STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF

STATE VOLUNTEER MUTUAL INSURANCE COMPANY

(NAIC # 33049)

BRENTWOOD, TENNESSEE

AS OF

DECEMBER 31, 2012

EXHIBIT "A"

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Brentwood, Tennessee
June 13, 2014

Honorable Julie Mix McPeak
Commissioner of Commerce & Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with the Tenn. Code Ann. § 56-1-408, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a full-scope financial examination and market conduct review as of December 31, 2012, has been made of the conditions and affairs of:

STATE VOLUNTEER MUTUAL INSURANCE COMPANY
NAIC # 33049
Brentwood, Tennessee

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

INTRODUCTION

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee (TDCI or Department) under rules promulgated by the NAIC. The examination commenced on November 18, 2013, and was conducted by duly authorized representatives of the TDCI. Due to the Company being licensed in many states, this examination was called through the NAIC's Financial Examination Electronic Tracking System. The Company is a standalone company with no affiliated insurers, and no other states replied for coordination after our exam notice was called.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2007. This examination covers the period January 1, 2008, through December 31, 2012, and includes any material transactions and/or events occurring subsequent to the examination date which were noted during the course of examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the *NAIC Financial Condition Examiners Handbook*, as deemed appropriate. The examination was planned and performed to evaluate the financial condition of the Company as of December 31, 2012. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions.

During planning, the examiners reviewed all accounts and balances and determined the key activities and accounts to be examined. The key activities included: Investments; Premiums; Claims; Underwriting; Reinsurance Ceded; Taxes; Expenses; Reserves – Actuarial; and Reserve Data – Completeness and Accuracy.

The Company's 2012 annual statement was compared with or reconciled to the corresponding general ledger account balances.

An examination of the Company's information systems (IS) was conducted concurrently with the financial examination by Noble Consulting Services, Inc. The IS examination included a review of management and organizational controls, logical and physical security controls, changes in applications controls, system and program development controls, contingency planning controls, service provider controls, operations controls, processing controls, e-commerce controls, and network and internet controls.

A separate market conduct review was also performed concurrently with the financial examination.

Independent actuaries, Lewis & Ellis, Inc., were utilized in the review of the Company's loss reserves.

Ernst & Young, LLP, was the certified public accountants (CPAs) and independent auditor for the Company for all years under examination. The examiners reviewed the CPA's work papers for all years, copies of which were incorporated into the examination, as deemed appropriate.

The Company provided a letter of representation, certifying that management has disclosed all significant matters and records.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

Our examination included a review to determine the current status of the comments and recommendations in the previous report on examination dated June 12, 2009, which covered the period from January 1, 2003, through December 31, 2007. The previous full-scope examination report as of December 31, 2007, contained five comments, and one recommendation which required corrective action by the Company. The Company corrected all of the prior exam comments during the course of the previous examination. Below is a description of the prior examination report's recommendation and our findings during this examination:

Recommendations:

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

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

In previous years, the Company did not utilize a standard policy application form, but had different application forms for different states. The Company had been directed to correct the issue within 30 days as stipulated in the Examination Report Order. During the current examination, the Company's policy application forms were requested and reviewed to determine if the Company had complied with the prior exam recommendation and Examination Report Order. The Company now utilizes one standardized application form for all states where it writes insurance. This standardized application form contains a generic fraud statement that satisfies the fraud warning requirement for each state in which the Company conducts business. Therefore, it was determined that the Company had complied with the prior exam recommendation and Examination Report Order concerning its policy application forms.

COMPANY HISTORY

The Company was incorporated under the laws of Tennessee on December 1, 1975. The Company was granted a certificate of authority on April 2, 1976, and commenced business on May 15, 1976, as a Tennessee property and casualty mutual insurance company. The Company's principal line of business is underwriting professional liability risks for physicians.

Initially, capital contributions from potential insureds were a prerequisite to obtaining insurance from the Company. The capital contributions, ranging from $500 to $3,250,

were assessed on the basis of the medical specialty of the applicant. The contributions were non-interest bearing and were held in an escrow account until the Company was licensed to do business, at which time the monies were transferred to the paid-in and contributed surplus of the Company. At December 31, 1979, contributions amounted to $4,444,211. The Company refunded 25% of the contributions in 1979, 25% in 1980, and 50% in 1981. At December 31, 2012, the Company owes $65,145 in refunds of contributions to individuals that cannot be located.

