REPORT ON EXAMINATION

OF THE

PREMIER GROUP INSURANCE COMPANY

MURFREESBORO, TENNESSEE

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Dept. Of Commerce & Insurance
Company Examinations

AS OF

DECEMBER 31, 2006

THE DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Murfreesboro, Tennessee
June 2, 2008

Honorable Alfred W. Gross
Chair, Financial Condition Committee
NAIC
Commissioner of Insurance
Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Honorable Scott Richardson
Secretary, Southeastern Zone
NAIC
Director of Insurance
South Carolina Department of Insurance
1201 Main Street, Suite 1000
Columbia, South Carolina 29201

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

Commissioners:

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

PREMIER GROUP INSURANCE COMPANY
MURFREESBORO, TENNESSEE

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

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the State of Tennessee through the Examination Tracking System of the National Association of Insurance Commissioners (NAIC) and commenced on December 18, 2007. The examination was conducted under the association plan of the NAIC by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee.

SCOPE OF EXAMINATION

This examination report covers the period from December 31, 2001, the date of the last previous examination, to the close of business on December 31, 2006, and includes any material transactions

and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the National Association of Insurance Commissioners (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, 2006. 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 their amount and potential impact on capital and surplus. In addition, the following topics were reviewed:

Previous Examination Comments and Recommendations
Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Retirement Plan and Other Employee Benefits
Loss Experience
Accounts and Records
Statutory Deposits
Agreements with Parent, Subsidiaries and Affiliates
Litigation
Financial Statement

PREVIOUS EXAMINATION COMMENTS AND RECOMMENDATIONS

The previous full scope examination of the Company was conducted as of December 31, 2001, by examiners of the Tennessee Department of Commerce and Insurance. The previous examination resulted in a decrease to the Company's surplus of $23,000. The adverse findings and their resolutions are as follows:

- *Review of the Administration Agreement dated July 1, 1997 between the Company and National HealthCare L.P. (merged into National HealthCare Corporation, NHC) indicated*

that the service fee was to be 18% of all premiums collected and payment was to be made on a quarterly basis. The Company and NHC had agreed to base the service fee on written premium rather than collected premium and settle on a monthly basis. NHC also requested that the check for payment be written to Tennessee Management which is an operating division of NHC/OP, L.P.

Since the above changes were never formalized, the Department suggested that the modification be incorporated into a new Administration Agreement.

The new agreement was filed with the Department for approval pursuant to Tenn. Code Ann. § 56-11-206 on April 25, 2002. The Commissioner approved said agreement on May 7, 2002.

- *Review of the reinsurance agreement between the Company and Zurich American Insurance Company provides for the Company to assume losses in the $0 to $250,000 layer and all ALAE (allocated loss adjustment expenses). ALAE is not defined in the agreement. It is suggested that the two parties reach an agreement defining ALAE and amend the reinsurance agreement accordingly.*

  The Company is no longer assuming any losses under this agreement. The Company began writing the business that it had been assuming from Zurich American Insurance Company on a direct basis in 2005.

- *At 12/31/2001, all of Premier Group Insurance Company's bonds with the exception of the $101,000 U. S. Treasury held as Statutory Deposit for Tennessee and $3,943,845.82 of cash (money market fund) are held under a Trust Agreement with SunTrust Bank, Nashville N.A. There is no custody agreement since these funds are held in trust for the benefit of Zurich American Insurance Company, formerly known as Zurich Insurance Company, US Branch as part of a reinsurance arrangement. Zurich writes workers' compensation polices to healthcare facilities owned or managed by National HealthCare Corporation, the parent of the Premier Group Insurance Company, in states where the Company is not licensed. The Company then assumes the first $250,000 for each accident. The Company has put the assets in trust so that Zurich can take credit for the ceded loss reserves since the Company is not authorized in New York (domicile for Zurich).*

  The assets are admitted assets based on Tennessee Code Annotated, Section 56-1-405 which states that "The commissioner shall allow to the credit of an insurance company in the account of its financial condition only such assets as are or can be made available for payment of losses in Tennessee, but may credit any deposits of funds of the company set apart as security for a particular liability," and Tennessee Code Annotated, Section 56-3-115 which applies to reinsurance liability credit.

