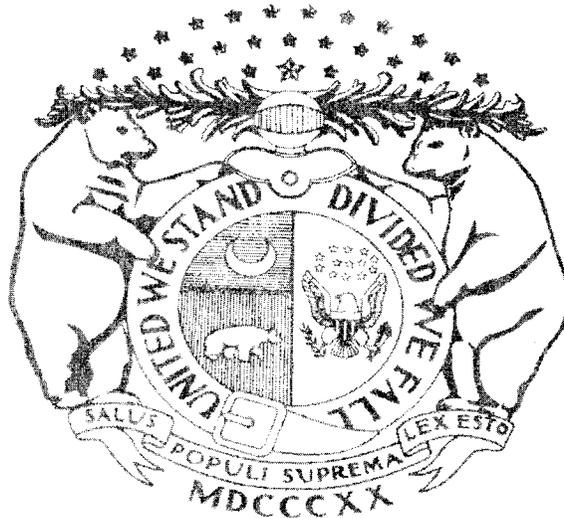


REPORT OF
FINANCIAL EXAMINATION

THE BAR PLAN MUTUAL
INSURANCE COMPANY

As of:
DECEMBER 31, 2005



STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI

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March 29, 2007
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Virginia State Corporate Commission
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann H. Womer Benjamin, Director
Department of Insurance
State of Ohio
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Dear Sirs/Madam:

In accordance with your financial examination warrant, a comprehensive financial examination has been made of the records, affairs and financial condition of

The Bar Plan Mutual Insurance Company

hereinafter referred to as such or as the "Company." The Company's office is located at 1717 Hidden Creek Court, St. Louis, Missouri 63131, telephone number (314) 965-3333. Examination fieldwork began on October 10, 2006, and concluded on March 29, 2007.

SCOPE OF EXAMINATION

Period Covered

The last comprehensive financial examination of the Company was performed as of December 31, 2002, by examiners from the state of Missouri.

The current financial examination of the Company covers the period from January 1, 2003, through December 31, 2005, and was conducted by examiners from the state of Missouri. This examination also included material transactions or events occurring subsequent to December 31, 2005.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (Department) and statutes of the state of Missouri prevailed.

Workpapers of the Company's independent auditor, Brown Smith Wallace, LLC, were made available to the examiners for review. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments - Previous Examination

The previous examination report contained no comments of weaknesses identified during the examination.

HISTORY

General

This company's incorporation was approved on November 21, 1985 as a Chapter 383 RSMo (Malpractice Insurance) company. The Missouri Bar formed this company with the original name of The Bar Plan. A certificate of authority was granted and the company commenced business on January 7, 1986.

On January 1, 1991, the Company converted from a Chapter 383 RSMo (Malpractice Insurance) company to a Chapter 379 RSMo (Insurance Other Than Life) mutual insurance company. At that time, the Company changed from an assessable to a non assessable company. In addition, the name was changed to The Bar Plan Mutual Insurance Company.

The Company specializes in writing lawyers professional liability insurance on a claims made basis. That business is written in Missouri, Kansas, Indiana and New Mexico. The company also writes surety business in 47 states and the District of Columbia as well as through its subsidiary, The Bar Plan Surety and Fidelity Company.

Capital Stock

The Company is a mutual insurance company and has no capital stock.

Dividends

The Company paid dividends and returned capital contributions to policyholders as follows:

	Dividends	Capital Contributions
2003	\$528,600	\$34,300
2004	\$120	\$27,200
2005	\$0	\$29,800

Management

The members of the Board of Directors serving at December 31, 2005, were as follows:

<u>Name and Location</u>	<u>Position</u>	<u>Name and Location</u>	<u>Position</u>
David E. Larson, Chairman; Leawood, KS	Attorney	Dennis L. Gillen; Wichita, KS	Attorney
Jerome E. Brant, Vice- Chairman; Liberty, MO	Attorney	Kent O. Hyde; Springfield, MO	Attorney
Ann P. Hagan, Secretary; Mexico, MO	Attorney	Walter R. Lamkin; St. Louis, MO	Attorney
Richard G. Steele, Treasurer; Cape Girardeau, MO	Attorney	Sherry L. Doctorian; Jefferson City, MO	Attorney
James E. Baldwin; Lebanon, MO	Attorney		

