Report of Limited Scope Target Examination

of

HAMBLEN MUTUAL INSURANCE COMPANY

as of

June 30, 2006

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Dept. Of Commerce & Insurance
Company Examinations

PARTICIPATION

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Tennessee	James T. Pearce, Jr., E.I.C.

DEPARTMENT OF COMMERCE AND INSURANCE
STATE OF TENNESSEE
Nashville, Tennessee

EXHIBIT
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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

September 18, 2006

The Honorable Paula A. Flowers
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 5th Floor
Nashville, Tennessee 37243

Commissioner Flowers:

Pursuant to your instructions and in accordance with Tennessee statutes and regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a limited scope target financial examination has been made of the condition and affairs of

Hamblen Mutual Insurance Company
110 North Cumberland Street
Morristown, Tennessee 37814

("the Company") as of June 30, 2006, and the report thereon is hereby respectfully submitted.

SCOPE OF EXAMINATION

This limited scope target examination commenced June 26, 2006, and covers the period from January 1, 2005 through June 30, 2006, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The purpose of this examination is to determine the Company's compliance with Title 56, Chapter 22, Section 101 (b). Tenn. Code Ann. § 56-22-101(b) requires the Company to provide "the same financial security to policyholders, and meet 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". A limited number of examination procedures were performed to verify the Company's compliance with Tennessee Statutes and Rules and NAIC Accounting Practices and Procedures in accordance with Tenn. Code Ann. § 56-22-101(b). In addition to the reliance upon documentation received directly from the Company the Examiner relied upon documentation provided by representatives of the Financial Affairs Section of the Tennessee Department of Commerce and Insurance ("TDCI"), Annual and Quarterly filings submitted by the Company to the TDCI using practices and procedures published by the NAIC and audited financial statements issued by the Company's independent accounting firm that is licensed in Tennessee and is a member in good standing with the American Institute of Certified Public Accountants.

Accounting Practices and Procedures were applied in accordance with the rules and regulations established by the NAIC and as prescribed by Tenn. Code Ann., Title 56 and related laws, rules and regulations. Financial Condition Examination Procedures for limited scope examinations were adhered to as promulgated by the NAIC.

An examination was also made into the following matters:

- History of the Company
- Charter and Bylaws
- Management and Control
- Corporate Records
- Statutory Deposits
- Fidelity Bond and Other Insurance
- Excess Loss Insurance

- Territory and Plan of Operation
- Litigation, Contingent Liabilities and Regulatory Action
- Accounts and Records
- Subsequent Events
- Financial Statement

This report is written by exception, except for certain items of regulatory significance. Those items examined and found to be substantially in compliance with statutes will not be commented on further. Events subsequent to the June 30, 2006 examination date are included where relevant and appropriate.

Because this examination is a limited scope examination, it is not intended to communicate all matters of importance for an understanding of the Company's financial condition. The Company reported in its March 31, 2006, quarterly statement filed with the TDCI, total assets of $5,237,851, total liabilities of $349,962 and total surplus of $4,887,889.

The examination was conducted at the Company's office, located at 110 North Cumberland Street, Morristown, Tennessee, 37814. This examination was conducted by a duly authorized representative of the TDCI.

Location of Books and Records:

The Company maintains its Charter, bylaws, corporate minutes, investment records, excess and reinsurance contracts, correspondence files, bank statements, accounting records, statutory statement records, underwriting, marketing, claim files and policy issuance files at its office located at 110 Cumberland Street, Morristown, Tennessee, 37814.

The Company is audited annually by an independent accounting firm ("auditors") that meets the criteria set forth in Tenn. Comp. R. & Regs., 0780-1-65.

HISTORY OF THE COMPANY

The Company was incorporated on April 13, 1909, as an association under the provisions of the Tennessee Business Corporation Act and was organized as a county mutual fire insurance company ("county mutual") pursuant to Tenn. Code Ann. § 56-22 for the purpose of insuring loss or damage to property to residents of Hamblen County and

Jefferson County in the State of Tennessee. The Company's charter was registered with the Count of Hamblen, Tennessee on April 8, 1909. It is unknown when the Company was first issued a Certificate of Authority by the TDCI in order to transact business in the State of Tennessee. The Company commenced business in 1909. The current Certificate of Authority issued by the TDCI is dated August 24, 2001, and is valid until suspended or revoked.

The Company in 1909 was originally named "Farmers Mutual Fire Insurance Company of Hamblen and Jefferson Counties, Tennessee".

In January 1999, the Company began preparation for the transition from compliance with Tenn. Code Ann. § 56-22-101(a) and all other Tennessee "County Mutual Fire Insurance Companies" laws found in Title 56, Chapter 22 of Tennessee Code Annotated to compliance with all applicable Tennessee Statutes and Rules and NAIC Accounting Practices and Procedures in accordance with Tenn. Code Ann. § 56-22-101(b). On January 5, 1999, the Company's previous manager, Charles Gardner, with the approval of the Board of Directors requested, in a letter addressed to the TDCI, approval to write liability coverage per Tenn. Code Ann. § 56-22-101(b). The TDCI on August 24, 2001, issued the Company its current Certificate of Authority that authorizes the Company to transact business subject to Tenn. Code Ann. § 56-22-101(a) and (b). In April 2004 the Company's former Manager, Charles Gardner, resigned. The Company subsequently hired Lea Fawbush to become the Company's Manager. Since January 1999, the Company and the TDCI have engaged in numerous verbal and written correspondences in an effort for the Company to become fully compliant with applicable Tennessee Code, Tennessee Rules and NAIC accounting requirements. As noted in the "Recommendations" section of this Target Examination Report the Company as of June 30, 2006, had not yet achieved full compliance.

CHARTER AND BY-LAWS

The Company's original Charter dated April 7, 1909, was filed and recorded with the Tennessee Secretary of State on April 13, 1909. The original Charter was not stamped as being approved by the TDCI. The original Charter indicated a perpetual existence and

established an association for the insuring of its members against loss by fire, wind and lightning. Subsequent amendments to the Charter are presented as follows:

Effective Date of Amendment	Purpose of Amendment
April 5, 1991	To change the name of the Company from Farmers Mutual Fire Insurance Company of Hamblen and Jefferson Counties, Tennessee to Hamblen Farmers Mutual Insurance Company.
December 31, 1998	To change the name of the Company from Hamblen Farmers Mutual Insurance Company to Hamblen Mutual Insurance Company.