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

Simultaneous with the issuance of the surplus note described above, the Company entered into multiple interest rate swap agreements as a cash flow hedge of the variable interest rate on the note. The interest rate swaps, which effectively fixed the Company's interest rate on the note, hedged the interest rate risk exposure. As the surplus note was carried at cost, the swap agreements were valued at an amortized cost of zero as required by Statement of Statutory Accounting Principle (SSAP) No. 86 of the NAIC Accounting Practices and Procedures Manual (AP&P).

On February 23, 2011, the Company sent a letter to the TDCI giving notice and requesting approval of the payment of the total principal amount of $15,000,000 on the Surplus Note in the second quarter of 2011. SSAP No. 41 of the AP&P Manual paragraph (3)(d) requires the domiciliary commissioner approval prior to the payment of interest or principal on a surplus note. On April 7, 2011, the TDCI Commissioner approved the payment of the total principal amount of $15,000,000 on the Surplus Note.

The Company is a mutual non-profit insurance company organized under the laws of the State of Tennessee. The Company is also licensed to write insurance in the eight states contiguous to Tennessee plus Indiana. The Company's principal line of business is providing professional liability insurance for physicians. In addition, the Company writes professional liability insurance for other healthcare facilities/providers. The principal markets for the Company's professional liability coverage are in Tennessee, Arkansas and Kentucky with policies also written in Virginia, Mississippi, Georgia and Alabama.

The Company is no longer part of a holding company system. Prior to June 30, 2009, the Company owned 100% of the outstanding common stock of State Volunteer Real Estate, Inc. (SVRE). The Company and SVRE owned in total 100% of the limited partnership, MFV, Ltd. (MFV), which owned and operated the office building in which the Company's offices are located. On June 30, 2009, the Company merged the operations of SVRE and MFV into the Company.

MANAGEMENT AND CONTROL

MANAGEMENT

The Company's Bylaws state that the business and affairs of the corporation shall be managed by a Board of Directors who shall be elected at the annual meeting of the members. The Company's Bylaws state that the number of directors shall consist of not less than thirteen and not more than nineteen as the members shall determine. Three-fifths of the directors constitute a quorum. Directors shall serve a three year term.

The following persons were duly elected by the members on May 1, 2012, and were serving as members of the Board of Directors as of December 31, 2012:

Name	Name
Paul C. McNabb, II, M.D.	Hugh Francis, III, M.D.
Donald H. Alexander, M.P.H.	Robert J. Berkompas, M.D.
Chad T. Couch, M.D.	John R. Crockarell, Sr., M.D.
Katrina M. Hood, M.D.	Wayne A. Hudec, M.D.
Lloyd G. Langston, M.D.	John O. Lytle, M.D.
William I. Mariencheck, Jr., M.D.	Raymond S. Martin, III, M.D.
Gary E. Meredith, M.D.	Michael A. McAdoo, M.D.
Elise E. Schriver, M.D.	Matthew L. Perkins, M.D.
Steven C. Williams, M.B.A.	

The Company's Bylaws require that an annual meeting of the members be held to elect directors and to conduct such other business. The meeting may be held within or without the State of Tennessee, at a date and time the Board of Directors designates.

The Bylaws allow any action required or permitted to be taken at a meeting of the Board, or of any committee thereof, to be taken without a meeting, if prior to such action a written consent thereto is signed by all Board or committee members and such written consent is filed with the minutes of proceedings. Such consent shall have the same force and effect as a vote at a meeting. Any or all of the directors, or committee members may participate in meetings by means of conference telephone, or similar communication equipment.

The Bylaws provide that the officers of the corporation shall consist of a Chair, Vice Chair, President and CEO, one or more Vice Presidents, Secretary, Treasurer, and such other officers as the Board of Directors may determine. One person may simultaneously hold more than one office, except the President may not simultaneously hold the office of Secretary.

The following senior persons were duly elected by the Board of Directors on May 1, 2012, and were serving as officers of the Company as of December 31, 2012:

