REPORT ON EXAMINATION

of the

TRH HEALTH INSURANCE COMPANY
147 BEAR CREEK PIKE
COLUMBIA, TENNESSEE 38401

as of

DECEMBER 31, 2010

RECEIVED
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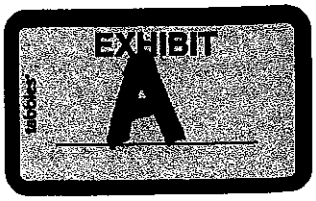
Dept. of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE



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Columbia, Tennessee
June 14, 2012

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

Dear Commissioner:

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

TRH HEALTH INSURANCE COMPANY

147 BEAR CREEK PIKE
COLUMBIA, TENNESSEE 38401

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

INTRODUCTION

This examination was called by the Department of Commerce and Insurance of the State of Tennessee ("TDCI") on January 24, 2011. On-site examination work commenced on June 6, 2011. With the Company having authority to write business only in the state of Tennessee, the examination was not classified as an Association Examination under NAIC Guidelines. The examination was performed by duly authorized representatives of the TDCI. It was conducted simultaneously with the examination of three (3) other insurance companies all based in Columbia, Tennessee as follows:

- Tennessee Farmers Mutual Insurance Company
- Tennessee Farmers Assurance Company
- Tennessee Farmers Life Insurance Company

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2006 to the close of business on December 31, 2010, and includes any material transactions and/or events occurring

subsequent to the examination date and noted during the course of the examination. The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The examination was planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Independent actuaries were used in the review of the Company's reserves.

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Holding Company System
Pecuniary Interest TENN. CODE ANN. § 56-3-103
Corporate Records
Fidelity Bonds and Other Insurance
Retirement Plan and Other Employee Benefits
Territory (includes in-force/premium by state)
Plan of Operation
Market Conduct Activities
Mortality and Loss Experience
Reinsurance
Commission Equity
Agreements with Parent, Subsidiaries and Affiliates
Statutory Deposits
Dividends or Distributions
Accounts and Records
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2005 by authorized representatives of the TDCI and made no changes to surplus. One recommendation was made and incorporated into the Commissioner's Order which is discussed under the caption, "COMMENTS – PREVIOUS EXAMINATION."

COMMENTS –PREVIOUS EXAMINATION

The "Order Adopting Examination Report with Directives No.: 08-101" listed one Directive as follows:

> "The Company is Directed to comply with TENN CODE ANN. § 56-11-206(a)(2) by filing with the Tennessee Department of Commerce and Insurance a Form D Prior Notice of a Transaction which includes both the Tax Sharing Agreement with Tennessee Rural Health Improvement Association and the Administration Services Agreement for the Employee Welfare Benefit Plan of Tennessee Rural Health Improvement Association."

The Company complied with the above Directive by filing the Form D dated April 18, 2008.

COMPANY HISTORY

The Company was incorporated on February 24, 1999 under the Tennessee Business Corporation Act as a for profit corporation authorized to transact business in the state of Tennessee. Effective July 20, 2000, the Company was issued an initial Certificate of Authority by the TDCI to transact the business of Accident and Health Insurance as defined by TENN. CODE ANN. § 56-2-201. This Certificate was in force for the period under review and is perpetual until it is surrendered by the Company or subjected to regulatory action by the TDCI.

On February 25, 1999, RH Group Services, Inc., of Columbia, Tennessee, purchased 1,000,000 shares of the Company's common stock, par value one dollar ($1.00) per share, in consideration of the payment by said company of three dollars ($3.00) per share in securities. The proper officers of the Company were authorized and directed to execute and deliver a stock certificate representing said shares, upon receipt from said company of $3,000,000.

On December 16, 2004, the parent, RH Group Services, Inc, injected $10,000,000 cash as Paid-in Surplus to the Company.

Effective January 1, 2005, the Company entered contracts to provide administrative services for the Employee Welfare Benefit Plans for several companies located in Columbia, Tennessee. These contracts are discussed under the caption, "PLAN OF OPERATION." The Company does not provide insurance programs or assume financial risk for claims under these agreements.