The April 5, 1991, amendment was recorded, received and filed by the Secretary of State's office on May 12, 1992. The December 31, 1998, amendment was filed and approved by the TDCI prior to the June 28, 2001, filing with the Secretary of State's office.

It is unknown the exact date the Company's Bylaws were adopted and approved by the Board of Directors. The Company's Bylaws have been amended numerous times since they were originally implemented. The Bylaws are such as generally found in corporations of this type. The Bylaws provide for an annual shareholder meeting at which the Board of Directors is elected. Officers are elected by the Board of Directors annually at the first Board of Directors' meeting. The Bylaws may be amended or repealed by a majority of the Board of Directors.

MANAGEMENT AND CONTROL

Members:

The Company is owned by its members ("policyholders"). The Company has never in its history issued any shares of "capital stock" or established "guaranteed capital" pursuant to Tenn. Code Ann. § 56-22-101(a). The Company's Charter indicates that the main responsibility of the members is "to pay his ratable proportion of all losses or

expenses accruing against said corporation"; however, the Bylaws in accordance with Tenn. Code Ann. § 56-22-125 and Tenn. Code Ann. § 56-22-128 state the following:

> *The annual meeting of the members of this Company for the purpose of electing directors and transacting such other business as may come before the meeting shall be held at 10;00 AM Eastern Standard Time on the 3rd Saturday of March each year shall meet.*

Special meetings of the members "may be called at any time by a majority of the board of directors" or "on the petition of one-fourth of the members" in accordance with Tenn. Code Ann. § 56-22-125.

Each policyholder is entitled to one (1) vote in person or by ballot transmitted by mail. "Policyholders" may not vote by proxy.

The "policyholders" held two (2) annual meetings and no (0) special meetings during the examination period.

Board of Directors:

The Company's Bylaws in accordance with Tenn. Code Ann. § 56-22-128 state that the "all of the capacity of the Company shall be vested in, and all it power and authority, except as otherwise provided by law, shall be exercised by a Board of Directors". Tenn. Code Ann. § 56-22-126 states the number of Directors "shall consist of not less than six (6) and not more than fifteen (15) "policyholders"" and "shall be elected at the annual meeting of the shareholders, and each director elected shall hold office until his successor is elected and (since) qualified." Vacancies on the Board of Directors "may only be filled by the shareholders. The number of directors that constitutes a quorum was defined as a majority of directors.

The following persons were duly elected by the "policyholders" and were serving as members of the Board of Directors as of June 30, 2006:

Director	Home City and State	Principal Affiliation
Larry D. Baker	635 Three Springs Road, Russellville, Tennessee 37860	Director and President of the Company.
Otis M. Fawbush	7550 East Andrew Johnson Highway., Whitesburg, Tennessee 37891	Director and Vice President of the Company.

Herbert M. Bacon	1135 West Third North Street, Morristown, Tennessee 37814	Director and Secretary / Treasury of the Company.
Charles D. Thomason	124 Warrensburg Road, Russellville, Tennessee 37860	Director of the Company.
Stancil Ford	7192 Cedar Hill Road, Talbott, Tennessee 37877	Director of the Company.
Jerry Self	5059 Barton Springs Road, Morristown, Tennessee 37813	Director of the Company.

For the period under examination, annual Board of Directors meetings were held on the same day as the "policyholders"' meeting dates as required by the Company's Bylaws and Tenn. Code Ann. § 56-22-128.

Officers:

The Bylaws in accordance with Tenn. Code Ann. § 56-22-128 provide that after each annual meeting of the "policyholders", "the Board of Directors shall elect a President, Vice President and Secretary / Treasurer." All of the officers shall be members of the Board of Directors as mandated by Tenn. Code Ann. § 56-22-129. The Board of Directors may also appoint "such other officers and employees as it may deem necessary". The Bylaws also state " Vacancies "in any office shall be filled by the President."

At June 30, 2006, the following persons had been duly elected to and were serving in the positions indicated:

President	Larry D. Baker
Vice President	Otis M. Fawbush
Secretary / Treasurer	Herbert M. Bacon

Investments:

Tenn. Code Ann. § 56-3-408(b)(1) states that "No investment or loan except premium finance loans, shall be made by any such insurance company, unless the same shall first have been authorized by the board of directors or by a committee appointed by such board and charged with the duty of supervising such investment or loan."

A review of the meeting minutes of the Board of Directors and the Executive Committee during the period of examination revealed that neither the Company's Directors nor the Executive Committee appointed by the Directors reviewed and ratified the investment transactions of the Company. See the "Recommendations" section of this report for further disclosure.

In August 1990, the Company's Board of Directors adopted the Company's current Investment Policy. The Board of Directors adopted a conservative investment philosophy and specified that the Company would invest in tax free municipal bonds, certificates of deposit, government agencies, Treasury Notes and Bonds. All bonds must carry an A rating by Moody's or better. Any other investment must be approved by the Board of Directors. Based upon the composition of the Company's investments disclosed in Schedule D of the 2005 Annual Statement and the March 31, 2006 Quarterly Statement the Company through its investment manager, Martin & Company, Inc., had deviated from their investment policy as previously approved by the Board of Directors. See the "Comments" section of this report for further disclosure.

Investment Management Agreement:

Effective May 9, 2000, the Company entered into an Investment Management Agreement with Martin & Company, Inc. The Company asserts that the Executive Committee of the Board of Directors approved the current Investment Management Agreement in May 2000. However, the Company could not provide the Executive Committee Meeting Minutes for May 2000 showing approval of this agreement. Under this agreement Martin & Company, Inc. shall "render investment advisory services in the supervision and management of the assets in..." the Company's "investment account". Securities are actually held by a Custodian duly appointed by the Company. Martin & Company, Inc. "is authorized to give instructions to the Custodian with respect to all investment decisions". Martin & Company, Inc. is compensated quarterly in arrears based on the current market value of the account according to the terms presented on Exhibit C of this agreement. The Company shall pay a fee of 0.75% for the first $5 million of managed investments and a fee of 0.50% for the next $5 million of managed investments. The minimum annual fee for services is $15,000. The Company in 2005 paid Martin &

Company fees totaling $25,145. This compensation formula remains unchanged since the inception of this agreement.