As of December 31, 2005, the Board of Directors had appointed the following members to serve on the committees listed below:

Executive	Finance and Investment	Claim
David E. Larson	David E. Larson	David E. Larson
Jerome E. Brant	Kent O. Hyde	Kent O. Hyde
Ann P. Hagan	Richard G. Steele	Richard G. Steele
Richard G. Steele		Ann P. Hagan
Audit	Operations	Reinsurance
James E. Baldwin	Ann P. Hagan	James E. Baldwin
Ann P. Hagan	Dennis L. Gillen	Jerome E. Brant
Dennis L. Gillen	Walter R. Lamkin	Sherry L. Doctorian

Long Range Planning

Jerome E. Brant

Sherry L. Doctorian

Walter R. Lamkin

The officers elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Office</u>
Karen R. McCarthy	President and CEO
Ann P. Hagan	Secretary
Richard G. Steele	Treasurer
Mark B. Berry	Vice President, Claims *
Cynthia L. Pulvirenti	Vice President, Operations
Gregory H. Klaus	Vice President, Finance
Gayle E. Tegtmeier	Vice President, Underwriting
Geralyn E. Kaestner	Vice President, Agency Operations
Kimberly M. Edgar	Vice President, Bond Underwriting

* Mr. Berry left the Company during 2006.

Conflict of Interest

All officers and directors provided signed conflict of interest disclosures each year of the examination. No instances of conflict of interest situations were reported.

Corporate Records

A review was made of the articles of incorporation and bylaws of the Company. Neither the articles of incorporation nor the bylaws were amended during the period under examination.

The minutes of the meetings of the sole stockholder and board of directors were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. The board formally acknowledged receipt of the prior report of examination at its June 18, 2004 meeting.

Acquisitions, Mergers, and Major Corporate Events

On December 31, 2003, TBP Holding Company, Inc., a wholly owned subsidiary of the Company, sold all the outstanding common stock of The Bar Plan Title Insurance Company to Reliant Holding Company of Prairie Village, Kansas. At that time, The Bar Plan Title Insurance Company changed its name to Guarantee Title Insurance Company.

Surplus Debentures

The Company had no surplus debentures at December 31, 2005. (See Subsequent Events)

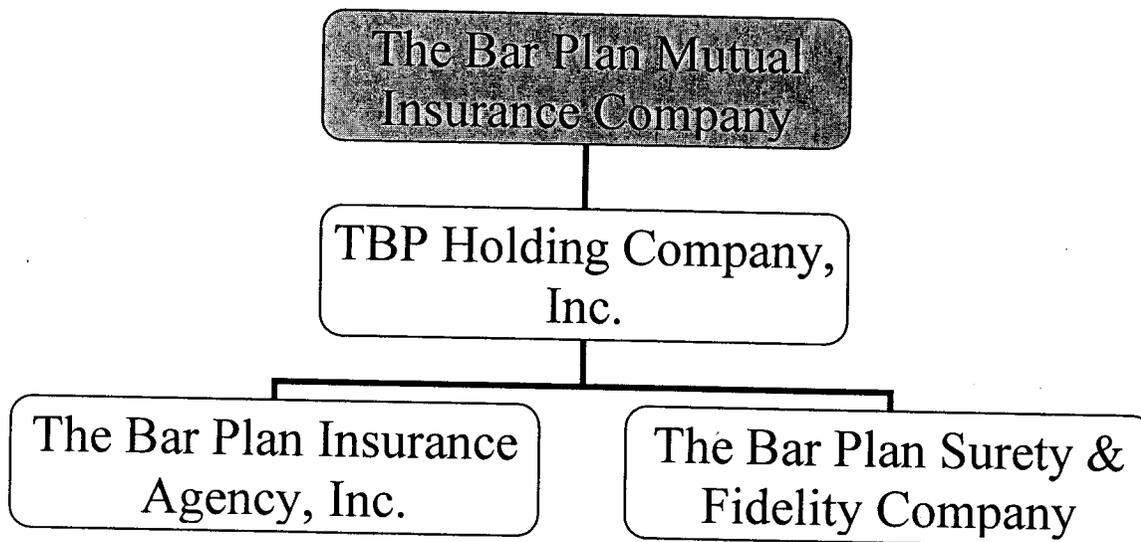
AFFILIATED COMPANIES

Holding Company

The Company is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo. Pursuant to Missouri Insurance Regulation 20 CSR 200-11.100 and Section 382.100 RSMo, the Company has filed Form B of the Insurance Holding Company System with the Department.