The agreement meets the requirements of "Trust Agreements Qualified under Paragraph 16" as outlined in the NAIC Accounting Practices and Procedures Manual. It does not however contain the language as specified in Tennessee Regulation 0780-1-46.04 pertaining to custody agreements' standard of responsibility.

It was recommended to the Company that the Trust Agreement be amended to include said language as follows:

"That such trust agreement provide a standard of responsibility on the part of the trustee which shall not be less that the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee."

The trust agreement was amended to include the recommended language on November 5, 2002. This agreement is still in effect.

COMPANY HISTORY

The Company, then known as NHC Insurance Company, was incorporated on February 15, 1983 under the Tennessee Business Corporation Act as a for profit corporation authorized to transact business in the State of Tennessee. The Company's Charter authorizes it to enter into the business of designing, creating, maintaining, selling, and servicing policies of insurance in the field of "Casualty Insurance" as defined in Tennessee Code Annotated, Section 56-2-201.

The first meeting of the incorporator and subscribers of capital stock was held on January 3, 1983. At that meeting, the Charter and the Corporate Bylaws were approved and the Board of Directors was elected. The first meeting of the stockholders was also held on this same date. At that meeting, officers were elected and a resolution was authorized which approved the sale of 750,000 shares of stock of the corporation at $1.00 par value to National Health Corporation for total consideration of $1,125,000. Meetings of the shareholders were subsequently held annually with the primary business being the election of the Board of Directors.

On January 6, 1987, Stock Certificate One in the name of National Health Corporation was canceled. Stock Certificate Two was then issued to National HealthCorp L. P.

A special meeting of the shareholder was held on December 31, 1996. The shareholder stated "that it or its predecessors have held a stock certificate representing 1,000 shares of authorized, issued and outstanding common stock of NHC Insurance Company since January 1983, but has never actually capitalized the Company since at that time the shareholder elected not to go forward with qualifying NHC Insurance Company as a Tennessee licensed insurance company". The shareholder then adopted resolutions authorizing the President and/or Secretary of the corporation to complete and file such necessary papers with the Commissioner of Insurance of the State of Tennessee so as to obtain a Certificate of Authority for the corporation to transact the casualty insurance business in said State of

Tennessee. The corporation additionally appointed the Commissioner as its authorized registered agent for service of process.

The shareholder also adopted a resolution authorizing the current president and secretary to accept as and for the capital contribution to the company from its sole shareholder, National HealthCare, L. P., the sum of $2,700,000. This capital and surplus contribution shall be deemed to replace and otherwise alter or amend any prior resolutions of the shareholder or the board, and the previously issued certificate of stock for 1,000 shares shall be cancelled and a new certificate for 1,000,000 shares shall be issued. On the same date, Stock Certificate Two was canceled and Stock Certificate Three was issued in order to reflect the new name of the shareholder, National HealthCare L. P.

The Company received its Certificate of Authority to transact the business of "Casualty (Workers Compensation Only)" on May 29, 1997. Effective at midnight on December 31, 1997, National HealthCare L. P. was merged into National HealthCare Corporation (NHC), and the ownership of the Company was transferred to NHC/OP, L. P., a 100% owned subsidiary of NHC. The Company requested that the restriction of "(Workers Compensation Only)" be removed from the original Certificate of Authority on November 25, 1998. An amended Certificate of Authority dated January 25, 1999 was issued authorizing the Company to transact the business of "Casualty".

The Company changed its name to Premier Group Insurance Company, Inc. effective April 1, 2001. A Certificate of Authority was issued July 2, 2001 in the new name and made effective the same date. The Company changed its name to Premier Group Insurance Company effective October 1, 2001. A Certificate of Authority effective November 5, 2001 was issued on December 12, 2001 in the new name.