Custodian Agreement:

The Company asserts that the Executive Committee of the Board of Directors approved the prior Custody Agreement signed and executed in May 2000 with Union Planters Bank, N.A. (now Regions Bank), which was in effect until December 15, 2005. However, the Company could not provide the Executive Committee Meeting Minutes for May 2000 showing approval of this prior agreement.

The Company's Executive Committee of the Board of Directors approved the current Custody Agreement by and between Regions Bank and the Company effective as of December 15, 2005 in December 2005. However, the Company's Board of Directors did not grant approval for specific Company or investment advisor representatives to transact business with the custodian bank. This Custody Agreement replaced the original Custody Agreement effective May 30, 2000, by and between the Company and Union Planters Bank. The Company appointed Regions Bank as custodian for the safekeeping of securities in exchange for compensation of 7.5 basis points of the account's fair market value annualized and taken monthly from the custodial account's income. This compensation formula remains unchanged since the effective date of this agreement. A thorough review of the Company's Custody Agreement in effect as of June 30, 2006, revealed that it did not meet all of the specific requirements set forth in Tenn. Comp. R. & Regs., 0780-1-46 (Revised July 12, 2005). This is further discussed in this report in the sections marked "Recommendations" and "Subsequent Events".

Pecuniary Interest:

A full examination of the Company's compliance with Tenn. Code Ann. § 56-3-103 was not implemented due to time constraints associated with this limited target examination. However, the Company prepared a notarized statement, signed by the Company's President, Larry D. Baker, proclaiming that no director or officer of the Company had a pecuniary interest in the investment or disposition of Company's funds subject to all of the provisions disclosed by Tenn. Code Ann. § 56-3-103.

Conflicts of Interest:

In addition to the Board of Directors and Officers, the Company has an Office Manager and an Agent, which are not required annually to complete any type of "Conflicts of Interest Disclosure Form" due to the fact that the Company does not currently have a conflict of interest policy.

Committees:

The Company's Bylaws in accordance with Tenn. Code Ann. § 56-22-129 state that the "An executive committee consisting of the President, Vice President and Secretary / Treasurer... shall have and may exercise all the power of the Board of Directors which may be lawfully delegated when the Board is not is session". The minutes of the Board of Directors do not reflect the creation of any new committees or the existence of any committee other than the executive committee during the period under examination.

CORPORATE RECORDS

Based upon the records provided to the Examiner it is unknown when the TDCI issued the Company's original Certificate of Authority. The current Certificate of Authority was issued August 24, 2001, and is effective until suspended or revoked.

The minutes of the annual meetings of the Company's members was provided to the examiner. As previously stated the members' primary function is to elect directors to the Board of Directors annually and pay their premiums.

The meeting minutes of the Company's Board of Directors were provided to the examiners for the period under examination. The minutes are well-written, complete as to necessary detail and appear to properly reflect the actions of the Company's Board of Directors. Attachments and exhibits provided to the Board of Directors are maintained with the minutes.

STATUTORY DEPOSITS

In order to comply with Tenn. Code Ann. § 56-2-112, the Company's Manager was instructed by the TDCI to place a $200,000 deposit for the benefit of all "policyholders" on November 3, 2005, during a meeting held at the TDCI office in Nashville, Tennessee.

The Company in December 2005 began the process of executing a tri-party statutory custodial agreement with First Tennessee Bank and the Commissioner of Tennessee Department of Commerce and Insurance in order to meet the December 31, 2005 completion deadline given by the TDCI. The Company was unable to place the required securities in a commercial safe keeping account with First Tennessee Bank until January 30, 2006, or after the December 31, 2005 deadline. The TDCI sent a certified letter on March 9, 2006, giving the Company 30 calendar days from the date of receipt to comply with the statutory deposit requirements. The Company received the certified letter on March 12, 2006, and a new deadline for compliance was established as of April 12, 2006. On April 6, 2006, the Company's Office Manager was instructed by First Tennessee Bank that it would no longer open new commercial safe keeping accounts for the sole purpose of meeting the statutory deposit requirements of the TDCI. The Company had no other business relationship with First Tennessee Bank during the period of examination. On April 7, 2006, the Company's Manager called the TDCI and stated that First Tennessee Bank refused to open a statutory deposit account. Representatives of the TDCI requested the Company provide a copy of a refusal letter from First Tennessee Bank. On April 13, 2006, a day after the April 12, 2006 deadline, the Company's Manager informed the TDCI that the Company would open a safe keeping account with Regions Bank with whom the Company already had a business relationship. On June 23, 2006, the TDCI received a safekeeping receipt from Regions Bank showing a June 14, 2006, transfer date of securities from First Tennessee Bank to Regions Bank. The safekeeping receipt received from Regions Bank did not meet the specifications of the TDCI and the Company was asked to re-submit one that satisfied TDCI requirements. Furthermore, the market value of the Company's securities held in accordance with Tenn. Code Ann. § 56-2-112 was less than the $200,000 amount established by the TDCI (See Table Below).

Jurisdiction	Description	Par Value	Statement Value	Market Value
Tennessee	Federal Home Loan Bank, 4.57%, due 10/17/08, CUSIP # 3133XDD40	$100,000	$100,000	$97,522
Tennessee	FNMA, 5.0%, due 1/28/2011, CUSIP # 3136F7EV5	$100,000	$100,000	$97,312.50
Totals		$202,295	$202,295	$197,129.5

Therefore, as of the June 30, 2006 Limited Scope Target Examination Date the TDCI had yet to receive a properly executed safe keeping receipt from Regions Bank verifying a statutory deposit market value of no less than $200,000. Furthermore, the Commissioner as of June 30, 2006, had not signed the tri-party statutory custodial agreement with the Company and Regions Bank due to the Company's failure to properly meet the aforementioned criteria. This is further discussed in this report in the sections marked "Recommendations" and "Subsequent Events".