Organizational Structure

The Bar Plan Mutual Insurance Company owns 100% of TBP Holding Company, Inc., which, in turn, owns 100% of The Bar Plan Insurance Agency, Inc. and The Bar Plan Surety & Fidelity Company. The following organizational chart depicts the ownership structure of the Company:



Intercompany Transactions

The Company is a party to two intercompany agreements. The tax allocation agreement calls for consolidated income tax filings for all entities in the holding company system. Taxes are allocated to the individual companies on the basis of each company's

contribution as if they were stand alone entities.

The Company participates in a management and administrative services agreement with The Bar Plan Surety & Fidelity Company (Surety). The Company provides management and administrative services to Surety which, in turn, provides underwriting, policy processing and general administrative services for the issuance of surety bonds. The Company receives \$6,250 per month for the services provided to Surety. The Company pays Surety an underwriting fee based on the expenses incurred producing surety business. That fee is determined by the proportion of the direct written surety premium of the Company as compared to the total direct surety premium written by both companies. Settlement is to occur by the 15th of each month.

Payments to Affiliates

Notes to the financial statements in the annual statement disclosed that the Company made the following payments to Surety:

2003	\$50,114
2004	\$61,673
2005	<u>\$79,598</u>
Total	\$191,385

FIDELITY BOND AND OTHER INSURANCE

The Company has a crime policy with a limit of \$500,000 and a \$250 deductible. This coverage is provided for all companies within the holding company system and exceeds the National Association of Insurance Commissioners' suggested minimum guidelines.

The Company is also insured through policies providing coverage for real and personal property, general liability, automobile liability, workers compensation and employer liability and directors' and officers' liability.

EMPLOYEE BENEFITS AND PENSION PLAN

The Company's primary benefits provided to full time employees include: paid time off, holidays, cafeteria plan, group life, short-term disability, long-term disability, employee group health plan including dental coverage and a 401(k) savings plan with employer match.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Department as of December 31, 2005, as reflected below, were sufficient in par and market value to meet the minimum requirement of \$1,200,000 in accordance with Section 379.098 RSMo – Security Deposits.

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Jackson County Missouri Consolidated School District Bond	\$ 500,000	\$ 540,880	\$ 521,686
St. Louis County Missouri Revenue Bond	500,000	529,150	500,000
US Treasury Note	<u>1,600,000</u>	<u>1,599,360</u>	<u>1,626,037</u>
Total	<u>\$ 2,600,000</u>	<u>\$ 2,669,390</u>	<u>\$ 2,647,723</u>

Deposits with Other States

The following funds were on deposit with other states as of December 31, 2005:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Florida	Alcoa Incorporated Bond	\$200,000	\$212,200	\$199,884
	Evergreen Institutional			
Georgia	Treasury Fund	25,000	25,212	25,212
Louisiana	US Treasury Note	75,000	74,071	74,916
Massachusetts	US Treasury Note	525,000	499,590	512,682
Nevada	US Treasury Note	250,000	250,763	251,143
New Mexico	US Treasury Note	125,000	124,297	125,757
	Evergreen Institutional			
North Carolina	Treasury Fund	200,000	201,504	201,504
Ohio	US Treasury Note	300,000	296,310	300,303
Oklahoma	US Treasury Note	325,000	318,841	327,928
Oregon	US Treasury Note	275,000	270,779	276,185
Virginia	US Treasury Note	250,000	249,795	253,974
Wyoming	US Treasury Note	175,000	171,357	171,357
Total		<u>\$ 2,725,000</u>	<u>\$ 2,694,719</u>	<u>\$ 2,720,845</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance Other Than Life) to write liability and surety insurance.