Name	Title
Paul C. McNabb II, MD	Chair of the Board
Hugh Francis III, MD	Vice Chair of the Board
Steven C. Williams, MBA	President and CEO
Michael A. Ricciardelli, CPA	Chief Financial Officer
Raymond S. Martin III, MD	Treasurer
John O. Lytle, MD	Secretary
James W. Howell, JD	Senior Vice President – Claims
James E. Smith, CPCU	Senior Vice President – Underwriting
Robert E. Byrd	Vice President – Chief Analytics Officer
Kenneth W. Rucker, JD	Vice President – Claims
D. Martin Sesler	Vice President – Information Systems
Raymond M. Meador, Jr., MBA	Vice President – Marketing
Thomas H. Stearns, FACMPE	Vice President – Medical Practice Services
Deborah B. Willis, JD	Vice President – Risk Management
Charmy M. Shrode, CIC	Vice President – Underwriting
Susan L. Swatzell	Director of Finance and Asst. Corporate Secretary
Miriam L. Clemons, JD	Asst. VP – Claims and Dir. of Memphis Operations
James L. Trimback, JD	Asst. VP – Claims
Alisa S. Wamble, JD	Asst. VP – Claims
Sherie L. Edwards, JD	Asst. VP – Government Relations & Compliance
Susan Decareaux, CPCU	Asst. VP – Marketing
Deborah D. Rose, R.N., LNC	Asst. VP – Medical Information Services
Robert E. Patterson, FACMPE	Asst. VP – Medical Practice Services
Rochelle E. Weatherly, JD	Asst. VP & Director, Risk Evaluation Services
Donna W. Berg, R.N., LNC	Asst. VP – Special Projects
David Dowland, ARM	Asst. VP – Underwriting
Amy J. Turbeville, MBA	Controller
Cynthia J. Flum, PHR	Director of Office Services and Human Resources
Renee A. Lewis	Asst. Corporate Secretary and Administrator - Claims

By vote the Board of Directors may designate five or more directors, two of whom shall be the Chair and Vice Chair of the Board, to constitute an Executive Committee of the Board of Directors. The Board of Directors may designate, establish, and charter such other committees as it deems necessary or desirable. The Company's Board of Directors has

designated ten committees during the period of examination.

The following is a list of committees at December 31, 2012:

Executive Committee
Audit Committee
Investment Committee
Claims Management Committee
Underwriting Committee
Risk Management Committee
Budget Committee
Compensation Committee
Succession Planning Committee
Arkansas Advisory Committee

CONTROL

The Company is no longer part of a holding company system. Prior to June 30, 2009, the Company owned 100% of the outstanding common stock of State Volunteer Real Estate, Inc. (SVRE). The Company and SVRE owned in total 100% of the limited partnership, MFV, Ltd. (MFV), which owned and operated the office building in which the Company's offices are located. On June 30, 2009, the Company merged the operations of SVRE and MFV into the Company.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company is required to comply with Tenn. Code Ann. § 56-3-103 prohibiting officers and directors of insurance companies from having a pecuniary interest in the investment or disposition of funds of a domestic insurance company. The Company has adopted a Code of Conduct Policy that requires compliance with all laws and regulations that are applicable to its business at all governmental levels. The policy requires that all directors and employees should conduct business of the Company on the highest ethical level and be free from conflicting interests and relationships. The policy further requires that all directors and management employees annually report all information required to be reported herein and such other information as may be relevant to determine the existence or likely development of a significant conflict of interest.

The annual conflict of interest disclosure statements filed by the Company's directors, officers and responsible employees in each year of the examination period were reviewed. No conflicts were noted.

CORPORATE RECORDS

The minutes of meetings of the Company's members, Board of Directors, and committees were reviewed for the period under examination. They were complete as to necessary detail and appear to adequately reflect the acts of the respective bodies. The review of the minutes indicates that all investment transactions were approved by the Board.

Charter

The Charter of the Company in effect at December 31, 2012, is the Company's Amended and Restated Charter that was adopted by the Board of Directors on April 10, 1997. The Charter states the Corporation is a non-profit corporation organized as a mutual liability insurance company. No amendments or restatements were made to the Company's Charter during the period of examination.

Bylaws

The Bylaws of the Company in effect at December 31, 2012, are the Company's Amended and Restated Bylaws that were adopted by the Board of Directors on April 15, 2004. No amendments or restatements were made to the Company's Bylaws during the period of examination.

The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board of Directors, and its members.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

As noted above, the Company is no longer part of a holding company system. The Company has no agreements with any current or former parent, subsidiaries, or affiliate organizations.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a Financial Institution Bond. Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverages on December 31, 2012:

- Fidelity Bond
- General Liability - Property
- Umbrella Coverage
- Professional Liability
- Cyber Liability
- Automobile
- General Liability
- General Liability – Inland Marine
- Directors and Officers Liability
- Workers Compensation Liability
- Aviation

The Company's fidelity coverage is in excess of the suggested minimum amount per the *NAIC Financial Condition Examiners Handbook.* The bonds and policy coverages were inspected and appear to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers. Similar coverage was in effect as of the date of this examination report.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company has qualified and nonqualified defined benefit retirement plans covering substantially all of its employees. The plans provide benefits based on the participants' years of service and compensation prior to retirement. The Company's funding policy for the qualified plan is to contribute amounts to the plans sufficient to satisfy minimum funding requirements, plus such additional amounts from time to time as are determined to be appropriate to improve the plans' funded status. The nonqualified plan is an unfunded supplemental executive retirement plan which restores benefits to certain employees that have been limited in the qualified retirement plan. While the Company has set aside $7.1 million in a trust account to meet this obligation at December 31, 2012, these investments continue to be general assets of the Company, subject to creditors, and are therefore not reported as plan assets.

