STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Columbia Mutual Insurance Company as of December 31, 2009

ORDER

After full consideration and review of the report of the financial examination of Columbia Mutual Insurance Company for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Columbia Mutual Insurance Company as of December 31, 2009, be and is hereby ADOPTED as filed and for Columbia Mutual Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 16th day of June, 2011.

John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

COLUMBIA MUTUAL INSURANCE COMPANY

FILED

AS OF

JUN 26 2011

DECEMBER 31, 2009

DIRECTOR OF INSURANCE, FINANCIAL INSTITUTIONS & PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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Columbia, Missouri
May 3, 2011

Honorable Joseph Torti, III, Superintendent
Rhode Island Division of Insurance
Chairman, Financial Condition (E) Committee

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone, NAIC

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

Gentlemen:

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

Columbia Mutual Insurance Company

hereinafter referred to as such, as Columbia Mutual, CMIC, or as the Company. Its administrative office is located at 2102 White Gate Drive, Columbia, Missouri, 65202, telephone number (573) 474-6193. This examination began on October 11, 2010, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Columbia Mutual was made as of December 31, 2005, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2006, through December 31, 2009, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was coordinated with the concurrent examination conducted by the Georgia Department of Insurance of Georgia Casualty & Surety Company and the concurrent examination conducted by the Nebraska Department of Insurance of Columbia National Insurance Company. These two insurers are subsidiaries of Columbia Mutual.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about corporate governance, identifying and assessing inherent risks, and evaluating the Company's controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, 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. The key activities identified in our examination of CMIC were as follows:

- Investments
- Premiums
- Underwriting
- Claims Handling
- Reserving
- Related Party Transactions
- Reinsurance

The examiners relied upon information supplied by the Company's independent auditor, KPMG, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2009 through December 31, 2009. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, paid claims data, intercompany pooling transactions, mortgage loan confirmations, bank confirmations, reinsurance recoverable confirmations, and fraud assessment.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

A director, Steven A. Standridge, resigned from the Board of Directors on March 7, 2010, in response to alleged misconduct from Mr. Standridge's transactions involving the Arkansas Insurance Department. The insurance agency owned by Mr. Standridge was the largest producer of business for Columbia Mutual. Mr. Standridge's producer license was permanently revoked by the Arkansas Insurance Department in 2010 and his agency was sold to other insurance agencies. The Company conducted an internal investigation and determined that there was no misconduct involving CMIC's transactions with Mr. Standridge or his agency. Most of the Company's policies written by his agency were transferred to other agencies.

COMPANY HISTORY

General

Columbia Mutual Insurance Company was incorporated and commenced business on June 3, 1940 and was originally named Missouri Farmers Mutual Hail Insurance Company. The name was changed to Midland Mutual Insurance Company on February 12, 1971 and changed to Columbia Mutual Casualty Insurance Company on March 12, 1981. The Company was the surviving entity in a merger with Home Mutual Insurance Company of Boone County on July 8, 1981 and subsequently was converted to a mutual insurance company under Missouri law. The Company was also the surviving entity in a merger with three affiliates, Columbia Mutual Insurance Company, Farmers Mutual Hail Insurance Company of Missouri, and Midland Farmers Mutual Insurance Company on December 1, 1989. The merged entity adopted the current name of Columbia Mutual Insurance Company. An affiliate, Great Plains Mutual Insurance Company, was merged into CMIC on August 1, 2001.

The Company operates as a mutual property and casualty insurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life). The Company and its subsidiaries collectively operate under the brand name of Columbia Insurance Group (the Group).

Capital Stock

The Company was organized as a mutual entity and therefore, does not have any capital stock ownership. The Company is owned 100% by its policyholders.

Dividends and Capital Contributions

CMIC does not have any stockholders and therefore, no stockholder dividends. The Company's Bylaws allow for dividends to be paid to its policyholders. The Company has some participating workers' compensation policies that were paid dividends in the following amounts during the examination period.

Year	Amount
2006	$ 0
2007	39,376
2008	186,948
2009	246,057

The Company received dividends from its insurance subsidiaries during the examination period. Dividends from Columbia National Insurance Company (through Columbia Insurance Group, Inc.) were received in the amounts of $2.0 million in 2006, $2.5 million in 2007 and $1.0 million in 2009. Georgia Casualty and Surety Company and Association Casualty Insurance Company both paid a $1.0 million dividend to Columbia Mutual in 2009.

