the previous agreement, dated January 1, 2008. The new agreement lowered the Company's retained amount of risk on any single risk from fifty thousand dollars ($50,000) to forty thousand dollars ($40,000), and placed the Company in compliance with Tenn. Code Ann. § 56-22-106(c)(1).

In June of 2012, the Company requested approval from the TDCI for a rate increase from sixty

cents (60 cents) per one hundred dollars ($100) of coverage to seventy cents (70 cents) per one hundred dollars ($100) of coverage. The rate increase was approved by the Ratings Section on June 21, 2012.

On July 26, 2012, the Company's Board of Directors approved an Amended and Restated Charter. The purpose of this amendment was to change the Company's name from Farmers Aid Association to Farmers Aid Association – A County Mutual Insurance Company, thereby placing the Company in compliance with the provisions of the Tennessee County Mutual Insurance Company Act of 2006. The Amended and Restated Charter was approved by the TDCI on October 16, 2012, and was subsequently filed and recorded with the Secretary of State, State of Tennessee effective November 16, 2012.

Also on July 26, 2012, the Company's Board of Directors accepted the resignation of James Weaver. As of the date of this report, he has not been replaced.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities, and statement of revenue and expenses at December 31, 2011, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds, and Long-term Certificate of Deposits	$603,859	$0	$603,859
Preferred Stocks	0		0
Common Stocks	0		0
Real Estate:			
Property occupied by the company	59,660		59,660
Cash and cash equivalents	190,472		190,472
Investment income due and accrued	0		0
Uncollected premiums and agents balances in the course of collection	36,526		36,526
Reinsurance recoverable on paid losses and loss adjustment expenses	135,794		135,794
Federal income tax recoverable	0		0
Furniture, equipment and supplies	3,310	3,310	0
Electronic data processing equipment and software	915		915
Aggregate write-ins for other than invested Assets	0	0	0
Totals	$1,030,536	$3,310	$1,027,226

LIABILITIES, CAPITAL, AND SURPLUS

Gross losses and claims reported, unpaid	$135,794
Gross losses and claims incurred but not reported	0
Reinsurance recoverable on unpaid losses and claims	0
Total unpaid claims and losses net of reinsurance	135,794
Loss adjustment expenses	0
Unearned premiums	151,436
Ceded reinsurance premiums payable	0
Account payable and accrued expenses	873
Advance premiums	0
Taxes, licenses and fees payable	0
Federal income tax payable	0
Borrowed money	0
Aggregate write-ins for liabilities	0
Total liabilities	288,103
Policyholders' surplus	739,123
Total liabilities & Policyholders' surplus	$1,027,226

STATEMENT OF REVENUE AND EXPENSES

Net premiums earned		$330,457
Deductions: Losses incurred	$471,827	
Loss expenses incurred	0	
Other underwriting expenses incurred:		
Directors and officers compensation and allowances	24,470	
Agents compensation and allowances	13,399	
Employee salaries	29,283	
Directors' and Officers' Salaries	36,642	
Payroll taxes	5,497	
Total salaries and related items	71,422	
Directors fees	1,761	
Advertising and subscriptions	4,295	
Insurance and fidelity bonds	6,342	
Cost or Depreciation of EDP equipment and software	1,028	
Printing and stationery	3,310	
Postage, telephone, and telegraph	4,333	
Legal and auditing fees	18,598	
State and local insurance taxes	8,411	
Real estate expenses and repairs	18,813	
Real estate taxes	1,200	
Aggregate write-ins for underwriting expenses	(1,074)	
Total underwriting deductions		648,135
Net underwriting gain (loss)		(317,678)
INVESTMENT INCOME		
Net investment income earned	10,548	
Net realized capital gains (losses)	0	
Net investment gain		10,548
OTHER INCOME		
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	7,134	
Total other income		7,134
Dividends to policyholders		0
Federal income taxes incurred		0
Net income		$(299,996)