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

The Company also provides its employees with life insurance, health insurance, and disability insurance.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Company is a mutual non-profit property and casualty insurer licensed to transact business in ten states, although it is currently only writing business in the following seven states: Tennessee, Alabama, Arkansas, Georgia, Kentucky, Mississippi, and Virginia. Certificates of Authority granted by the licensed states were reviewed and found to be in force at year-end 2012.

The Company currently has no applications pending for admission to any other states or territories. Premium tax records were reviewed for all states in which the Company writes business and no exceptions were noted.

SCHEDULE T – EXHIBIT OF PREMIUMS WRITTEN

State	Licensed? (Yes or No)	Direct Premiums Earned	Direct Losses Paid	Direct Losses Incurred	Direct Losses Unpaid
Alabama	Yes	$2,714,876	$-0-	$614,540	$6,874,087
Arkansas	Yes	19,843,192	9,387,000	1,274,603	40,090,010
Georgia	Yes	1,632,352	3,528	283,402	5,886,498
Indiana	Yes	-0-	-0-	-0-	-0-
Kentucky	Yes	14,425,034	4,321,961	3,801,910	33,378,356
Mississippi	Yes	2,532,450	2,097,500	921,364	3,918,139
Missouri	Yes	-0-	-0-	-0-	-0-
North Carolina	Yes	-0-	-0-	-0-	-0-
Tennessee	Yes	110,817,301	35,534,969	32,229,691	292,174,413
Virginia	Yes	4,012,297	1,153,668	1,112,915	10,951,761
Totals		$155,977,502	$52,498,626	$40,238,425	$393,273,264

PLAN OF OPERATION

The Company is a mutual non-profit property and casualty insurance company licensed to transact business in ten states. The Company's principal line of business is providing medical professional liability insurance for physicians. In addition, the Company writes professional liability insurance for other healthcare facilities/providers. The principal markets for the Company's professional liability coverage are in Tennessee, Arkansas, and Kentucky with policies also written in Virginia, Mississippi, Georgia, and Alabama.

The Company's Board of Directors remains committed to providing professional liability insurance to its policyholders in the existing coverage area they serve. The Company has no plans for geographic expansion or contraction, and remains committed to primarily focusing on professional liability coverage for physicians. With the changes in the healthcare system, including consolidation of independent physicians into larger groups and hospitals, the Company decided to offer a new group policy to its physicians in 2014.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination according to its annual statements as filed with the TDCI:

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Premiums Earned
2012	$1,169,479,816	$705,433,547	$464,046,269	$153,574,166
2011	1,148,088,436	711,663,987	436,424,449	135,224,061
2010	1,211,278,256	780,662,831	430,615,425	217,185,929
2009	1,092,351,493	737,692,720	354,658,773	258,544,209
2008	983,535,155	727,654,208	255,880,946	250,330,568

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the TDCI, the ratios of losses and loss adjustment expenses ("LAE") incurred to earned premiums for the period subject to this examination were as follows:

Year	Losses & LAE Incurred	Earned Premiums	Loss Ratio
2012	$126,825,685	$153,574,166	82.58%
2011	96,982,027	135,224,061	71.72%
2010	113,933,216	217,185,929	52.46%
2009	157,141,780	258,544,209	60.78%
2008	189,079,613	250,330,569	75.53%
Total All Years	$683,962,321	$1,014,858,934	67.39%

REINSURANCE AGREEMENTS

The Company routinely cedes reinsurance with other insurance companies. The Company maintains reinsurance agreements with a retention on individual claims of $1,000,000. All material reinsurance agreements were reviewed and contained all of the standard clauses. There were no treaties with any unusual provisions, and all treaties provide for transfer of risk.