FIDELITY BOND AND OTHER INSURANCE

The Company's coverage is summarized as follows:

Type or Class of Coverage	Limits, Retentions and Deductibles
Fidelity Bond (Directors & Officers)	$1,000,000 per occurrence/aggregate with $5,000 retention
Professional Liability	$1,000,000 per claim/aggregate with a retention of $5,000

The Company's fidelity and professional liability coverage was underwritten by Scottsdale Insurance Company of Scottsdale, Arizona. The fidelity bond has an occurrence/aggregate limit of $1,000,000, and a $5,000 retention. The minimum range recommended by the NAIC for a Company of this size is $75,000 to $100,000. Therefore, the Company had fidelity coverage which exceeded the minimum fidelity coverage recommended by a comfortable margin.

The Company's fidelity and professional liability coverage was underwritten by Scottsdale Insurance Company, which is an approved foreign surplus lines carrier in the State of Tennessee as of the date of this examination.

EXCESS LOSS REINSURANCE

As of October 1, 2001, the Company and TDCI mutually agreed that the Company should cede 100% of its liability insurance coverage to an insurance company licensed to transact business in the State of Tennessee as a condition of approval in order to write liability coverage in accordance with Tenn. Code Ann. § 56-22-101(b). As of June 30, 2006, the Company was afforded the following casualty quota share coverage as provided

by Farmers Mutual of Tennessee:

Type of Contract:	Casualty Quota Share
Business Insured:	100% of the business as defined under policies covering Comprehensive Personal Liability, Farmers Comprehensive Personal Liability, Section II of Homeowners, Farmowners and / or Mobile-Homeowners, and Owners, Landlords and Tenants Liability on Dwellings, Churches and Farm Premises only.
Term:	Effective October 1, 2001, to continue in full force until terminated. Either party may terminate by giving the other party written notice of such intention to terminate at any January 1 at least ninety (90) days prior notice in writing.
Limits and Retentions:	$300,000 Combined Single Limit Per Policy Maximum $2,500 Medical Payments Per Policy Maximum
Premium:	100% of the written premium of the above defined business.
Commission:	15% on the net premium ceded. In addition a profit commission as defined in Article V under the "Commisson Adjustment" heading of the agreement.

The agreement was standard in form and contained acceptable clauses for insolvency, arbitration and termination. The agreement also appeared to have effectuated proper transfer of risk in accordance with NAIC guidelines.

The Company is limited by Tenn. Code Ann. § 56-22-106 to a $50,000 per risk maximum. Therefore, the Company has an Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee in order to insure "policyholders" above the $50,000 statute imposed limit in accordance with Tenn. Code Ann. § 56-22-108. As of June 30, 2006, the Company was afforded the following specific and aggregate excess reinsurance coverage as provided by Farmers Mutual of Tennessee:

Type of Contract:	Combination Per Risk / Aggregate Excess of Loss – First Layer
Business Insured:	"Risk" as defined in the policy means a building and its contents or all buildings, including their contents, which are located within a radius of 100 feet.
Term:	Effective January 1, 1996, and continuous until cancelled.
Retentions:	Specific: 100% Excess of $50,000, Limit of $75,000, each risk and each occurrence. Aggregate: The Reinsurer is liable for the ultimate net loss , in the aggregate for each calendar year which exceeds the (a) greater of 115% of the Company's gross written premium, or (b) $299,000 and then the Reinsurer is liable for 95% of the Company's ultimate net loss in excess of that amount, but the Reinsurer's liability, for each calendar year, shall not exceed 95% of the lesser of (a) 40% of the Company's gross assessment or (b) $273,000.
Premium:	Deposit premium of $8,750 payable $4,375 each March 1 and September 1. The deposit premium shall be adjusted to the actual premium due by multiplying the rate, of 2.5% times the Company's and a maximum of 12% times the Gross Net Assessment. The rate shall be determined by multiplying the Reinsurer's losses incurred, subject to the Retention and Limit hereunder during the four (4) consecutive calendar year period ending concurrently with the year for which the adjustment is being made, by 100/80ths and dividing the result by the Company's Gross Net Assessment for the same four (4) consecutive calendar year period.
	Excess of Loss – Second Aggregate Layer
Business Insured:	"Risk" as defined in the policy means a building and its contents or all buildings, including their contents, which are located within a radius of 100 feet.

Term:	Effective January 1, 1994, and continuous until cancelled.
Retentions:	Aggregate: The Reinsurer is liable for 100% of the ultimate net loss , in the aggregate for each calendar year which exceeds the (a) greater of 155% of the Company's gross written premium, or (b) $434,000, but the Reinsurer's liability, for each calendar year, shall not exceed 100% of the lesser of (a) 145% of the Company's gross assessment or (b) $634,375 in the aggregate during each annual period.
Premium:	Deposit premium of $8,750 payable $4,375 each March 1 and September 1. The deposit premium shall be adjusted to the actual premium due by multiplying the rate, of 2.5% times the Company's Gross Net Assessment. If the reinsurance premium calculated is less than the deposit premium this amount is due the reinsurer, subject to an annual minimum premium of $7,000.

Excess of Loss – Third Aggregate Layer

Business Insured:	"Risk" as defined in the policy means a building and its contents or all buildings, including their contents, which are located within a radius of 100 feet.
Term:	Effective January 1, 2001, and continuous until cancelled.
Retentions:	Aggregate: The Reinsurer is liable for 100% of the ultimate net loss, in the aggregate for each calendar year which exceeds the (a) greater of 300% of the Company's gross written premium, or (b) $840,000, but the Reinsurer's liability, for each calendar year, shall not exceed 100% of the lesser of (a) 700% of the Company's gross assessment or (b) $3,062,500 in the aggregate during each annual period.
Premium:	Deposit premium of $8,750 payable $4,375 each March 1 and September 1. The deposit premium shall be adjusted to the actual premium due by multiplying the rate, of 2.5% times the Company's Gross

Net Assessment. If the reinsurance premium calculated is less than the deposit premium this amount is due the reinsurer, subject to an annual minimum premium of $7,000.

TERRITORY AND PLAN OF OPERATION

The Charter dated April 7, 1909, states that "the purpose of organizing" was for "insuring the members of said organization against loss by fire, wind and lightning on the mutual plan".