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 Department of Commerce and Insurance, State of Tennessee:

Year	Earned Premiums	Incurred Losses & LAE	Admitted Assets	Capital and Surplus	Net Income
2002	$11,051,752	$6,703,270	$25,019,736	$11,066,797	$704,402
2003	14,564,609	8,014,675	29,199,070	12,525,635	1,558,471
2004	17,140,444	10,832,645	34,022,381	12,765,038	84,738
2005	18,255,473	7,113,931	42,087,398	17,295,312	4,816,832
2006	16,506,584	6,715,855	44,777,750	20,805,068	4,305,380

CHARTER AND BYLAWS

Charter:

The Charter was filed and recorded with the Tennessee Secretary of State on February 15, 1983, and recorded with the Rutherford County Clerk on March 7, 1983. The stated purposes of the Company are:

> (a) "To enter into the business of designing, creating, maintaining, selling and servicing policies of insurance in the field of "Casualty Insurance" as same is defined in Tennessee Code Annotated 56-2-201(6) as same presently is constituted, or as same may be amended or altered by the General Assembly of the State of Tennessee from time to time and as furthermore defined by the Commissioner of Insurance of the State of Tennessee in their duly promulgated rules and regulations authorized by the General Assembly of the State of Tennessee."
>
> (b) "To take all corporate actions necessary, appropriate and legal for casualty insurance companies to take in the State of Tennessee or other jurisdictions, pursuant to the specific statutory law and regulatory provisions governing insurance companies in said jurisdiction."
>
> (c) "To engage in any activity of business for which corporations may be organized under the General Corporation Act of the State of Tennessee."

It is noted that Casualty Insurance is currently defined in Tenn. Code Ann. § 56-2-201(2), although Tenn. Code Ann. § 56-2-201(6) was cited in the original charter. The reference was correct when the original Charter was filed in 1983. The statute was amended in 1998.

The original Charter authorized a maximum number of 1,000,000 shares of stock with a par value of one dollar ($1) per share.

Articles of Amendment to the Charter were filed with the Secretary of State's office on November 21, 1998 to change the address of the principal corporate office. Articles of Amendment to the Charter were filed with the Secretary of State's office on June 19, 2001 to change the Company name to Premier Group Insurance Company, Inc. Articles of Amendment to the Charter were filed with the Secretary of State's office on November 5, 2001 to change the Company name to Premier Group Insurance Company. Articles of Amendment to the Charter were filed with the Secretary of State's office on July 29, 2003 to change the maximum number shares of stock the Company is authorized to issue from 1,000,000 to 1,500,000.

The corporation's existence is perpetual and its principal corporate office is established at 100 Vine Street, Suite 1400, Murfreesboro, TN 37130.

Bylaws:

The Bylaws of the Company in effect at December 31, 2006 were adopted by the unanimous consent of the Board on January 3, 1983 at the first meeting of the Board of Directors and have not been amended or changed during the period covered by this examination. The Bylaws were amended subsequent to the as of date of this examination on May 15, 2007. The amendment changed the date that the annual meeting of the Board of Directors is held from the month of February to state that it may be held at any time prior to May 31 of each year.

The bylaws are such as are generally found in corporations of this type. They are consistent with the charter 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 of Directors and the shareholders. The bylaws may be altered or amended by an affirmative vote of the majority of the entire Board of Directors at any regular or special meeting.

MANAGEMENT AND CONTROL

Management:

The Bylaws vest the management of the business and affairs of the Company in a Board of Directors of at least three persons. As of December 31, 2006, the Board of Directors of the Company was composed of the following:

Name	Address	Position
Robert Galloway Adams	Murfreesboro, Tennessee	President and Chief Executive Officer, NHC
David Leon Lassiter	Murfreesboro, Tennessee	Senior Vice President for Corporate Affairs, NHC
Robert Michael Ussery	Murfreesboro, Tennessee	Senior Vice President of Operations, NHC

As of December 31, 2006, the following persons held office in the Company:

Donnie Phil Hester, President
William Porter Nelms, Jr., Vice President and Secretary
Charlotte Ann Swafford, Treasurer

The administrative and executive functions of the Company are performed by staff employed through its ultimate parent, NHC and provided to the Company under the recitals of an Administrative Agreement between the Company and NHC, as described in this report under the heading "Agreements with Parent, Subsidiaries and Affiliates". Certain services are purchased from

outside contractors if needed and are not available from in house personnel. Such services include actuarial analysis and independent audit.

Control:

The Company is wholly-owned by NHC/OP, L. P. (a Delaware Limited Partnership). NHC/OP, L. P. is 99% owned by NHC and 1% owned by NHC/Delaware, Inc. NHC/Delaware, Inc. is wholly-owned by NHC.

A holding company organizational chart is included at the last page of this examination report.