The following is a summary of the current reinsurance agreements at December 31, 2012:

Primary and First Excess of Loss

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

Primary Excess of Loss

Effective Date:	September 1, 2010 (with two successive annual renewal periods).
Basis:	Claims made.
Coverage:	$4,000,000 excess $1,000,000 per occurrence and $9,000,000 excess $1,000,000 per occurrence in aggregate when two or more insureds/claimants are involved.
Deductible and Loss Corridor:	Prior to any recoveries under this agreement the Company shall first retain net for its own account an inner aggregate amount based on a percentage of the Gross Net Earned Premium Income for the applicable contract year. After reinsurers participating on this treaty pay losses such that the adjusted premium reaches the maximum contract rate, a loss corridor applies.
Premium Rate:	Premium is paid based on a provisional rate subject to retrospective adjustments calculated using actual losses with the adjustments limited within a contractually agreed upon range.
Reinsurer Participation:	Endurance Reinsurance Corp. (7.5%) Odyssey America Reinsurance Corp. (15.0%) Transatlantic Reinsurance Co. (15.0%) Axis Reinsurance Company (10.0%) Hannover Ruckversicherungs AG (15.0%) Berkley Insurance Co. (5.0%) Alterra Reinsurance USA Inc. (3.0%) Various Lloyd's syndicates (29.5%)

A similar agreement was in effect for the period of September 1, 2007, through September 1, 2010.

First Excess of Loss

Effective Date:	September 1, 2010 (with two successive annual renewal periods).
Basis:	Claims made.
Coverage:	$9,000,000 excess $2,000,000 per occurrence and $9,000,000 excess $4,000,000 in the aggregate.
Premium Rate:	100% of gross net written subject premiums with a ceding commission allowance to the Company.
Reinsurer Participation:	Endurance Reinsurance Corp. (7.5%) Odyssey America Reinsurance Corp. (15.0%) Transatlantic Reinsurance Co. (15.0%) Axis Reinsurance Company (10.0%) Hannover Ruckversicherungs AG (15.0%) Berkley Insurance Co. (5.0%) Alterra Reinsurance USA Inc. (3.0%) Various Lloyd's syndicates (29.5%)

A similar agreement was in effect for the period of September 1, 2007, through September 1, 2010.

Common loss event excess of loss

Effective Date:	September 1, 2012.
Basis:	Claims made.
Coverage:	90% of $15,000,000 excess $5,000,000 in claims attributable to defined loss events ($30,000,000 in the aggregate).
Premium Rate:	Equal to a fixed percentage of earned premiums.
Reinsurer Participation:	Various Lloyd's syndicates (92.8%) Aspen Ins Co (UK) Ltd (7.2%)

Catastrophe "awards made" first excess of loss

Effective Date:	September 1, 2012.
Business Covered:	Claims made.
Coverage:	90% of $25,000,000 in excess of underlying reinsurance coverage ($50,000,000 in the aggregate).
Premium Rate:	Equal to a fixed percentage of earned premiums.
Reinsurer Participation:	Aspen Insurance Ltd (6.65%) Various Lloyd's syndicates (93.35%)

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

1, 2011.

Catastrophe "awards made" second excess

Effective Date:	September 1, 2012.
Business Covered:	Claims made.
Coverage:	90% of $10,000,000 in excess of $25,000,000 first excess "awards made" coverage ($20,000,000 in the aggregate).
Premium Rate:	Equal to a fixed percentage of earned premiums.
Reinsurer Participation:	Various Lloyd's syndicates (96.67%) Aspen insurance Co. (UK) (3.33%)

A similar agreement was in effect for the period of September 1, 2007, through September 1, 2011.

Other Considerations

All of the Company's significant reinsurance agreements were found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). All agreements also appear to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines.

LITIGATION AND CONTINGENT LIABILITIES

During the period of examination and as of December 31, 2012, the Company is a party to various pending legal proceedings arising in the ordinary course of business. Based in part upon the opinion of its counsel as to the ultimate disposition of such lawsuits and claims, Company management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

STATUTORY DEPOSITS

In compliance with statutory and other requirements, the Company maintained deposits with the named jurisdictions or custodians as of December 31, 2012.