The Company is licensed in the State of Tennessee. Its Tennessee Certificate of Authority allows it to "transact the business as per T. C. A., Title 56, Chapter 22 Section 101 (a) and (b) limited to counties contiguous to the counties contiguous to Hamblen County...". The Company's approved service area at the date of this report includes Hamblen, Hancock, Hawkins, Cocke, Grainger, Greene, Sevier and Jefferson counties.

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

The Company also writes three (3) different types of liability policies and they are as follows: 1) Owner, Landlord & Tenant 2) Fire Comprehensive Personal Liability and 3) Comprehensive Personal Liability. The Company as of May 31, 2006, had $37,950,000 in total liability coverage in-force for 227 policies and billed these "policyholders" $12,197.00 for this coverage. The Company's maximum limit on any one (1) policy is $300,000 (Combined Single Limit) and $2,500 for Medical Payments. The Company cedes 100% of their liability risk to Farmers Mutual of Tennessee (Knoxville, TENNESSEE).

The Company's products are marketed through one (1) internal agent and agreements with three (3) insurance agencies.

LITIGATION, CONTINGENT LIABILITIES AND REGULATORY ACTION

Based upon data provided during the course of this examination, it appears that there were no matters at law in which the Company was involved during the period under review. The examiners also noted no agreements or pending matters of a contingent

nature that would materially affect its financial position or operating results as of December 31, 2004. There was no regulatory action taken by TDCI against the Company during the period under review.

ACCOUNTS AND RECORDS

A review of the Company's accounting system indicates that records appear to conform to generally accepted insurance accounting practices ("GAAP") and appears to accurately reflect the operations of the Company during the period covered by this examination, except as noted below and otherwise commented upon in the section marked "Comments and Recommendations".

For the eighteen (18) month period of examination, the Company prepared computer-generated statutory trial balances. These balances were reconciled, proved in balance and traced to various exhibits and schedules of the respective annual and quarterly statements by the Company and their auditors.

The Company's GAAP and statutory financial statements are reviewed annually as part of the audit performed by the Company's auditors. The auditors issue an annual audit report and management letter (if necessary) for the Company. Any material weaknesses in the internal control structure of the Company under standards established by the American Institute of Certified Public Accountants would be disclosed in these letters. No management letters were issued during the examination period.

2005 Audited Financial Statements

The Company's auditors filed a 2005 annual audited financial report on or before June 1, 2006, in accordance with Tenn. Comp. R. & Regs., 0780-1-65. However, the Company's auditors did not file a "Letter of Qualification" pursuant to Tenn. Comp. R. & Regs., 0780-1-65.12, an "Engagement Letter" in accordance with Tenn. Comp. R. & Regs., 0780-1-65.06. Also, the Company did not file a "disagreement letter" with the Commissioner in accordance with Tenn. Comp. R. & Regs., 0780-1-65.06 and response was not submitted by the Company's former auditors to the contents of the Company's "disagreement letter" pursuant to Tenn. Comp. R. & Regs., 0780-1-65.06. The Company changed auditors for their 2005 annual report. The Company retained the previous auditors to provide consulting services that include, maintenance of all accounting records,

preparation of income tax returns, certain regulatory filings including all required NAIC financial statements.

2005 Management Discussion and Analysis

The Company did not file their Management Discussion and Analysis ("MD&A") report with the TDCI when it filed its 2005 Annual Statement. The MD&A report was due on March 1, 2006. The Company during the week of June 19 through June 23, 2006, mailed its MD&A report to the TDCI and the MD&A was received by the TDCI on June 30, 2006. Therefore, the Company was approximately four (4) months late filing this document pursuant to Tenn. Comp. R. & Regs., 0780-1-37 and the MD&A Section of the NAIC Annual Statement Instructions.

2005 Risk Based Capital Report

The Examiner also performed a review of risk-based capital ("RBC") and concluded that the Company did not file an RBC Report or an exemption request on the March 1, 2006 due date in accordance with Tenn. Code Ann. § 56-46-103 and Tenn. Code Ann. § 56-46-110, respectively. The Examiner determined that the Company during the period of examination met the requirements set forth in Tenn. Code Ann. § 56-46-110 to request an exemption from filing a Risk Based Capital Report based upon the fact that the Company 1) writes direct business only in the State of Tennessee; 2) writes less than $2,000,000 in direct annual premiums; 3) and assumes no reinsurance. However, the Commissioner as of June 30, 2006 had yet to receive a request for exemption from the Company for filing a RBC Report per Tenn. Code Ann. § 56-46-110.

2005 Actuarial Opinion

The Company is exempted from filing an Actuarial Opinion with their Annual Statement Rule as allowed by Tenn. Comp. R. & Regs., 0780-1-64(d)(1)(a), based on the size of the Company. The Company has less than $1,000,000 total direct plus assumed written premiums during a calendar year and less than $1,000,000 direct plus assumed loss and loss adjustment expense reserves at year end. The Company on October 7, 2005, sent a letter to the Commissioner requesting an exemption. The Department requested and the Company submitted an affidavit signed by an officer of the Company

and notarized attesting to the fact that the Company's direct plus assumed written premiums during a calendar year were less than $1,000,000 and the Company's direct plus assumed loss and loss adjustment expense reserves at year end were less than $1,000,000. The Department on January 3, 2006, acknowledged the receipt of the Company's affidavit under oath signed by an officer and granted the Company an exemption from filing an Actuarial Opinion with their 2005 Annual Statement.

Annual and Quarterly Statement Filings

The following were noted in the Examiner's review of the Company's 2004 Annual Statement filing due March 1, 2005:

1. The Company did not file Schedule D.
2. The Company did not file Schedule E.
3. The Company did not file Schedule F-Ceded Reinsurance.
4. Schedule P did not appear to be properly completed.
5. The Company did not complete a Five Year History page.
6. The Company did not file a MD&A when it filed its 2004 Annual Statement.
7. The Company did not file a Supplemental Compensation Exhibit with its Annual Statement.

The following were noted in the Examiner's review of the Company's March 31, 2005 Quarterly Statement filing due May 15, 2005:

1. The Company did not disclose Net Written Premium on page 4, Line 1.4.
2. The Company did not Complete Lines 22 through 39 on page 4.
3. The Company did not disclose the Net Change In Surplus on page 4, Line 38, column 1.
4. The Company did not complete the Notes To Financial Statements on page 6.