Mergers and Acquisitions

Columbia Mutual's subsidiary, Patrons Insurance Company, was merged into another subsidiary, Columbia National Insurance Company, on April 1, 2006. Another subsidiary, Independent State Life Insurance Company, was sold to Puritan Financial Companies, Inc. on October 2, 2007 for a sales price of approximately $2 million.

On December 28, 2007, Columbia Mutual entered into a contract to purchase 100% of Georgia Casualty & Surety Company (GCSC), Association Casualty Insurance Company (ACIC), and Association Risk Management General Agency from Atlantic American Corporation. GCSC and ACIC are property and casualty insurers that write only commercial lines of business, primarily commercial multiple peril, worker's compensation, and commercial auto liability. The acquisition closed on March 31, 2008. ACIC's former home office in Austin, Texas was converted into a new branch office for Columbia Insurance Group. GCSC's former home office in Atlanta, Georgia was merged into the Group's existing branch office in Atlanta.

CORPORATE RECORDS

The Company's Articles of Association and Bylaws were reviewed. There were no amendments to the Articles of Association during the examination period. The Bylaws were amended in March 2008 to allow for the Board of Directors to appoint a Secretary and retain the services of outside consultants and advisors. The Bylaws were amended in May 2008 to allow for the Chairman to appoint committees, which previously had been authorized for the President only.

The Bylaws were amended and fully restated in May 2009 with numerous changes, as follows:

- Separated the President and Chief Executive Officer positions from one individual to two individuals
- Designated the Chairman to be the lead independent director
- Increased the number of directors allowed to serve up to a maximum of thirteen
- Restricted employees serving on the Board to two individuals
- Added new sections addressing meetings by conference call, director resignation provisions, dividend reserves, signatures for checks and drafts, and authority for executing contracts.

The minutes of the Board of Directors' meetings, committee meetings, and the policyholder meetings were reviewed for proper approval of corporate transactions. In general, the minutes and written consents appear to properly reflect and approve the Company's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Corporate Governance

The management of the Company is vested in a Board of Directors that are elected by the policyholders. The Company's Articles of Association and Bylaws specify that there shall be a minimum of nine (9) and a maximum of thirteen (13) directors.

The Board of Directors appointed and serving, as of December 31, 2009, were as follows:

Name	Principal Occupation and Business Affiliation
John S. Blakemore	Retired, former Professor, Stephens College
Dale H. Creach	Retired, former President, MFA Oil Company
Bernard J. Fechtel	Owner and President, Fechtel Beverage & Sales, Inc.
Robert A. Gerding	President, Gerding, Korte & Chitwood, CPAs
William E. Gusenius	Attorney, Gusenius Law Firm
Betty J. Schuster	Agent, Principal Financial Group
Steven A. Standridge*	Owner and President, Steve Standridge Insurance Agency
Gary W. Thompson	President and COO, Columbia Insurance Group
Robert J. Wagner	Chairman and CEO, Columbia Insurance Group

* Resigned on March 7, 2010 and replaced by Jeffrey C. Greenwald, effective September 1, 2010

Committees

The Articles of Association and Bylaws do not require any committees, but the Bylaws allow for committees to be appointed or authorized by the Board of Directors. The members appointed and serving to the established committees, as of December 31, 2009, were as follows:

Governance/Nominating Committee	Compensation Committee
Robert J. Wagner (Chair)	Betty J. Schuster (Chair)
Dale H. Creach	Bernard J. Fechtel
Robert A. Gerding	Steven A. Standridge
Gary W. Thompson (non-voting)	Gary W. Thompson

Finance Committee	Audit Committee
Dale H. Creach (Chair)	William E. Gusenius (Chair)
William E. Gusenius	John S. Blakemore
Betty J. Schuster	Bernard J. Fechtel
Gary W. Thompson	Robert A. Gerding
A. Benjamin Galloway (non-voting)	Roger D. Ballard (non-voting)

The Company also has several informal committees that are staffed by senior management. The management committees are as follows: Executive Committee, Investment / Enterprise Risk Management Committee, Business Development Committee, Claims Committee, Information Technology Committee, and the Exceptional Service Committee. Each of these committees provide reports to the Chief Executive Officer and any findings and issues are regularly reported to the Board of Directors.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2009, were as follows:

Name	Office
Robert J. Wagner	Chairman of the Board and Chief Executive Officer
Gary W. Thompson	President and Chief Operating Officer
Gina D. Boone	Vice President, Secretary and General Counsel
Roger D. Ballard	Senior Vice President, Treasurer and CFO
Roger D. Birdsong	Senior Vice President – Columbia Branch Manager
A. Benjamin Galloway	Senior Vice President – Asset Management
Jon R. Erickson	Vice President – Claims
James R. Beerman	Vice President – Omaha Branch Manager
Dianne R. Morris	Vice President – Austin Branch Manager
Robert K. O'Reilly, Jr.	Vice President – Atlanta Branch Manager
Dwight P. Tully	Vice President – Salina Branch Manager
Stephen B. Lubbering	Vice President – Human Resources
Rory Read	Vice President – Information Technology
Dennis D. Roth	Vice President – Enterprise Risk Management

Holding Company, Subsidiaries and Affiliates

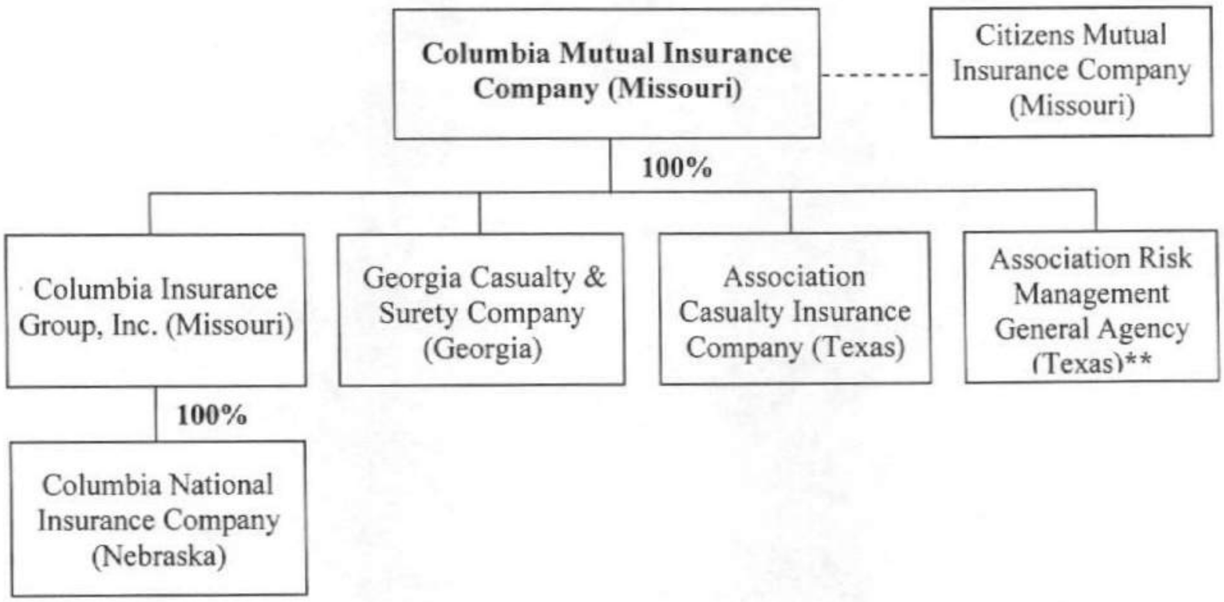
The Company is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Columbia Mutual for each year of the examination period. The Company does not have any stockholders or controlling entity due to its formation as a mutual insurer. CMIC is ultimately owned 100% by its policyholders.

Below is a description of the business operations of CMIC's subsidiaries and affiliates.

- **Columbia Insurance Group, Inc. (CIG)** – A holding company for the Company's insurance subsidiaries. CIG employees perform all functions of CMIC and its subsidiaries.
- **Columbia National Insurance Company (CNIC)** – A Nebraska property and casualty insurer that was formed in 1985 and acquired by Columbia Mutual in 1988. Commercial multiple peril is CNIC's largest line of business, representing 51% of total direct written premiums in 2009. Worker's compensation and commercial auto liability lines of business accounted for an additional 21% of CNIC's direct business in 2009.
- **Georgia Casualty & Surety Company (GCSC)** – A Georgia property and casualty insurer that was formed in 1947 and acquired by Columbia Mutual in 2008. Commercial multiple peril, worker's compensation, and commercial auto liability lines of business accounted for 80% of GCSC's direct business in 2009.
- **Association Casualty Insurance Company (ACIC)** – A Texas property and casualty insurer that was formed in 1978 and acquired by Columbia Mutual in 2008. Commercial multiple peril, worker's compensation, and commercial auto liability lines of business accounted for 85% of ACIC's direct business in 2009.
- **Citizens Mutual Insurance Company (CIT)** – A farm mutual insurer domiciled in Missouri. The Board of Directors of CIT consist mostly of CIG employees and common directors of CMIC. CIT has the same officers as CMIC.
- **Association Risk Management General Agency, Inc. (ARMGA)** – A dormant entity acquired as part of the acquisition of GCSC and ACIC in 2008. ARMGA had no business operations during the examination period and was dissolved in 2010.