The Company has established a conflict of interest policy for its directors and officers. The affected persons file annual statements. The statements were reviewed and found to be in compliance with Tenn. Code Ann. §56-3-103.

CORPORATE RECORDS

Minutes of meetings of the shareholders and Board of Directors of the Company were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2006, and the date of this examination report, the Company is not a named insured under any fidelity bond or other insurance policies or coverages.

TERRITORY

As of December 31, 2001, the date of the previous examination, the Company was licensed in Tennessee only. As of December 31, 2006, the Company was licensed to transact business in the following states:

Alabama	Arizona	Florida
Georgia	Kansas	Kentucky
Missouri	New Hampshire	South Carolina
Tennessee	Virginia	

The Certificates of Authority for each jurisdiction were reviewed and found to be in order.

PLAN OF OPERATION

The Company issues Workers' Compensation and Employers Liability Policies to healthcare facilities owned or managed by National HealthCare Corporation. The company retains the first $1,000,000 of each claim.

The figures below show the premiums by state in which the Company was licensed for the year ending December 31, 2006, as reported in Schedule T of the Company's Annual Statement:

State	Direct Premiums Written	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
Alabama	$374,362	$374,362	$30,949	$(41,303)	$226,193
Arizona	42,366	42,366	15,912	14,861	83,933
Florida	8,613,055	8,623,494	1,149,286	1,501,792	4,872,626
Georgia	212,049	212,049	9,633	101,459	91,826
Kansas	192,474	192,474	87,410	179,237	304,164
Kentucky	422,202	422,202	25,738	10,745	161,781
Missouri	1,053,771	1,053,771	198,660	695,971	1,020,704
New Hampshire	-	-	-	-	-
South Carolina	1,582,952	1,593,565	351,660	766,039	868,141
Tennessee	4,254,438	4,339,930	1,282,520	1,270,772	3,071,462
Virginia	57,839	57,839	36,985	90,895	101,267
Totals	$16,805,509	$16,912,052	$3,188,753	$4,590,468	$10,802,097

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the Department of Commerce and Insurance, State of Tennessee, a market conduct review was made of the Company as of December 31, 2006 in conjunction with this examination. The following items were addressed:

Policy Forms and Rates:

The Company contracts with the National Council on Compensation Insurance, Inc. to provide its policy forms and to make its rate filings. The Company's policy forms and rates appear to be properly filed.

Advertising:

The Company does no advertising.

Claims Review:

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

Policyholder Complaints:

Inquiries made to the various policyholders' service offices indicated no concerns or complaints with the Company during the period under examination.

There were no unusual practices or items warranting criticism of the Company.

REINSURANCE

The Company's reinsurance agreements were reviewed and found to contain the standard provisions for arbitration, cancellation, errors and omissions, exclusions, insolvency, offset, settlement, taxes and termination. The Company's reinsurance agreements appear to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines. The following is a summary of the reinsurance agreements in effect as of December 31, 2006:

Reinsurance Assumed:

The Company assumes Workers' Compensation and Employers' Liability policies written by Zurich American Insurance Company. This business was written to cover healthcare facilities owned or managed by National HealthCare Corporation in states other than Tennessee, where the Company was not licensed. Beginning in 2005, the Company ceased assuming business from Zurich American Insurance Company and began writing the policies on a direct basis as it received licenses in other states. However, this treaty is still in run-off.

Funds continue to be held under a Trust Agreement with SunTrust Bank, Nashville, N.A. for the benefit of Zurich American Insurance Company as part of this reinsurance arrangement. The Company put the assets in trust so that Zurich could take credit for the ceded loss reserves since the Company is not authorized in New York (domicile for Zurich). The total amount of the assets held in trust as of the date of examination was $10,629,664. This amount exceeds the amount allowed by T.C.A. § 56-3-115. This is discussed in detail under the heading "Analysis of Changes In Financial Statement And Comments Resulting From Examination".

Reinsurance Ceded:

The primary intent of the Company's reinsurance agreements is to manage the Company's overall exposure to loss at or below a level that is within the capacity of its capital resources.