The following were noted in the Examiner's review of the Company's June 30, 2005 Quarterly Statement filing due August 15, 2005:

1. The Company did not disclose Net Written Premium on page 4, Line 1.4.
2. The Company did not complete the Notes To Financial Statements on page 6.
3. The Company did not fill out Schedule F-Ceded Reinsurance.
4. The Company did not provide answers to questions on line 4, 5.1, 7.1, 7.2 and 7.3 on Part 1 of the General Interrogatories.

The following were noted in the Examiner's review of the Company's September 30, 2005 Quarterly Statement filing due November 15, 2005:

1. The Company did not disclose Net Written Premium on page 4, Line 1.4.

2. The Company did not disclose the amounts in thousands as required on the Loss and LAE Reserve Schedule (Part 3, Page 18).

The following were noted in the Examiner's review of the Company's 2005 Annual Statement filing due March 1, 2006:

1. The Company did not file a Supplemental Compensation Exhibit with its Annual Statement.

The following were noted in the Examiner's review of the Company's March 2006 Quarterly Statement filing:

1. The Company did not properly complete Part 1 – Loss Experience and Part 2 – Direct Premiums Written on page 17.
2. The Company did not properly complete Part 3 – Loss and Loss Adjustment Expense Reserves Schedules on page 18.

The Company filed corrections to each of the aforementioned pages in the March 2006 Quarterly Statement filing. However, the Company did not send a signed affidavit noting the changes made to the TDCI in accordance with Tenn. Code Ann. § 56-1-501, Tenn. Comp. R. & Regs., 0780-1-37 and the NAIC Annual and Quarterly Statement Instructions.

In light of the aforementioned exceptions, the Company did not accurately complete and disclose their 2004 Annual Statement, 2005 Annual and Quarterly Statement filings and March 31, 2006 Quarterly filing including statement amendments in accordance with Tenn. Code Ann. § 56-1-501 and Tenn. Comp. R. & Regs., 0780-1-37 during the period of examination. See the "Recommendations" section of this report.

SUBSEQUENT EVENTS

Custodian Agreement

On July 11, 2006, the Company's Executive Committee met and reviewed a draft of a new custodial agreement prepared by the Company's custodian Regions Bank based upon the sample custodian agreement disclosed in Appendix A of Tenn. Comp. R. & Regs., 0780-1-46. This draft agreement was approved by the Executive Committee and signed by the Company's President, Larry Baker. A copy of the signed agreement was

sent to the TDCI and Regions Bank. Upon receipt of the custodian agreement approved and signed on July 11, 2006, by the Company the Examiner In Charge of this Limited Scope Target Financial Examination noticed that this agreement did not contain two (2) specific provisions required by Tenn. Comp. R. & Regs., 0780-1-46 and several internal control enhancements previously suggested by the Examiner. The Examiner In Charge notified the Company's Manager via telephone and e-mail on Wednesday, July 12, 2006, of the remaining deficiencies in the custodian agreement approved and signed on July 11, 2006 by the Company.

On July 20, 2006, the Company's Manager submitted another draft of a new custodial agreement prepared by the Company's custodian Regions Bank that contained all of the necessary specific provisions required by Tenn. Comp. R. & Regs., 0780-1-46, several internal control enhancements suggested by the Examiner in Charge and two (2) exhibits to be attached to the agreement. However, the Examiner In Charge notified the Company's Manager via telephone and e-mail on Thursday July 20, 2006 of a typographical error in the proposed draft custodian agreement and the need to submit to the TDCI a copy of Exhibit C (Fee Schedule) noted as an attachment to the draft custodian agreement.

On July 31, 2006, the Company's Manager mailed a signed, executed copy of a new custodial agreement by and between the Company and its custodian, Regions Bank, that was fully compliant with Tenn. Comp. R. & Regs., 0780-1-46 and included internal control enhancements requested by the TDCI.

Therefore, subsequent to the June 30, 2006, date of this limited scope target examination and as of the date this report was submitted to the Commissioner, the Company provided the TDCI with a fully executed copy of a new custodial agreement with Regions Bank that contained the proper provisions mandated by Tenn. Comp. R. & Regs., 0780-1-46 and internal control enhancements requested by the TDCI. See the "Recommendations" Section of this report for more information concerning the Company's custodian agreement.

Statutory Deposit

On July 12, 2006, the Company's Executive Committee met and was notified by the Company's Manager that the market value of the two (2) US Government Agency bonds

originally purchased in January 2006 was less than $200,000 requirement imposed by the Commissioner. Upon unanimous approval by the Executive Committee the Company instructed Regions Bank to purchase a $10,000 dollar U.S. Treasury Note with a maturity of no less than two (2) years in order for the Company to meet the $200,000 statutory deposit market value requirement.

On July 31, 2006, the Company's Manager mailed a signed copy of a Safekeeping Receipt, dated July 26, 2006 that was approved by the TDCI on August 7, 2006. This Safekeeping Receipt showed three (3) securities that in totality exceeded the $200,000 market value requirement. A letter from the TDCI dated August 7, 2006 to the Company's Manager requested the Company to execute in triplicate and return to the TDCI an enclosed Depository Agreement – General Deposit and Form C Custodian Affidavit. On August 22, 2006, the TDCI received the requested signed documents from the Company. On August 29, 2006 the Commissioner of TDCI in order to finalize the proper execution of the Depository Agreement – General Deposit and Form C Custodian Affidavit approved and signed the aforementioned documents submitted by the Company and Regions Bank. Therefore, subsequent to the June 30, 2006, date of examination and as of the date this report was submitted to the Commissioner, the Company had fulfilled its statutory obligation in accordance with Tenn. Code Ann. § 56-2-112. See the "Recommendations" Section of this report for more information concerning the Company's statutory deposit.