Effective March 22, 2010, the Company entered into an assumption reinsurance and risk transfer agreement with Tennessee Rural Health Improvement Association. All of the under age 65 health insurance contracts from TRHIA were transferred. This

equated to approximately 54,565 contracts which produced in excess of $147 million in premium. The business is comprehensive and major medical health plans.

No business is currently marketed by the Company. The assumption of the business was to transfer business from Tennessee Rural Health Improvement Association to a licensed regulated insurance company in order for the plans to qualify under new federal regulation. This allows the policyholder to keep the plan if they wish and not be forced to change in 2014 under the omnibus healthcare legislation enacted by Congress. The deadline to keep plans grandfathered was to have them in effect as of March 23, 2010 which was the date that the President signed the Patient Protection and Affordable Care Act (PPACA). The assumption was effective March 22, 2010.

On December 20, 2010, RH Group Services, Inc., made a capital contribution of $26,175,107 to better capitalize and support the assumption of the new business.

At December 31, 2010, the Company has 1,000,000 shares of common stock authorized and 1,000,000 shares of common stock issued at one dollar ($1) par value per share. All shares are owned by RG Group Services, Inc.

At December 31, 2010, the Company was licensed in one state, Tennessee.

The Company's capital structure appears in the 2010 Annual Statement as follows:

Common capital stock	$ 1,000,000
Gross paid in and contributed surplus	38,175,107
Unassigned funds (surplus)	1,442,920
Total capital and surplus	$40,618,027

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

Date	Admitted Assets	Net Premium Written	Capital and Surplus	Death Benefits Paid	Hospital and Medical Benefits Paid	Net income after taxes
12/31/2006	$14,586,314	$0	$13,797,194	$0	$0	$481,653
12/31/2007	15,304,007	0	14,293,447	0	0	566,627
12/31/2008	15,329,980	0	14,408,236	0	0	72,354
12/31/2009	16,093,805	0	14,889,807	0	0	540,635
12/31/2010	72,483,602	147,925,895	40,618,027	0	134,516,015	(1,783,500)

CHARTER AND BYLAWS

The Charter was filed and recorded with the Secretary of State, state of Tennessee on February 24, 1999, and recorded with the Maury County Register on March 16, 1999. The Charter had been approved by the TDCI on February 17, 1999. The principal purposes of the Company are:

(i) "To engage in the business of health insurance, including, without limitation, issuing contracts of insurance and/or reinsuring or accepting reinsurance of all forms of health insurance."

(ii) "To engage in any lawful act or activity for which corporations for profit may be organized under the laws of the state of Tennessee; and the corporation shall have all powers necessary to conduct such business and engage in such activities, including, but not limited to, the powers enumerated in the Tennessee Business Corporation Act or any amendment thereto."

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

The corporation is for profit and its initial registered office is established at Highway 412, Bear Creek Pike, Columbia, Tennessee 38401. The name of the Corporation's initial registered agent at its registered office is Lonnie Roberts.

In addition, the Charter recites other general and specific powers in detail. They are usual in nature and consistent with corporations of this type.

No amendments have been made to the Charter under the period of examination.

Bylaws:

The Bylaws of the Company in effect at December 31, 2010 were adopted by the Board of Directors (Board) on February 25, 2010.

The Bylaws establish the rules which regulate the affairs of the Company. Said Bylaws contain ten (10) articles which govern the conduct and duties of its stockholders, directors and officers.

The Bylaws provide for an annual stockholders' meeting at which time a Board is elected. Officers were elected by the Board at the first Board meeting after the annual stockholders meeting and annually thereafter.

The Bylaws are such as are generally found in corporations of this type and are consistent with the Charter. They may be altered or amended by the Board or by the

affirmative vote of 75% of the issued and outstanding shares of common stock of the corporation.