The Company carries catastrophe excess of loss reinsurance with a retention of $1,000,000 and a total limit of $20,000,000. The treaties, effective January 1, 2006 through January 1, 2007, cover the Company's policies in force at the effective date or issued or renewed on or after that date, and classified by the Company as Workers' Compensation and Employers Liability. The reinsurers and their participation are summarized below:

Reinsurers/Participation:

	Layer			
Reinsurer	**1st**	**2nd**	**3rd**	**4th**
Aspen Insurance UK, Ltd.	12.5%	20.0%		15.0%
BRIT Ins., Ltd.			12.5%	2.5%
Lloyd's of London Syndicate 1400			37.5%	7.5%
Lloyd's of London Syndicate 2020		25.0%		5.0%
Lloyd's of London Syndicate 435	10.0%			15.0%
Lloyd's of London Syndicate 4472	12.5%	10.0%		15.0%
Lloyd's of London Syndicate 570	12.5%			15.0%
Max Re Ltd.	40.0%	45.0%	20.0%	
Safety National Casualty Corp.			30.0%	25.0%

Aspen Insurance UK, Ltd., Safety National Casualty Corporation and the Lloyd's syndicates listed are authorized reinsurers in the State of Tennessee. BRIT Ins., Ltd. and Max Re Ltd. are unauthorized.

Unearned Ceding Commission:

The Company's reinsurance agreements cede premiums on a written basis, and therefore, in the event of termination, the Company would be obligated to return any unearned ceding commissions to the reinsurers. However, the agreements provide that in the event of termination, the reinsurance continues to apply to all policies in force until their expiry or cancellation in the normal course of business. There is no return of premium or ceding commission at the termination of an agreement because the policies continue in full force. Therefore, the Company is deemed to have no ultimate liability for unearned ceding commissions.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

As of December 31, 2006, the Company had three employees, all of which provide claim services in the Company's field offices. All other services are provided through National Health Corporation which leases employees to NHC, parent of the Company, under terms of an Employee Service Agreement. NHC in turn provides administrative and data processing services to the Company under terms of an Administrative Agreement. Employees of the Company and its parent are eligible to participate in various benefit plans offered, including health, vision and dental insurance and a matching 401(k) program.

LOSS EXPERIENCE

Year	Losses Incurred	LAE Incurred	Premiums Earned	Loss Ratio
2002	$4,755,660	$1,947,610	$11,051,752	60.7%
2003	4,125,119	3,889,556	14,564,609	55.0%
2004	7,757,955	3,074,690	17,140,444	63.2%
2005	4,067,631	3,046,300	18,255,473	39.0%
2006	4,184,796	2,531,059	16,506,584	40.7%
Total	$24,891,161	$14,489,215	$77,518,862	50.8%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of annual statements for the years 2002, 2003, 2004, 2005 and 2006.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Company at the date of examination.

The Company's Risk Based Capital Report was reviewed.

An annual audit of the Company is performed by an independent accounting firm.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2006:

Where Deposited and Description	Par Value	Statement Value	Market Value
Arizona			
Evergreen Inst. Treas. Money Market Fund	$127,558	$127,558	$127,558

Florida Cash	175,000	175,000	175,000
New Hampshire Federal Home Ln. Mtg. Corp., 4.25%, Due 4/05/07	500,000	499,636	498,825
Virginia Federal Home Ln. Mtg. Corp., 4.625%, Due 2/21/08	225,000	224,940	223,594
Total deposits not held for the benefit of all policyholders of the Company	**1,027,558**	**1,027,134**	**1,024,977**
Tennessee U. S. Treasury Note 4.0%, Due 3/15/10	$1,100,000	$1,096,066	$1,076,922
Total deposits held for the benefit of all policyholders of the Company	**1,100,000**	**1,096,066**	**1,076,922**
Total	**$2,127,558**	**$2,123,200**	**$2,101,899**

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company has an administration agreement with National HealthCare Corporation, the ultimate parent. The agreement was executed May 1, 2002, and was approved by the Commissioner of Insurance, State of Tennessee on May 7, 2002. The original term was three years ending April 30, 2005, to be automatically renewed for one year, and shall so renew each year, from year to year, on the same terms and conditions. Either party shall have the right to terminate the agreement by giving written notice at least sixty days prior to the end of the then current contract term. The terms of the agreement appear to be fair to both parties.