FINANCIAL STATEMENT

As previously disclosed in the "Scope of Examination" section of this report this examination is a limited scope examination and it is not intended to communicate all matters of importance for an understanding of the Company's financial condition. Also, as previously stated in the "Scope of Examination" section of this report the purpose of this examination is to determine the Company's compliance with Title 56, Chapter 22, Section 101 (b). Tenn. Code Ann. § 56-22-101(b) requires the Company to provide "the same financial security to "policyholders", and meet 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". Also, as

previously disclosed in the "Scope of Examination" section of this report this examination is a limited scope target examination and it is not intended to communicate all matters of importance for an understanding of the Company's financial condition.

In order to verify that the Company during the period of examination (January 1, 2005 through June 30, 2006), and specifically as of June 30, 2006, provided "the same financial security to "policyholders", and meet all other requirements applicable to stock insurance companies writing the same insurance transactions ..." per Tenn. Code Ann. § 56-22-101(b) the Examiner relied upon the balance sheets disclosed in the Company's 2005 Quarterly Statements, 2005 Annual Statement, March 31, 2006 Quarterly Statement, 2005 Audited Financial Statements and a statement of assets as disclosed in three (3) June 2006 statements from the Company's custodian, Regions Bank. All of the aforementioned documents reflect to the satisfaction of the Examiner In-Charge that the Company had admitted assets in excess of liabilities as determined in accordance with NAIC Accounting Practices and Procedures that provided the Company's members ("policyholders") surplus in excess of $4,000,000 as of December 31, 2005 and March 31, 2006.

As of the date this limited scope target examination report was submitted to the Commissioner the Company was not due to release its June 30, 2006 Quarterly Statement until August 15, 2006. In the absence of the June 30, 2006 Quarterly Statement the Examiner relied upon three (3) June 2006 statements from the Company's custodian, Regions Bank, in order to establish and verify assets held by the Company that can be considered surplus funds upon the deduction of liabilities incurred by the Company as of June 30, 2006. The combined market value of the Company's assets held in these accounts as of June 30, 2006 was $4,700,678.

The Company reported in its December 31, 2005 Annual Statement and its 2005 Audited Financial Statements filed with the TDCI, total admitted assets of $5,169,537, total liabilities of $356,054 and total surplus of $4,813,483. The Company reported in its March 31, 2006 Quarterly Statement filed with the TDCI, total admitted assets of $5,237,851, total liabilities of $349,962 and total surplus of $4,887,889.

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 as required by Tenn. Code Ann. § 56-2-114 and Tenn. Code Ann. § 56-2-115, respectively. Therefore, based

upon the aforementioned documentation relied upon by the Examiner In-Charge the Company exceeds the $2,000,000 minimum amount of capital and surplus requirement imposed upon stock insurance companies licensed in Tennessee and thus provides "the same financial security to policyholders..." that is "applicable to stock insurance companies writing the same insurance transactions...".

COMMENTS

Investment Policy

As previously stated in the "Investments" sub-section of the "Management and Control" section of this report, the Company's Board of Directors adopted the Company's current Investment Policy in August 1990. Based upon the composition of the Company's investments disclosed in Schedule D of the 2005 Annual Statement and the March 31, 2006 Quarterly Statement the Company through its investment manager, Martin & Company, Inc., had deviated from their investment policy as previously approved by the Board of Directors. As of June 30, 2006, the Company invested a material amount of money as a percentage of admitted assets and member (policyholder) surplus in publicly traded common stocks. Common stock investments were not specifically mentioned as part of the Company's current conservative investment policy. The Company's Board of Directors should either amend their most recently approved investment policy to allow for the investment in common stocks or restructure the Company's investment portfolio to reflect the current investment policy.

Conflicts of Interest

As previously stated in the "Conflicts of Interest" sub-section of the "Management and Control" section of this report, the Company does not currently have a conflict of interest policy. The Company's Board of Directors should implement a conflict of interest policy in order to enhance the Company's ability to remain in compliance with Tenn. Code Ann. § 56-3-103.

RECOMMENDATIONS

Investments

Neither the Company's Board of Directors nor the Executive Committee appointed by the Directors ratified the investment transactions of the Company during the period of this target examination as required by Tenn. Code Ann. § 56-3-408(b)(1). It is recommended that the Company's Directors or the Executive Committee appointed by the Directors review and approve all of the Company's investment transactions.

Custodian Agreement

As noted previously in the examination report the Company participated in a "Custody Agreement" by and between the Company and Regions Bank. As of the June 30, 2006 Target Examination Date this agreement did not meet all of the specific requirements set forth in Tenn. Comp. R. & Regs., 0780-1-46. (1) The Agreement does not have an indemnification clause in case of loss of securities as required by Tenn. Comp. R. & Regs., 0780-1-46-.05(2)(b); (2) The Agreement does not have a replacement clause in the event of loss as required by Tenn. Comp. R. & Regs., 0780-1-46-.05(2)(c); (3) The Agreement does not contain concise language allowing the "Participant" to withdraw securities immediately upon demand subject to instructions of the Trust as required by Tenn. Comp. R. & Regs., 0780-1-46-.05(2)(a); (4) The Agreement does not specifically allow for the Commissioner ready access to the custodial agreement and executed custodian affidavits upon request as required by Tenn. Comp. R. & Regs., 0780-1-46-.05(2) and (2)(b); (5) The Agreement does not have a "provision stating that the securities held by the custodian are subject to instructions of the" Company in accordance with Tenn. Comp. R. & Regs., 0780-1-46-.05(2)(a). During the examination it was recommended that the Company take immediate action to execute a revised custodial agreement in order to add the aforementioned specific terms required by Tenn. Comp. R. & Regs., 0780-1-46. See the "Subsequent Events" section of this report for corrective actions taken by the Company.

Statutory Deposits

As of the June 30, 2006, Limited Scope Target Examination date the TDCI had yet to receive a properly executed safe keeping receipt from Regions Bank verifying a statutory deposit market value of no less than $200,000. Furthermore, the Commissioner as of June 30, 2006 had not signed the tri-party statutory custodial agreement with the Company and Regions Bank due to the Company's failure to properly meet the aforementioned criteria. Prior to and during this examination it was repeatedly recommended by representatives of the TDCI that the Company take immediate action to become compliant with Tenn. Code Ann. § 56-2-112.