MANAGEMENT AND CONTROL

Board of Directors:

Management of the Company is vested in a Board of Directors elected annually. In accordance with the Bylaws, the Board shall consist of not less than one member nor more than 25 members. The following persons had been duly elected and were serving as members of the Company's Board of Directors at December 31, 2010:

Name, and Address	Principal Occupation
Flavius Allen Barker Dunlap, TN	President & Chairman of the Board/ Retired President of Tennessee Rural Health Improvement Association/ Retired President of Tennessee Farm Bureau/ Farmer
James Kenneth Cherry Columbia, TN	Self Employed/ Retired CEO of Tennessee Rural Health Improvement Association
William Evans Nuckols Chattanooga, TN	Self Employed/ Retired Executive Vice President of BlueCross BlueShield of Tennessee
Barbara Jean Holder Harrison, TN	Retired Manager of Claims & Service of BlueCross BlueShield of Tennessee

The Board of Directors is charged with managing the business and affairs of the Company. Directors need not be shareholders of the Company but must be members in good standing of the Tennessee Farm Bureau Federation ("Federation"), which in turn requires membership in good standing of a county Farm Bureau. Though not required by the Charter or Bylaws of the Company, historically, the President of the Company has also served on the Federation Board of Directors and the Tennessee Rural Health Improvement Association ("TRHIA") Board of Directors.

Officers:

The following officers were duly elected and were serving in the positions indicated for the Insurance Company at December 31, 2010:

Flavius Allen Barker	President
Lonnie Earl Roberts	Chief Executive Officer
Terri Rodgers Pinkston	Secretary
LeAnn Tice	Treasurer/Chief Financial Officer
Ryan Brown	Chief Compliance/Privacy Officer

The President functions as the Chairman of the Board of Directors and presides over all meetings of the stockholders and the Board of Directors. The President also serves as a conduit to the executive personnel concerning policy established by the Board of Directors. Subject to the control of the Board of Directors, the Chief Executive Officer shall have general management and control of the affairs and business of the Company, and shall perform all other duties and exercise all other powers commonly incident to his office, or which are required by law.

The administrative and executive functions of the Company are performed by the staff of its upstream parent, TRHIA, under recitals of a Management Service Agreement. The agreement is further detailed under the caption, "AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES." TRHIA and RH Group Services, Inc., which owns 100% of the stock outstanding and issued by the Company are also discussed under the caption, "HOLDING COMPANY SYSTEM."

Claims processing is performed by BlueCross BlueShield of Tennessee under recitals of an Administrative Services Agreement with TRHIA which was amended April 15, 2010 to include the business transferred to the Company.

The Company's Investment Committee at December 31, 2010 is as follows:

Name	Title
Lonnie Roberts	Chief Executive Officer
Terri Pinkston	Secretary
LeAnn Tice	Treasurer/Chief Financial Officer
Ryan Brown	Legal Counsel/Privacy Officer
Non Voting Members	
Renee Adams	Assistant Vice President of Accounting

The Company's Audit Committee at December 31, 2010 is as follows:

Name	Title
Flavius A. Barker	Director, President
J. Kenneth Cherry	Director
William E. Nuckols	Director
Barbara Holder	Director

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.

Actuarial Services: Milliman, Inc.
Thomas H. Attaway, FSA, MAAA
945 East Paces Ferry Road, NE, Suite 2500
Atlanta, Georgia

Auditing Services: Johnson Lambert & Co., LLC
21 South Evergreen Avenue, Suite 240
Arlington Heights, Illinois

HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined by TENN. CODE ANN. § 56-11-101, and as such, is subject to the "Insurance Holding Company System Act of 1986," set forth in TENN. CODE ANN. § 56-11-101, *et seq.* The Company is a wholly owned subsidiary of RH Group Services, Inc., which is 100% owned by Tennessee Rural Health Improvement Association (TRHIA). The Company does not own any subsidiaries. However, RH Group Services, Inc., does own 100% of Members Health Insurance Company, which is an Indiana domiciled for profit life, accident and health corporation.

TRHIA was founded in 1947 as a Tennessee not-for-profit corporation membership organization which promotes the health of rural people in Tennessee. "According to the founding charter, the purpose of the Association is to develop, foster and promote programs for the general improvement of the health of rural people; including educational work in the fields of nutrition, health and sanitation; promoting the establishment of better hospital and medical facilities and the maximum utilization of such facilities; and to cooperate to this end with other organizations, institutions and agencies, both private and public, for the attainment of the objectives of the Association; and to make available to the members of the Association hospital and surgical insurance at the lowest possible rates.