LITIGATION

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

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2006, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$2,685,642	$565,469	$2,120,173
Cash and short-term investments	41,517,596	1,695,244	39,822,452
Investment income due and accrued	185,760		185,760
Uncollected premiums and agents' balances in course of collection	959,732	959,732	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	136,221		136,221
Net deferred tax asset	1,770,056	1,460,306	309,750
Guaranty funds receivable or on deposit	454,148		454,148
Electronic data processing equipment and software	21,725		21,725
Aggregate write-ins for other than invested Assets	93,365	60,988	32,378
Totals	$47,824,245	$4,741,739	$43,082,506

LIABILITIES, SURPLUS, AND OTHER FUNDS

Losses		$15,533,722
Loss adjustment expenses		5,957,807
Other expenses (excluding taxes, licenses and fees)		99,423
Taxes, licenses and fees (excluding federal and foreign income tax)		630
Current federal and foreign income taxes		366,909
Unearned premiums		227,240
Amounts withheld or retained by company for account of others		12,954
Remittances and items not allocated		1,931
Aggregate write-ins for liabilities		1,772,067
Total Liabilities		23,972,682
Common capital stock	$1,200,000	
Gross paid in and contributed surplus	1,700,000	
Unassigned funds (surplus)	16,209,824	
Total capital and surplus		19,109,824
Totals		$43,082,506

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned		$16,506,584
Deductions: Losses incurred	$4,184,796	
Loss expenses incurred	2,531,059	
Other underwriting expenses incurred	5,096,212	
Total underwriting deductions		11,812,066
Net underwriting gain		4,694,517

INVESTMENT INCOME

Net investment income earned	1,851,963	
Net investment gain		1,851,963

OTHER INCOME

Aggregate write-ins for miscellaneous income		56
Net income before federal income taxes		6,546,536
Federal income taxes incurred		2,241,156
Net income		$4,305,380

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		$17,295,311
Net income	$4,305,380	
Change in net deferred income tax	231,341	
Change in non-admitted assets	(2,722,208)	
Change in surplus as regards policyholders for the year		1,814,513
Surplus as regards policyholders, December 31 current year		$19,109,824

RECONCILIATION OF CAPITAL AND SURPLUS FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	**2002**	**2003**	**2004**	**2005**	**2006**
Previous Year	$10,244,750	$11,066,797	$12,525,634	$12,765,038	$17,295,311
Net Income	704,402	1,558,471	84,738	4,816,832	4,305,380
Change in net deferred income tax	122,975	104,375	172,609	81,715	231,341
Change in nonadmitted assets	(5,330)	(204,008)	(17,943)	(368,273)	(2,722,208)
Transferred from surplus (Stock Dividend)		(200,000)			
Transferred from capital		200,000			
Change in surplus as regards policyholders for the year	822,047	1,458,837	239,404	4,530,273	1,814,513
Surplus as regards to policyholders December 31 Current Year	**$11,066,797**	**$12,525,634**	**$12,765,038**	**$17,295,311**	**$19,109,824**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Cash and short-term investments **$39,822,452**

The above amount reflects a reduction of $1,695,144 from the amount stated in the annual statement.

The change reflects a reduction in the amount of assets admitted which are held under a Trust Agreement with SunTrust Bank, Nashville, N.A. These funds are held in trust for the benefit of Zurich American Insurance Company as part of a reinsurance arrangement. Before the Company received its licenses to write business in other states, Zurich wrote workers' compensation polices to healthcare facilities owned or managed by National HealthCare Corporation, the parent of the Premier Group Insurance Company, in states where the Company was not licensed. The Company then assumed the first $250,000 for each accident. The Company put the assets in trust so that Zurich could take credit for the ceded loss reserves since the Company is not authorized in New York (domicile for Zurich).

The total amount of the assets held in trust is $10,629,664. A portion is admitted based on T.C.A. § 56-1-405 which states that "The commissioner shall allow to the credit of an insurance company in the account of its financial condition only such assets as are or can be made available for payment of losses in Tennessee, but may credit any deposits of funds of the company set apart as security for a particular liability". However, T.C.A. § 56-3-115 limits the amount of the excess of the asset over the amount of the liability that may constitute admissible assets to 30% of the company's capital and surplus.