The following are deposits with states where special deposits are for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Book/Adjusted Carrying Value	Fair Value	Par Value (Dollars)
Tennessee – Department of Insurance	US TREASURY BOND 3.625%, Due 05-15-2013 CUSIP# 912828BA7	$1,308,954	$1,316,757	$1,300,000
	US TREASURY BOND 2.625% Due 08-15-2020 CUSIP# 912828NT3	101,009	109,813	100,000
Sub-Total		$1,409,963	$1,426,570	$1,400,000

The following are deposits with jurisdictions where special deposits are **not** for the benefit of all policyholders, claimants, and creditors of the Company:

Jurisdiction	Description of Security	Book/Adjusted Carrying Value	Fair Value	Par Value (Dollars)
Georgia - Department of Insurance	US TREASURY BOND 3.625%, Due 05-15-2013 CUSIP# 912828BA7	$35,241	$35,451	$35,000
North Carolina - Department of Insurance	US TREASURY BOND 2.625% Due 08-15-2020 CUSIP# 912828NT3	207,068	225,117	205,000
Virginia - Department of Insurance	US TREASURY BOND 2.625% Due 08-15-2020 CUSIP# 912828NT3	252,522	274,533	250,000
Sub-Total		$494,831	$535,101	$490,000
Grand-Total		$1,904,794	$1,961,671	$1,890,000

Deposits with said jurisdictions or custodians were verified by direct correspondence with the custodians of such deposits.

Tennessee Statutes provide that if an insurance company maintains a special deposit in another state that is held for the benefit of only that state's policyholders and that deposit exceeds the Company's liabilities for that state's policyholders, the excess shall be reported as a non-admitted asset. At December 31, 2012, the Company reported a non-admitted statutory deposit amount of $207,068 as a result of excess special deposits in North Carolina. The examiners agreed with the Company's calculation of its non-admitted statutory deposit amount and accepted it for this examination.

ACCOUNTS AND RECORDS

Tenn. Comp. R. & Regs. § 0780-01-65-.08(4), states that no partner or other person responsible for rendering a report by a certified public accounting firm may act in that capacity for more than five (5) consecutive years. The Company is audited annually by Ernst & Young, LLP, and is in compliance with this regulation.

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. The Company's risk-based capital filings were reviewed and a sample was tested for correctness. These test checks and reviews revealed no material discrepancies.

The Company's books and records are located in Brentwood, Tennessee.

MARKET CONDUCT ACTIVITIES

In accordance with the policy of the TDCI, a market conduct review was made of the Company as of December 31, 2012, in conjunction with this examination. The following items were addressed:

Underwriting and Rating

Company underwriting procedures and policy administration were examined for compliance with Tenn. Code Ann. § 56-8-104 (Unfair Competition and Unfair or Deceptive Practices), Tenn. Comp. R. & Regs. § 0780-1-34 (Eliminating Unfair Discrimination) and the Company's underwriting guidance. In conducting the examination, ACL software was used to select files for examination, and direct access was provided by the Company to its IMS automated policy system. In use of the Company's system, it was found that Company underwriting and premium processing was accurate and complete, with quick access provided to all policy documents. In review of underwriting files, there were no instances found of unfair methods of competition or unfair or deceptive acts, and policy administration was found to be in compliance with the Company's underwriting guidance.

Policy Forms and Filings

All Company filings of rate, policy forms and endorsements were reviewed for compliance with Tenn. Code Ann. § 56-5-306 (Filing by commercial risk insurers) during this examination. In the review of Company filings, it was found that all filings were accomplished in compliance with the statutory requirement. Company use of only

approved rates and policy forms were traced without exception to active insurance policies.

Advertising

In the examination of Company advertising, items issued by the Company were examined in accordance with Tenn. Code Ann. § 56-8-104(1) (Unfair Trade Practices Defined – Misrepresentations and False Advertising of Insurance Policies). The Company's print material and internet website were examined in accordance with statutory requirements and found to be in compliance. With all Company media decisions made in consultation with the VP Marketing, AVP Marketing and Integrated Communications Coordinator, the Company was found to have strong controls in place for the production and use of all advertising materials.

Policyholder Complaints

The Company maintains complaint files for a minimum of five years as required by Tenn. Code Ann. § 56-8-104(11) (Unfair Trade Practices Defined - Failure to Maintain Complaint Handling Procedures); however, the Company's complaint handling procedures did not comply with the statutory record keeping requirement. The statute requires the Company to maintain a complete record of all complaints received since the date of its last examination and that the records indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, and the time it took to process each complaint.

During this examination, the Company provided a complaint register that did not provide a complete record on each complaint and the time taken to process each complaint was not detailed by the Company. It is recommended the Company comply with Tenn. Code Ann. § 56-8-104(11) by developing complaint procedures for the maintaining of complete records on all complaints to include the tracking of the time it took to process each complaint.

Claims Review

The Company claim operations were examined for compliance with requirements listed in Tenn. Code Ann. § 56-8-104 (Unfair Competition and Unfair or Deceptive Practices), Tenn. Code Ann. § 56-8-105 (Unfair claims practice), and the Company's internal claims handling guidance. In conducting the examination, ACL software was used to select samples of open and closed claim files, with the selected files viewed on the Company's IMS automated claims system. In the examination of claim files there were no exceptions found. The Company's claim files were found to be maintained in accordance with claim handling guidelines with strong controls in place over the management and supervision of claims.