Additionally, TENN. CODE ANN. § 56-2-121(a) states:

> "A plan sponsored by a nonprofit group corporation organized and created in this state primarily to promote programs for the improvement of the health of rural people in the state, which plan has provided health care benefits to the members of such corporation for a period in excess of ten (10) years, shall be deemed not to be insurance and not subject to the provisions of this title, to the extent the plan, after July 1, 1993, provides such benefits under a self-funded arrangement; provided, however, that any stop-loss, excess or similar insurance coverage purchased as part of the plan shall be insurance subject to this title."

RH Group Services, Inc. is a Tennessee for profit corporation.

The Company files a Holding Company Registration Statement annually as required by TENN. CODE ANN. § 56-11-105. An organizational chart is included at the end of this report.

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

The Company has no employees. The administrative and executive functions of the Company are performed by the staff of its ultimate parent, TRHIA, under recitals of a Management Service Agreement.

TRHIA has a conflict of interest policy for its directors, officers and responsible employees adopted effective June 19, 2001 which complies with TENN CODE ANN. § 56-3-103, prohibiting officers and directors from having pecuniary interest in investment or disposition of Company funds. The directors, officers and responsible employees file annual conflict of interest statements.

CORPORATE RECORDS

Minutes of meetings of the shareholders and Board 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

Minimum fidelity bond coverage of $800,000 to $900,000 is suggested by guidelines published in the NAIC Financial Condition Examiners Handbook. Presently, the Company self insures any employee dishonesty coverage (fidelity).

The Company is presently a named insured under a policy issued to its parent,

Tennessee Rural Health improvement Association as follows:

Type of Coverage	Coverage Limits
Executive Liability and Entity Security Liability Policy including Directors', Officers', Insured Entity and Employment Practices Liability Insurance	
Limit of Liability (inclusive of costs of Defense)	$10,000,000

Coverage is underwritten by Federal Insurance Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer." A $50,000 retention per claim applies to Employment Practices Claims, $10,000 retention per claim applies to Fiduciary Claims and $100,000 retention applies to other specific defined claims outlined in sections of the policy.

The Company's administrative and other services are performed under a Management Service Agreement with TRHIA. Therefore, any workers' compensation coverage would be provided under coverages issued to TRHIA.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company has no employees. Any services performed on behalf of the Company are provided by employees of TRHIA under recitals of a Management Services Agreement. This agreement is discussed under the caption, "AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES."

TERRITORY

As of December 31, 2010, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee. The Certificate of Authority for that jurisdiction was reviewed.

During 2010, the Company had net written premium as follows:

State	Amount
Tennessee	$147,925,895
Total	$147,925,895

PLAN OF OPERATION

The Company was licensed to write health insurance in the state of Tennessee on July 20, 2000. The Company's goal remains to provide supplemental and voluntary insurance products to individuals who are members of TRHIA. No premium was written by the Company until 2010.

Effective March 22, 2010, the Company entered into an assumption reinsurance and risk transfer agreement with Tennessee Rural Health Improvement Association. All of the under age 65 health insurance contracts from TRHIA were transferred. This equated to approximately 54,565 contracts which produced in excess of $147 million in premium. The business is comprehensive and major medical health plans.
The afore referenced assumption of the business was to transfer business from Tennessee Rural Health Improvement Association to a licensed regulated insurance company in order for the plans to qualify under new federal regulation. This allows the policyholder to keep the plan if they wish and not be forced to change in 2014 under the omnibus healthcare legislation enacted by Congress. The deadline to keep plans grandfathered was to have them in effect as of March 23, 2010 which was the date that the President signed the Patient Protection and Affordable Care Act (PPACA). The assumption was effective March 22, 2010.

The Form D filing with the TDCI which outlined the assumption terms and included the assumption agreement was dated October 4, 2010 and was formerly approved by the TDCI on October 29, 2010. This allowed for all transactions to be consummated by year end, December 31, 2010.