The Company reports a liability of $2,693,000 on Schedule F, Part 1 of its annual statement. Therefore the excess trust deposit is $7,936,664. The Company's capital and surplus as reported in its annual statement is $20,805,068, which means that the excess liability that may be admitted is 30%, or $6,241,520. Therefore, the difference of $1,695,144 between the excess liability of $7,936,664 and the admissible amount of $6,241,520 must be nonadmitted.

It is noted that as of the date of this report, the trust deposit has been reduced to a level that is below the threshold specified in T.C.A. § 56-3-115 and would now qualify as an admitted asset.

Unassigned funds (surplus) **$16,209,924**

The amount of this item is $1,695,144 less than the amount reflected in the Company's annual statement. The decrease is the result of the changes in the above item.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AS THEY AFFECT SURPLUS

The following depicts the change in surplus as outlined in the previous section of this report:

Item	Surplus	
	Increase	Decrease
Cash and short-term investments		1,695,144
Totals	$0	$1,695,144

COMMENTS AND RECOMMENDATIONS

Comments:

- The Company has no Fidelity Bond or any other insurance coverage of its own and is not a named insured on any of the policies issued to its parent, NHC. A minimum of $300,000 of fidelity coverage is suggested by the NAIC Financial Condition Examiners' Handbook for a Company of its size.

Recommendations:

- It is recommended that the Company exercise diligence to ensure that its trust deposits do not exceed the amount that may qualify as admitted assets in compliance with T.C.A. § 56-1-405 and T.C.A. § 56-3-115.

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 Premier Group Insurance Company of Murfreesboro, Tennessee.

In such manner, it was determined that, as of December 31, 2006, the Company had admitted assets of $43,082,506 and liabilities, exclusive of capital, of $23,972,682. Thus, there existed for the additional protection of the policyholders, the amount of $19,109,824 in the form of paid-up capital, gross paid-in and contributed surplus and unassigned funds (surplus).

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

In addition to the undersigned, Mr. Gregory Wilson, FCAS, MAAA of Lewis & Ellis, Inc. participated in the work of this examination.

Respectfully submitted,

Rhonda Bowling-Black, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Bryant Cummings, CFE
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that she has duly executed the attached examination report of Premier Group Insurance Company dated June 2, 2008, and made as of December 31, 2006, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Rhonda Bowling-Black
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 2nd day of

June, 2008

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 05/22/2010

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

My Commission Expires MAY 22, 2010

ORGANIZATIONAL CHART

National HealthCare Corporation (Delaware Corporation)

100% NHC HealthCare/Lake City, Inc. (Florida Corporation)
100% NHC/Delaware, Inc. (Delaware Corporation) (1% General Partner -- NHC/OP, L.P.)
100% NHC HealthCare/Pensacola, Inc. (Florida Corporation)
100% Premier Plus Insurance Company, Ltd. (Grand Caymans Corporation)
99% Limited Partner – NHC/OP, L/P. (Tennessee Partnership)

NHC/OP, L.P. (Tennessee Partnership)

100% City Corporation (Tennessee Corporation) (1% General Partner -- Nutritional Support Services, L.P.)
99% Nutritional Support Services, L.P.) (Tennessee Partnership)
100% FMSC, Inc. (Florida Corporation)
100% Premier Group Insurance Company (Tennessee Corporation)
25% General Partner – Knoxville Health Care Center, L.P. (Tennessee Corporation)
79% Limited Partner – National HealthCare Center of Fort Oglethorpe, L.P. (Tennessee Partnership)

PGI

Premier Group Insurance

RECEIVED
JUN 10 2008
FINANCIAL AFFAIRS
ANALYTICAL UNIT

RECEIVED
JUN 10 2008
Dept. Of Commerce & Insurance
Company Examinations

June 6, 2008

Mr. Philip Blustein, CFE
Insurance Examinations Director
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Re: Financial Condition Examination of Premier Group Insurance Company Made as of December 31, 2006

Dear Mr. Blustein:

I received the copy of the Examination Report of Premier Group Insurance Company made as of December 31, 2006. This is your notification that we are in agreement with the report and waive our right to a rebuttal.

If you need any additional information, please contact me at 615-278-1225 ext. 203.

Sincerely,

Donnie P. Hester
President

P.O. Box 1122 Murfreesboro, TN 37133 615-278-1225