SUBSEQUENT EVENTS

The Company adopted SSAP No. 102, *Accounting for Pensions, A Replacement of SSAP No. 89*, effective January 1, 2013. The application of SSAP No. 102 requires reporting entities to recognize any unfunded defined benefit pension amounts, as determined when the projected benefit obligation exceeds the fair value of plan assets, as a liability under SSAP No. 5R, *Liabilities, Contingencies and Impairments of Assets*. Upon implementation, the resulting liability is to be charged against unassigned surplus either in full or deferred over a period not to exceed ten years. As of December 31, 2013, the Company recorded the full impact of implementation of SSAP No. 102, resulting in a reduction of unassigned surplus of $11,316,788.

The Company previously accounted for the minimum pension liability recorded under SSAP No. 89 as a special surplus fund; however, upon implementation of SSAP No. 102 all pension related adjustments to surplus are now recorded against unassigned funds. The Company does not have any other special surplus funds at December 31, 2013.

During the examination, the examiners performed a review for subsequent events and did not note any that required additional disclosure in this examination report, other than the items described above. Our review confirmed the Company's disclosures in its 2012 Annual Statement and in its Letter of Representation signed at the conclusion of this examination, that they were not aware of any events subsequent to December 31, 2012, that could have a material effect on its financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities and a statement of income as of December 31, 2012, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

ASSETS

	Admitted Assets Per Company	Non-Admitted Assets Per Exam	Net Admitted Assets
Bonds	$951,128,424		$951,128,424
Common stocks	94,174,521		94,174,521
Real estate:			
Properties occupied by the company	2,218,397		2,218,397
Cash and short-term investments	55,887,613		55,887,613
Investment income due and accrued	9,899,869		9,899,869
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,865		3,865
Deferred premiums and installments booked and not yet due	22,932,190		22,932,190
Reinsurance:			
Amounts recoverable from reinsurers	1,705,517		1,705,517
Other amounts receivable under reinsurance contracts	395,704		395,704
Net deferred tax asset	27,294,826		27,294,826
Guaranty funds receivable or on deposit	16,116		16,116
EDP processing equipment and software	184,198		184,198
Aggregate write-ins for other than invested assets	3,638,576		3,638,576
Totals	$1,169,479,816	$0	$1,169,479,816

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		$311,802,220
Loss adjustment expenses		248,197,780
Other expenses		22,142,403
Taxes, licenses and fees		628,044
Current federal and foreign income taxes		537,078
Unearned premiums		73,488,572
Advance premium		7,329,459
Dividends declared and unpaid:		
Policyholders		7,038,232
Funds held by company under reinsurance treaties		31,093,641
Provision for reinsurance		49,000
Aggregate write-ins for liabilities		3,127,118
Total Liabilities		$705,433,547
Aggregate write-ins for special surplus funds	($2,978,987)	
Gross paid in and contributed surplus	65,145	
Unassigned funds (surplus)	466,960,111	
Surplus as Regards Policyholders		464,046,269
Totals		$1,169,479,816

STATEMENT OF INCOME

UNDERWRITING INCOME:		
Premiums earned		$153,574,166
Losses incurred	$41,032,152	
Loss adjustment expenses incurred	85,793,533	
Other underwriting expenses incurred	21,049,609	
Total underwriting deductions		147,875,294
Net Underwriting Gain or (Loss)		5,698,872
INVESTMENT INCOME:		
Net investment income earned	34,331,336	
Net realized capital gains or (losses)	8,460,967	
Net Investment Gain or (Loss)		42,792,303
OTHER INCOME:		
Net gain (loss) from agents' or premium balances charged off	51,359	
Aggregate write-ins for miscellaneous income	37,359	
Total Other Income		88,718
Net income before dividends to policyholders, after capital gains tax and before all other federal income taxes		48,579,893
Dividends to policyholders		15,410,791
Net income after dividends to policyholders, after capital gains tax and before all other federal income taxes		33,169,102
Federal income taxes incurred		7,107,976
Net Income		$26,061,126