At present, the Company is not marketing, writing or assuming any new business. Their plan is to administer the closed block business for the under age 65 contracts pending the final outcome and implementation of the requirements of the Patient Protection and Affordable Care Act.

The Company entered into contracts to provide administrative services for the Employee Welfare Benefit Plans of several companies located in Columbia, Tennessee effective January 1, 2005. The Company does not provide insurance programs or assume financial risk for claims under the agreements. The companies are as follows:

Tennessee Farm Bureau Federation
Tennessee Farmers Mutual Insurance Company
Tennessee Farmers Services
Tennessee Livestock Producers
Tennessee Rural Health Improvement Association

All of the five contracts contain the same language which is summarized as follows:

The above referenced companies obtain health and dental insurance through

Blue Cross of Tennessee. Blue Cross is paid weekly by the Company and then invoices the individual companies monthly for reimbursements. A fee is paid to the Company for administering this service. In order to ensure adequate cash for payment of claims due to timing of payments and billings, the Company received deposits from the said companies.

All of the agreements which were signed in May of 2005 are effective until terminated upon sixty (60) days written notice by either party. The total amount paid by all five companies for fees during the year 2010 was $35,884.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2010, in conjunction with this examination. The following items were addressed:

Policy Forms and Filings:

The examiners reviewed a sample of the policy forms that were used by the Company during the period of examination. All forms reviewed were noted without exception as having been filed with the TDCI prior to their use in accordance with TENN CODE ANN. § 56-26-102(a) and TENN. COMP. R. and REGS. 0780-01-93. The filings are consistent in form and include appropriate documentation.

Underwriting and Rating:

The Company's underwriting procedures and policy administration procedures were reviewed and found to be in compliance with statutory requirements of TENN. CODE ANN. § 56-8-104, TENN. COMP. R. & REGS. 0780-01-34, and established Company guidance.

The block of business is closed with no new contracts being written.

Advertising:

The block of business insured by the Company is closed and therefore, no advertising is applicable to its administration.

Policyholder Grievances:

The Company maintains a complaint/grievance register and the register and the accompanying files are maintained for a minimum of five years in accordance with statutory requirements. The Company's complaint procedures and complaint register were examined in accordance with requirements of TENN. CODE ANN. § 56-61-105

through 108 and disclosure requirements pursuant to TENN. CODE ANN. § 56-61-125.

The sample of 13 files randomly selected all complied with requirements of level I review as outlined in TENN CODE ANN. § 56-61-107. The one claim sampled which went to a level 2 review of adverse determination in accordance with TENN CODE ANN. § 56-61-108 was determined to have been adequately and fairly adjudicated pursuant to the statute; however, the documentation did not meet all the technical data requirements. Due to the technical nature of these requirements, this finding was communicated and discussed in the Management Letter to the Company.

The sample tested supported the Company's proper adjudication when additional information was made available in support of a member's claim for services.

Claims Review:

TENN. CODE ANN. § 56-7-109 establishes payment standards which require payment of a clean claim within 30 calendar days when submission is in paper form and within 21 days when submission is electronic. Claims are processed by BlueCross BlueShield of Tennessee under terms of a management agreement. BCBS of Tennessee provided documentation that the business processed on behalf of the Company was in compliance with the statute.

The BlueCross BlueShield SAS 70 was provided which indicated testing of the claim function and documented adequate controls. The block of business is closed and supporting claim information reviewed from the grievance testing indicated timely processing in accordance with policy provisions and supported proper adjudication of the claim.

Privacy of Non-Public Personal Information:

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

MORTALITY AND LOSS EXPERIENCE

2010 was the first year in which premiums were earned by the Company and all business related to health insurance. No life policies have ever been issued.

Accident & Health:

The loss ratios on the Company's health business for the years indicated were as follows:

Comprehensive A&H (hospital & medical)	2006	2007	2008	2009	2010
Net Incurred Claims	0	0	0	0	134,516,015
Net Premiums Earned	0	0	0	0	146,755,802
Loss Experience Ratio	0	0	0	0	.9166

REINSURANCE

The Company was not party to any reinsurance agreement at December 31, 2010. No reinsurance agreements have existed since the Company's inception other than the Assumption Reinsurance and Risk Transfer Agreement with TRHIA which is discussed under the captions, "PLAN OF OPERATION and AGGREMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES."