The Company writes professional liability insurance for individuals and small firms in the states of Missouri, Kansas, Indiana and New Mexico. Policies are written on a claims made basis. The Company also writes surety coverage and is licensed in 47 states and the District of Columbia for that type of business.

The Company generates roughly 60% of its business in Missouri and Kansas through direct marketing. The remainder is produced by The Bar Plan Insurance Agency. In Indiana, all business is produced through the Indiana Bar Association's preferred agent. Business is produced in a similar fashion in New Mexico.

The Company advertises through trade journals in Missouri and through regional trade journals in Kansas. The Company participates in advertising through an agent in Indiana and an agent in New Mexico. In addition, the Company conducts risk management seminars (which contribute to fulfilling continuing education requirements) for all attorneys, not just customers.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Department has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent Market Conduct examination covered the period of November 1, 1997 to October 31, 1998. That report disclosed no issues having a significant impact on the financial condition of the Company.

REINSURANCE

General

Premiums written during the period under examination were as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$ 16,699,589	\$ 18,674,204	\$ 20,893,267
Reinsurance Ceded	<u>6,620,183</u>	<u>7,606,674</u>	<u>8,766,381</u>
Net Premiums	\$ 23,319,772	\$ 26,280,878	\$ 29,659,648

Assumed

The Company has no assumed business.

Ceded

The Company cedes reinsurance to numerous reinsurers on a direct basis and through an intermediary, Benfield, Inc. The professional liability business is reinsured through various excess of loss treaties and a quota share agreement for business written in New Mexico. The Company reinsures its surety business through a quota share agreement with Benfield, Inc. Business that exceeds the limits in the treaties can be reinsured on a facultative basis.

First Excess of Loss

Coverage is provided up to \$750,000 in losses after the Company's retention of \$250,000.

Second Excess of Loss

Reinsurance attaches after the first \$1,000,000 and the reinsurer provides coverage for the next \$1,000,000.

Third Excess of Loss

Reinsurance attaches after the first \$2,000,000 and the reinsurer provides coverage for the next \$3,000,000.

Quota Share Treaty (Professional Liability)

The Company retains 50% of all business written in New Mexico. This contract was no longer in effect in 2006.

Quota Share Treaty (Surety Business)

The Company retains 50% of premiums written for the first \$500,000 of bond penalty and a decreasing percentage on the excess penalty up to \$2,000,000.

ACCOUNTS AND RECORDS

The general ledger system is maintained on a system developed by The Freedom Group. The annual and quarterly statements are prepared from software provided by Eagle TM. Eagle TM (Eagle Technology Management, Inc.) is comprised of many of the former founders of the Freedom Group, but is no longer affiliated with Freedom. ADP provides all payroll related processing.

Independent Auditor

For the years 2003 and 2004, the Company's financial statements were audited by the firm of PricewaterhouseCoopers, LLP. The 2005 audit was conducted by Brown Smith

Wallace, LLC.

Independent Actuary

Charles V. Faerber, FSA, ACAS, of Rudd and Wisdom, Inc. provided the actuarial opinion for the Company in 2005. John R. Kryczka, FCAS, MAAA from PricewaterhouseCoopers, LLP provided the opinions for the remaining years covered by this examination.

Consulting Actuary

The Department contracted Gregory S. Wilson, FCAS, MAAA, from the actuarial firm of Lewis & Ellis, Inc. to evaluate the adequacy of the Company's loss related reserves. His evaluation concluded that the Company's reserves at December 31, 2005 were adequate.