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year:		$1,039,119
Net income	($299,996)	
Net unrealized capital gains (losses)	0	
Change in net deferred income tax	0	
Change in non-admitted assets	0	
Surplus adjustments: Paid in	0	
Cumulative effect of changes in accounting principles	0	
Aggregate write-in for gains and losses in surplus	0	
Change in surplus as regards policyholders for the year		(299,996)
Surplus as regards policyholders, December 31 current year:		$739,123

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	**2007**	**2008**	**2009**	**2010**	**2011**
Previous Year:	$1,485,881	$1,416,948	$1,310,725	$1,183,155	$1,039,119
Net Income	(68,933)	106,223	(127,570)	(144,036)	(299,996)
Change in net unrealized capital gains (losses)					
Change in net deferred income tax					
Increase uncollected premium					
Change in non-admitted assets	0	0	0	0	0
Change in reserve on account of change in valuation basis	0	0	0	0	0
Change in asset valuation reserve					
Cumulative effect of changes In accounting principles	0	0	0	0	0
Capital changes: Paid in					
Capital changes: Transferred from surplus (stock dividend)					
Surplus adjustments: Paid in					
Surplus adjustments: Transferred to capital (stock dividend)					
Aggregate write-ins for gains and losses in surplus					
Accounting adjustments					
Rounding to $	0	0	0	0	0
Surplus as regards to policyholders December 31 Current Year:	**$1,416,948**	**$1,310,725**	**$1,183,155**	**$1,039,119**	**$739,123**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

None.

COMMENTS AND RECOMMENDATIONS

Comments:

The Company and its Board of Directors are encouraged to develop and implement a written business continuity plan. The business continuity process consists of identifying potential threats to an organization and developing plans to provide an effective response to ensure continuation of the Company's operations. The main objectives of the business continuity process are to minimize financial losses, to continue to serve policyholders, and to mitigate the negative effects disruptions can have on the Company's strategic plans, reputation, operations, liquidity, and ability to remain in compliance with laws and regulations. Some basic elements that should be included in a business continuity plan include: crisis management and incident response, roles and responsibilities within the Company, recovery of all critical business functions and supporting systems, alternate recovery sites, and communication with policyholders, employees, and regulators.

Recommendations:

None.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Aid Association of Loudon County of Loudon, Tennessee.

In such manner, it was determined, on December 31, 2011, the Company had admitted assets of $1,027,226 and liabilities, exclusive of unassigned funds, of $288,103. Thus, there existed for the additional protection of the policyholders, the amount of $739,123 in the form of unassigned funds (surplus).

The courteous cooperation of the Officers and Employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Mike Bacon

Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Aid Association of Loudon County dated March 6, 2013, and made as of December 31, 2011, on behalf of the Department of Commerce and Insurance, State of Tennessee. 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.

Mike Bacon
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 6th day of

February, 2013

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

FARMERS AID ASSOCIATION

A County Mutual Insurance Company

Proudly Serving Tennessee Counties

Blount ~ Knox ~ Loudon ~ Monroe ~ McMinn ~ Meigs ~ Roane

PLEASE FILE 4/25

April 5, 2013

RECEIVED

APR 10 2013

Dept. of Commerce & Insurance
Company Examinations

James E. York, Jr., CFE, AES, Insurance Examinations Director
Tennessee Dept. of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Company Response to Examination Report as of December 31, 2011

Dear James:

Please accept this correspondence as acknowledgement of receipt of the State's Examination Report of Farmers Aid Association – A County Mutual Insurance Company, made as of December 31, 2011, and are in agreement with its findings.

We further acknowledge our examiner, Michael Bacon, who was most respectful and courteous during the examination process.

If there are any questions or concerns regarding this acknowledgement, please feel free to contact me at 865-458-2533, M-F 9:00 am to 5:00 pm EST.

Sincerely,

Kelly R. Bilderback

Kelly R. Bilderback, Secretary / Treasurer

4-3-13

Dated

EXHIBIT

B

P.O. Box 384
804 Mulberry Street
Loudon, TN 37774
Phone: 865-458-2533 ~ Fax: 865-458-2504