COMMISSION EQUITY

No reinsurance agreements were in effect at December 31, 2010; therefore, no commission equity could exist.

AGREEMENTS WITH PARENT, SUBSIDIARIES AND AFFILIATES

The Company is a member of an insurance holding company system as defined by TENN. CODE ANN. § 56-11-101, and as such, is subject to the "Insurance Holding Company System Act of 1986," set forth in TENN. CODE ANN. § 56-11-101, *et seq.* The following agreements are outlined in the annual holding company filing made with the TDCI.

Assumption Reinsurance and Risk Transfer Agreement:

Effective March 22, 2010, the Company and TRHIA, parent entered into an assumption and reinsurance risk transfer agreement where by TRHIA transferred all under age 65 health policies in effect March 22, 2010 to the Company. This transaction has been

discussed under the caption, "PLAN OF OPERATION". The agreement was filed as a Form D "Prior Notice of a Transaction" Filing with the TDCI on October 4, 2010 and was formerly approved October 29, 2010. TRHIA transferred supporting assets (bonds) totaling $26,636,967 on December 20, 2010 for IBNR and loss adjustment reserves ($13,802,352), unearned premiums ($1,074,097) and premium deficiency reserves ($11,760,518) as of March 23, 2010.

Management Services Agreement:

The Company has a Management Services Agreement with TRHIA, the upstream parent corporation. This agreement was first entered into on November 1, 1999 and was filed with the TDCI as part of the licensing process and has been subsequently listed in Form B "Insurance Company System Annual Registration Statement" and Form C "Summary of Registration Statement" filings made pursuant to TENN. CODE ANN. § 56-11-205. Former part 2, §§ 56-11-201---56-11-215, was redesignated as part 1, §§ 56-11-101---56-11-115, by the code commission in 2008.

A modified agreement was entered into on March 22, 2010 in order to include the business which was assumed from TRHIA pursuant to the assumption reinsurance and risk transfer agreement which covered all of the under age 65 health insurance contracts which are comprehensive and major medical health plans and was discussed under the caption, "PLAN OF OPERATION." This agreement was included in the Form D filing with the TDCI dated October 4, 2010. The formal approval by the TDCI was dated October 29, 2010.

TRHIA agrees to provide the Company with certain administrative services for its internal operations and processing its insurance business. Such services include general management of the Company; financial record keeping assistance; investment services and analysis; reports to the federal, state, and local taxing and regulatory authorities; and general corporate legal work on a regular basis. The agreement is effective until terminated "upon one hundred (100) days written notice by either party."

The Company pays a monthly fee to TRHIA equal to the costs or deductions, determined in accordance with Treasury Regulation Section 1.482-2 (b) (3) et seq. as codified in United States Internal Revenue Code Title 26, incurred by the parent corporation in rendering the above referenced services. During 2010, the Company incurred management fees of $5,389,144 under the agreement.

Administration Services Agreement for the Employee Welfare Benefit Plan:

The Company entered into an agreement to provide administrative services for the Employee Welfare Benefit Plan of TRHIA effective January 1, 2005. Said agreement was signed by the Company on May 17, 2005 and by TRHIA on May 27, 2005. Detail of the agreement was previously discussed under the caption, "PLAN OF OPERATION." The Company does not assume any financial risk under this

transaction. The Agreement was filed as a Form D "Prior Notice of a Transaction" filing dated April 18, 2008 during the prior examination.

Tax Sharing Agreement:

The Company is party to a tax sharing agreement with TRHIA which also includes RH Group Services, Inc., and Members Health Insurance Company. The current agreement is dated February 22, 2010. The agreement was filed as a Form D "Prior Notice of a Transaction" filing with the TDCI dated December 4, 2009.

A consolidated return is filed for the above four entities. Allocation is based upon separate return calculations with the ability to recoup net losses against future net income subject to federal taxes. Intercompany balances are settled at least annually after the return is filed.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Company maintained the following deposits at December 31, 2010.