EDP Audit Specialist

The Department's Information Systems Audit Specialist, Andy Balas, evaluated the controls and procedures used by the Company's information technology section. That evaluation concluded that the Company's controls were sufficient. The Company is relatively small and ideal segregation of duties could not be achieved, but compensating measures were made to address this.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

BALANCE SHEET

December 31, 2005

<i>Assets</i>	Assets	Assets	Assets
	Assets	Assets	Assets
Bonds	\$ 32,196,810	\$ -	\$ 32,196,810
Common stocks	7,326,875	0	7,326,875
Properties occupied by the company	1,579,470	0	1,579,470
Cash and short-term investments	3,814,570	0	3,814,570
Investment income due and accrued	356,997	0	356,997
Uncollected premiums and agents' balances	3,188,524	17,997	3,170,527
Amounts recoverable from reinsurers (reinsurance)	526,024	0	526,024
Current federal and foreign income tax recoverable	155,555	0	155,555
Net deferred tax asset	2,416,398	1,042,860	1,373,538
Guaranty funds receivable or on deposit	279,326	0	279,326
Electronic data processing equipment and software	131,074	77,750	53,324
Receivables from parent, subsidiaries and affiliates	78,771	0	78,771
Aggregate write-ins for other than invested assets	202,105	72,830	129,275
Total Assets	\$ 52,252,499	\$ 1,211,437	\$ 51,041,062
<i>Liabilities</i>			
Losses			\$ 15,085,451
Loss adjustment expenses			8,604,274
Commissions payable			119,373
Other expenses			165,005
Taxes, licenses and fees			139,567
Unearned premiums			6,090,082
Advance premium			478,785
Ceded reinsurance premiums payable			919,710
Amounts withheld or retained by company			41,653
Provision for reinsurance			69,600
Aggregate write-ins for liabilities			1,343,879
Total Liabilities			\$ 33,057,379
<i>Surplus</i>			
Aggregate write-ins for special surplus funds			\$ 2,692,200
Unassigned funds			15,291,483
Total Surplus			\$ 17,983,683
Total Liabilities and Surplus			\$ 51,041,062

INCOME STATEMENT

For the Year Ending December 31, 2005

Premiums earned		\$ 11,723,677
Losses incurred	7,650,694	
Loss expenses incurred	5,755,065	
Other underwriting expenses incurred	3,992,498	
Total underwriting deductions	<u>17,398,257</u>	
Net underwriting gain (loss)		<u>(5,674,580)</u>
Net investment income earned	1,160,472	
Net realized capital gains (losses)	11,495	
Net investment gain (loss)	<u>1,171,967</u>	
Finance and service charges not included in premiums	231,698	
Aggregate write-ins for miscellaneous income	382,525	
Total other income	<u>614,223</u>	
Net income before federal income taxes		(3,888,390)
Federal income taxes incurred		<u>(137,149)</u>
Net income		\$ (3,751,241)

CAPITAL AND SURPLUS

December 31, 2005

Surplus as regards policyholders, December 31 prior year		\$ 20,787,405
Net income	(3,751,241)	
Change in net unrealized capital gains or (losses)	136,049	
Change in net deferred income tax	1,228,597	
Change in nonadmitted assets	(317,727)	
Change in provision for reinsurance	(69,600)	
Surplus adjustments paid in	(29,800)	
Change in surplus as regards policyholders for the year		<u>(2,803,722)</u>
Changes per examination		<u>-</u>
Surplus as regards policyholders, December 31 current year		<u>\$ 17,983,683</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The Company issued a \$5,000,000 surplus note on September 21, 2006. This note carries an interest rate of 9.1% until September 15, 2011, at which time it becomes a floating rate obligation.

ACKNOWLEDGEMENT

The assistance and cooperation extended by the officers and the employees of The Bar Plan Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Art Palmer, CFE and Rick Stamper, CFE, examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration (MDIFP), participated in this examination.

VERIFICATION

State of Missouri)
) ss
County of St. Louis)

I, Robert P. Jordan, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

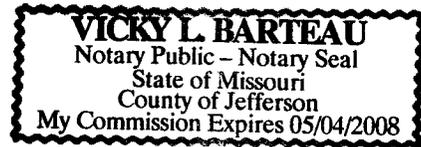
Robert P. Jordan
Robert P. Jordan, CFE
Examiner-in-Charge
MDIFP

Sworn to and subscribed before me this 8th day of March, 2007

My commission expires:

May 4, 2008

Vicky L. Barbeau
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Christiana Dugopolski
Christiana Dugopolski, CFE, CPA
Audit Manager, St. Louis
MDIFP