Organizational Chart

Below is the organization chart of Columbia Insurance Group, as of December 31, 2009.



------- Indicates affiliation through common officers and directors

** Entity was dissolved on August 2, 2010

Intercompany Agreements

The Company's agreements with related parties that were in effect, as of December 31, 2009 and subsequent periods are outlined below.

1. **Type:** Personnel and Service Agreement

   Parties: CIG, CNIC, CIT

   Effective: January 1, 2007 to December 31, 2010 (replaced by a new agreement effective January 1, 2011, as described in item 4. below)

   Terms: CIG employees will perform all functions necessary or appropriate to manage CMIC, CNIC, and CIT. CIG will provide the physical facilities and equipment necessary to transact the insurance business of the affiliates. CMIC, CNIC, and CIT will reimburse CIG for its actual expenses incurred to provide the management services.

2. **Type:** Tax Allocation Agreement

   Parties: CIG, CNIC, GCSC, ACIC, ARMGA

   Effective: October 15, 2008 (repl aced a prior agreement effective since December 19, 1997)

   Terms: CMIC will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each affiliate shall be the ratio that each entity's taxable income bears to the consolidated taxable income of the group. The subsidiaries will pay their share of tax payments to CMIC within 90 days subsequent to the date the consolidated payment is due to the Internal Revenue Service. CMIC will refund any amounts due to the subsidiaries within 90 days after the refund is received or will apply a credit towards the next tax payment.

3. **Type:** Intercompany Reinsurance Agreement

   Parties: CNIC, GCSC, ACIC, CIT

   Effective: January 1, 2009 (replaced a prior agreement effective since January 1, 2006)

   Terms: The total net risks from all insurance and reinsurance policies written by CNIC, GCSC, ACIC, and CIT (the "Affiliated Companies") shall be ceded 100% to Columbia Mutual. All premiums, losses, assets and liabilities pertaining to the policies reinsured will be assigned and transferred to CMIC. The business assumed from the Affiliated Companies is pooled with the direct business of Columbia Mutual. External reinsurance is obtained for the gross pooled business of the Group and the remaining net pooled risks will be assumed by the Affiliated Companies, based upon the following percentages: CNIC – 17%, ACIC – 9%, GCSC – 7%, CIT – 1%. CMIC retains the remaining 66% of the net pooled business. The settlement o f all assumed and ceded transactions between CMIC and the Affiliated Companies, pursuant to the Agreement, will be made on a monthly basis within 90 days after the end of each month.

4. **Type:** Personnel and Services Agreement

   Parties: CIG, CNIC, GCSC, ACIC, CIT

   Effective: January 1, 2011 (replaced a prior agreement described in item 1. above)

   Terms: CIG will provide the employees necessary or appropriate to conduct all business operations of CMIC, CNIC, GCSC, ACIC and CIT. CIG will be responsible for the wages, salaries, employee benefits, payroll taxes, and all other similar costs and expenses of the employees. Any employee and benefit costs that are directly attributable to an individual entity will be billed and reimbursed to CIG by the entity in which the cost is related. Any employee and benefit costs that are attributable to the Group, as a whole, will be allocated and reimbursed to CIG based upon each entity's specific pooling percentage from the Intercompany Reinsurance Agreement.

5. **Type:** Facilities and Services Agreement

   Parties: CNIC, GCSC, ACIC, CIT

   Effective: January 1, 2011

   Terms: Columbia Mutual will provide various facilities and services necessary to conduct the business operations of CNIC, GCSC, ACIC and CIT. The facilities and services to be provided will include: office space, equipment, supplies, data processing, telecommunications, information technology services, investment services, and several other services. Costs incurred by Columbia Mutual to provide the facilities and services will be exclusive of the payroll and benefit costs that are subject to the Personnel and Service Agreement. Any expense that is directly attributable to an individual entity will be billed and reimbursed to CMIC by the entity in which the cost is related. Any expense that is attributable to the Group, as a whole, will be allocated and reimbursed to CMIC based upon each entity's specific pooling percentage from the Intercompany Reinsurance Agreement.