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
Columbus Ohio G/O Bond 3.900%	$225,000	$226,471	$224,012
Total general deposits held for the benefit of all policyholders of the Company	225,000	226,471	224,012
Total	$225,000	$226,471	$224,012

The above deposit was confirmed with the custodian at the Division of Insurance and with First Farmers and Merchants Bank.

DIVIDENDS OR DISTRBUTIONS

No dividends or distributions have been paid to stockholders since the inception of the Company.

ACCOUNTS AND RECORDS

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. General ledger trial balances were reconciled with copies of annual statements for the years 2006, 2007, 2008, 2009, and 2010.

The Company's Risk Based Capital Report was reviewed. The Company was in compliance with TENN. CODE ANN. § 56-46-101, *et seq.* (Risk Based Capital for Insurers).

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 is audited annually by Johnson Lambert & Co., LLP, Arlington Heights, Illinois. TENN. COMP. R. & REGS. 0780-01-65-.08(4) requires that no partner or other person primarily 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 in compliance with this regulation.

Books and records of the Company are kept at the home office location and at the Tennessee Rural Health Improvement Office listed respectively as follows:

147 Bear Creek Pike
Columbia, Tennessee 38401

323 East James Campbell Boulevard
Columbia, Tennessee 38401

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2010, the Company had no pending litigation which could have a material financial effect.

SUBSEQUENT EVENTS

On July 28, 2011, the Company filed for a rate update on the products which it offered to the members. A rate increase was requested on seven of ten products offered.

No increase was requested for:

Essential Benefits
High Deductible Health Plan
Defined Benefit Plan

A 12% increase was requested for:

Premier Health
Advantage
Preferred
Complete Care
Major Medical
Children's Premier
Children's Advantage

The TDCI granted approval of the increase on August 29, 2011.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of revenue and expenses at December 31, 2010, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	$63,398,336		$63,398,336
Preferred Stocks	0		0
Common Stocks	2,416,290		2,416,290
Cash and short-term investments	2,409,621		2,409,621
Investment income due and accrued	817,764		817,764
Uncollected premiums and agents balances in the course of collection	22,775		22,775
Amounts receivable relating to uninsured plans	11,610		11,610
Net deferred tax asset	1,286,320	252,190	1,034,130
Receivables from parent, subsidiaries and affiliates	2,205,117	2,205,117	0
Health care receivables	158,649		158,649
Aggregate write-ins for other than invested Assets	9,310	0	9,310
Totals	$72,735,792	$2,457,307	$70,278,485

LIABILITIES, CAPITAL, AND SURPLUS

	Covered	Uncovered	Total
Claims unpaid	$22,917,390		$22,917,390
Unpaid claims adjustment expenses	766,065		766,065
Aggregate health policy reserves	3,887,833		3,887,833
Premiums received in advance	444,917		444,917
General expenses due or accrued	2,593,105		2,593,105
Current federal income tax payable and interest thereon	375,264		375,264
Liability for amount held under uninsured plans	881,000		881,000
Total liabilities	$31,865,575	$0	31,865,575
Common capital stock			1,000,000
Gross paid in and contributed surplus			38,175,107
Unassigned funds			(762,197)
Total capital and surplus			38,412,910
Total liabilities, capital and surplus			$70,278,485

STATEMENT OF REVENUE AND EXPENSES

	Uncovered	Total
Member Months		896,369
Net premium income		$147,925,895
Change in unearned premium reserves and reserve for rate credits		(1,170,093)
Aggregate write-ins for other health care related revenues (restoration fees)		25,000
Total revenues		146,780,802
Hospital and Medical:		
Hospital/medical benefits		29,602,721
Other professional services		61,942,794
Emergency room and out of area		29,308,943
Prescription drugs		13,661,557
Subtotal hospital and medical		134,516,015
Less:		
Net reinsurance recoveries		0
Total hospital and medical		134,516,015
Claims adjustment expenses		9,587,200
General administrative expenses		13,838,220
Increase in reserves for life and accident and health contracts		(9,042,778)
Total underwriting deductions		148,898,657
Net underwriting gain/(loss)		(2,117,855)
Net investment income		801,444
Net realized capital gain		59,781
Net investment gains		861,226
Net income (loss)		(1,256,629)
Federal income taxes incurred		526,871
Net income (Loss)		($1,783,500)