Audited Financial Statements

As previously stated in the "Accounts and Records" section of this report the Company's auditors did not file a "Letter of Qualification" pursuant to Tenn. Comp. R. & Regs., 0780-1-65.12, an "Engagement Letter" pursuant to Tenn. Comp. R. & Regs., 0780-1-65.06 with the Company's 2005 audited financial statements. Also, the Company did not file a "disagreement letter" with the Commissioner in accordance with Tenn. Comp. R. & Regs., 0780-1-65.06 and a response was not submitted by the Company's former auditors to the contents of the Company's "disagreement letter" as required by Tenn. Comp. R. & Regs., 0780-1-65.06. None of the aforementioned filings were received by the TDCI on the June 1, 2006 due date and the TDCI had not received the "disagreement letter" as of the June 30, 2006 Target Examination Date. In the future it is recommended that the Company and its auditors fully comply with Tenn. Comp. R. & Regs., 0780-1-65 "Annual Audited Financial Reports".

Management Discussion and Analysis

As previously stated in the "Accounts and Records" section of this report the Company did not file their MD&A report with the TDCI when it filed its 2005 Annual Statement on the March 1, 2006 due date as required by Tenn. Comp. R. & Regs., 0780-1-37 and the MD&A Section of the NAIC Annual Statement Instructions. In the future it is recommended that the Company file its MD&A report on time in accordance with Tenn. Comp. R. & Regs., 0780-1-37.

Annual and Quarterly Statement Filings

As previously stated in the "Accounts and Records" section of this report the Company did not accurately complete and disclose their 2004 Annual Statement, 2005 Annual and Quarterly Statement filings and March 31, 2006 Quarterly filing including statement amendments in accordance with Tenn. Code Ann. § 56-1-501 and Tenn. Comp. R. & Regs., 0780-1-37 and the NAIC Annual Statement and Quarterly Statement Instructions during the period of examination. In the future it is recommended that the Company file its Annual and Quarterly Statements including statement amendments as mandated by Tenn. Code Ann. § 56-1-501 and Tenn. Comp. R. & Regs., 0780-1-37 and the NAIC Annual Statement and Quarterly Statement Instructions.

Risk Based Capital Report

As stated earlier in this report the Company did not file an RBC Report or an exemption request on the March 1, 2006 due date in accordance with Tenn. Code Ann. § 56-46-103 and Tenn. Code Ann. § 56-46-110, respectively. The Examiner determined that the Company during the period of examination met the requirements set forth in Tenn. Code Ann. § 56-46-110 for an exemption from filing a Risk Based Capital Report. However, the Commissioner of the Tennessee Department of Commerce as of June 30, 2006 had yet to receive a request for exemption from the Company for filing a RBC Report per Tenn. Code Ann. § 56-46-110. In the future it is recommended that the Company file a RBC Report exemption request on or before the March 1, 2006 due date as required by Tenn. Code Ann. § 56-46-110.

CONCLUSION

Based upon the examination procedures performed during this Limited Scope Target Examination it appears that the Company was not fully compliant with Title 56, Chapter 22, Section 101 (b) as of the June 30, 2006 Target Examination date. Title 56, Chapter 22, Section 101 (b) provides that the Company should meet certain conditions that apply to its financial health as well as other internal control and regulatory disclosure requirements set forth by Tennessee laws and rules. Tenn. Code Ann. § 56-22-101(b) requires the Company to provide "the same financial security to policyholders, and meet 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 Company during the period of examination (January 1, 2005 through June 30, 2006) and specifically as of June 30, 2006 provided "the same financial security to policyholders... applicable to stock insurance companies writing the same insurance transactions ..." per Tenn. Code Ann. § 56-22-101(b) and Tenn. Code Ann. § 56-2-114 and Tenn. Code Ann. § 56-2-115 in relation to the quality of its assets and the amount of surplus as compared to the Company's liabilities as previously noted in the "Financial Statement" section of this target exam report.

However, the Company did not provide the same level of financial security to its "policyholders" as other property and casualty insurance companies due to a failure to provide the TDCI with a statutory deposit in an amount equal to $200,000 in market value in accordance with Tenn. Code Ann. § 56-2-112 as previously noted in the "Recommendations" section of this target exam report.

Furthermore, Tenn. Code Ann. § 56-22-101(b) also requires the Company to "meet all other requirements applicable to stock insurance companies writing the same insurance transactions". The Company at some point during the period of examination (January 1, 2005 through June 30, 2006) was not completely in compliance with this part of Tenn. Code Ann. § 56-22-101(b). As previously noted in the "Recommendations" section of this target exam report the Company was in violation of Tenn. Code Ann. § 56-1-501, Tenn.

Code Ann. § 56-2-112, Tenn. Code Ann. § 56-3-408(b)(1), Tenn. Comp. R. & Regs., 0780-1-46, Tenn. Comp. R. & Regs., 0780-1-65.06, Tenn. Comp. R. & Regs., 0780-1-65.12 and Tenn. Comp. R. & Regs., 0780-1-37.

Finally, the Company as of the specific June 30, 2006 Target Examination Date was not completely in compliance with "all other requirements applicable to stock insurance companies writing the same insurance transactions" per Tenn. Code Ann. § 56-22-101(b). As previously noted in the "Recommendations" section of this target exam report the Company was in violation of Tenn. Code Ann. § 56-2-112, Tenn. Code Ann. § 56-3-408(b)(1), Tenn. Comp. R. & Regs., 0780-1-46, Tenn. Comp. R. & Regs., 0780-1-65.06 and Tenn. Comp. R. & Regs., 0780-1-65.12.

See the "Subsequent Events" section of this Limited Scope Target Examination Report for the Company's compliance with Tennessee Code Annotated and Tennessee Comprehensive Rules and Regulations after the June 30, 2006 date of this Limited Scope Target Examination Report.

The courteous cooperation of the officers and employees working on behalf of the Company extended during the course of examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr.
Examiner-in-charge
State of Tennessee
Southeastern Zone, NAIC

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached target limited scope examination report of the Hamblen Mutual Insurance Company, dated September 18, 2006, and made as of June 30, 2006, on behalf of "The Tennessee Department of Commerce and Insurance". 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.

James T. Pearce, Jr.

James T. Pearce, Jr.
Examiner-in-Charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me this 18th day of September, 2006

Helen W. Dorsey
(Notary)

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010