CAPITAL AND SURPLUS ACCOUNT

	2012	2011	2010	2009	2008
Surplus as Regards Policyholders December 31, previous year	$436,424,449	$430,615,425	$354,658,773	$255,880,946	$245,198,279
Net income or (loss)	$26,061,126	$28,011,644	$66,712,274	$70,073,548	$26,014,744
Change in net unrealized capital gains or (losses)	1,842,327	(827,468)	5,420,002	9,761,971	(9,165,843)
Change in net deferred income tax	1,255,463	290,000	813,000	597,000	10,568,000
Change in non-admitted assets	(486,672)	(3,831,934)	2,989,034	18,375,650	(16,745,234)
Change in provision for reinsurance	(44,000)	3,000	22,342	(30,342)	11,000
Change in surplus notes	-0-	(15,000,000)	-0-	-0-	-0-
Cumulative effect of changes in accounting principles	-0-	-0-	-0-	5,223,000	-0-
Aggregate write-ins for gains and losses in surplus	(1,006,424)	(2,836,218)	-0-	(5,223,000)	-0-
Net change in surplus as regards policyholders for the year	27,621,820	5,809,024	75,956,652	98,777,827	10,682,667
Surplus as Regards Policyholders December 31, current year	$464,046,269	$436,424,449	$430,615,425	$354,658,773	$255,880,946

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Surplus as Regards Policyholders:	$464,046,269

Total surplus as regards policyholders as established by this examination is the same as what was reported by the Company in its December 31, 2012, Annual Statement. There were no changes made to any asset or liability items as a result of our examination as performed as of December 31, 2012.

Tenn. Code Ann. §§ 56-2-114 and 115 require an insurer of this Company's type to maintain a minimum surplus and additional surplus of at least two million dollars ($2,000,000). Therefore, the Company as of December 31, 2012, for this examination does maintain surplus in excess of the amounts required per Tennessee Statutes.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

COMMENTS

There were no comments noted during the completion of this examination.

RECOMMENDATIONS

Policyholder Complaints

The Company maintains complaint files for a minimum of five years as required by Tenn. Code Ann. § 56-8-104(11) (Unfair Trade Practices Defined - Failure to Maintain Complaint Handling Procedures); however, the Company's complaint handling procedures did not comply with the statutory record keeping requirement. The statute requires the Company to maintain a complete record of all complaints received since the date of its last examination and that the records indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, and the time it took to process each complaint.

During this examination, the Company provided a complaint register that did not provide a complete record on each complaint and the time taken to process each complaint was not detailed by the Company. It is recommended the Company comply with Tenn. Code Ann. § 56-8-104(11) by developing complaint procedures for the maintaining of complete records on all complaints to include the tracking of the time it took to process each complaint.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in connection with the verification and valuation of assets and the determination of liabilities of State Volunteer Mutual Insurance Company located in Brentwood, Tennessee.

In such manner, it was found that as of December 31, 2012, the Company had admitted assets of $1,169,479,816 and liabilities, exclusive of surplus, of $705,433,547. Thus, there existed for the additional protection of the policyholders, the amount of $464,046,269 in the form of aggregate write-ins for special surplus funds, gross paid in and contributed surplus, and unassigned funds.

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, Rhonda Bowling-Black, CFE, Gregory Bronson, CIE, AMCM and Mike Bacon, Insurance Examiners from the State of Tennessee, Carol Riley, CISA, AES, CITP, Jim Ryan, ARA, CFE, CPA, Robert Panah, CISA, Lee Hoeppner, and Jordan Wood, of firm Noble Consulting Services, Inc., Indianapolis, Indiana, and Greg Wilson, FCAS, MAAA, Mike Mayberry, FSA, MAAA, and Wes Campbell, FSA, MAAA of the firm Lewis & Ellis, Inc., Richardson, Texas participated in the work of this examination.

Respectfully submitted,

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of State Volunteer Mutual Insurance Company located in Brentwood, Tennessee, dated June 13, 2014, and made as of December 31, 2012, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information and belief.

A. Jay Uselton, CFE
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 20th day of June, 2014

Helen W. Dorsey
(NOTARY)

My Commission Expires: 11/06/2017

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

SVMIC®
State Volunteer Mutual Insurance Company

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

June 20, 2014

Ms. Joy Little, CPA, CFE, MCM
Insurance Examinations Director/ Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 7th Floor
Nashville, TN 37243

Dear Ms. Little:

We hereby acknowledge receipt of the Report on Examination of State Volunteer Mutual Insurance Company as of December 31, 2012. Please accept this letter as our acceptance of the report, as transmitted and without rebuttal.

The Company would like to thank you for the courtesy your Department and examiners extended to us during the course of the examination and in the finalizing of this report.

Kind Regards,

Michael A. Ricciardelli
Chief Financial Officer

EXHIBIT "B"