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		$14,889,807
Net income	($1,783,500)	
Net unrealized capital gains (losses)	(49,670)	
Change in net deferred income tax	1,158,810	
Change in non-admitted assets	(2,224,326)	
Surplus adjustments: Paid in	26,175,107	
Aggregate write-in for gains and losses in surplus	246,682	
Change in surplus as regards policyholders for the year		23,523,103
Surplus as regards policyholders, December 31 current year		$38,412,910

COMMENTS AND RECOMMENDATIONS

Comments:

1. The Company had replied to the TDCI on May 26, 2011 of its intention to non-admit any Receivable from Parent which is not collateralized on future financial filings. The $2,205,117 which was due as of December 31, 2010 represents the December settlement of premium which was due under the Assumption Agreement with Tennessee Rural Health Improvement Association. The premium settlement for each month is settled by the 20th of the following month as provided for by the agreement.

Recommendations:

1. It is recommended that the Company non-admit any Receivable from Parent which is not collateralized in order to comply with TENN. CODE ANN. § 56-1-405 which states:

   > "The commissioner may, in the commissioner's discretion, disallow stockholders' obligations of any description as part of the assets or capital of any insurance company, unless secured by competent collateral."

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of TRH Health Insurance Company dated June 14, 2012, and made as of December 31, 2010, on behalf of the Department of Commerce and Insurance, State of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 14th day of

June, 2012

Notary Helen W. Dorsey

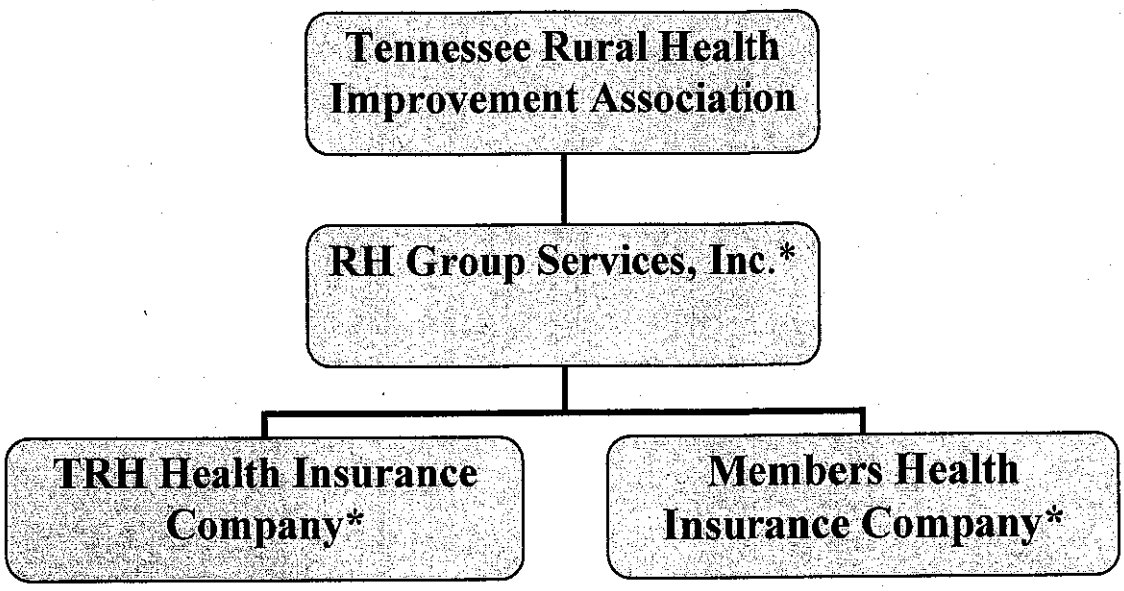
County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

ORGANIZATIONAL CHART



* Wholly Owned Companies

At 12/31/2010, 11 members of the Tennessee Rural Health Improvement Board of Directors also served on the Tennessee Farm Bureau Federation Board of Directors.