6. **Type:** Lease Agreement (two agreements)

   Parties: CIG

   Effective: January 1, 2005 to December 31, 2010 (for Columbia, Missouri office)
   January 1, 2004 to December 31, 2010 (for Salina, Kansas office)

   Terms: CIG leased an office building in Columbia, Missouri from CMIC. The building is used as the home office for the Columbia Insurance Group, Inc. The rent to be paid by CIG was $43,695 per month. CIG also leased space in the branch office building in Salina, Kansas from CMIC. The building is used as a branch office for underwriting and claims handing for the Columbia Insurance Group, Inc. The rent to be paid by CIG was $4,500 per month during 2006, $5,000 per month during 2007 to 2009 and $5,500 per month during 2010. Both lease agreements were terminated effective January 1, 2011.

Intercompany Payments

Fees and other payments to related parties, pursuant to the above agreements, are listed in the following table:

Subsidiary/ Affiliate	Agreement	Net Paid / (Received) 2006	2007	2008	2009
CIG	Personnel and Service	23,195,706	23,196,520	23,784,128	24,828,184
CNIC	Intercompany Reinsurance	2,601,854	6,074,484	(17,556,430)	(473,535)
GCSC	Intercompany Reinsurance	0	0	0	(16,781,042)
ACIC	Intercompany Reinsurance	0	0	0	(24,664,568)
CIT	Intercompany Reinsurance	559,628	622,189	(633,059)	963,120
CIG	Tax Allocation	(21,058)	(12,616)	(10,000)	44,552
CNIC	Tax Allocation	(2,227,312)	(2,118,779)	(560,000)	221,946
GCSC	Tax Allocation	0	0	0	3,371,311
ACIC	Tax Allocation	0	0	0	1,798,106
ARMGA	Tax Allocation	0	0	0	37,812
CIG	Lease (Salina, KS)	(54,000)	(60,000)	(60,000)	(60,000)
CIG	Lease (Columbia, MO)	(524,340)	(524,340)	(524,340)	(524,340)
TOTAL		$23,530,478	$27,177,458	$4,440,299	($11,238,454)

FIDELITY BOND AND OTHER INSURANCE

As of the December 31, 2009, CMIC had a $1,000,000 self-insured fidelity bond to cover losses resulting from fraudulent or dishonest acts of an employee. The $1,000,000 limit of the self-insured policy was below the suggested $1,250,000 minimum amount of fidelity insurance according to NAIC guidelines. The Company purchased a fidelity bond issued by an external insurance company, effective June 1, 2011, to replace the self-insured fidelity bond. The new fidelity bond has a liability limit of $1,250,000 with a $100,000 deductible, which meets the minimum coverage that is recommended by the NAIC. The Company's subsidiaries are also named insureds on this bond.

The Company is a named insured on other self-insured commercial policies issued either by CMIC or its subsidiaries, ACIC and GCSC. The self-insured policies are as follows: property, general liability, umbrella liability, automobile physical damage, and automobile liability. The Company or its subsidiary, CIG, are named insureds on the following policies issued by non-affiliates: errors and omissions, director's and officer's liability, worker's compensation, and employment practices liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

CMIC does not have any direct employees. The employees of a subsidiary, Columbia Insurance Group, Inc., perform all of the operational and administrative functions of the Company. The CIG employees are located in the Columbia, Missouri home office and branch offices in Atlanta, Georgia, Austin, Texas, Omaha, Nebraska, and Salina, Kansas. The employees also work on the operations of the Company's three subsidiary insurers (CNIC, GCSC, and ACIC) and an affiliate, CIT. At the end of 2010, CIG had 313 total employees.

A variety of standard benefits are provided to the CIG employees. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, disability insurance, vacation, sick leave, and tuition reimbursement. Employees are also provided with a 401(k) savings / retirement plan and a profit sharing plan. The Company's Board of Directors have a defined benefit pension plan. Salary and benefit costs for CIG employees are charged to the Company, pursuant to a Personnel and Service Agreement that is described in the Intercompany Agreements section of this report.

TERRITORY AND PLAN OF OPERATION

Columbia Mutual Insurance Company is licensed as a property and casualty insurer by the Missouri DIFP under Chapter 379 RSMo (Insurance Other than Life). The Company is licensed in 27 states, but only writes direct business in the following ten states: Arkansas, Illinois, Iowa, Kansas, Mississippi, Missouri, Nebraska, Oklahoma, South Dakota and Texas.

The Company operates under the Columbia Insurance Group brand name, which consists of CMIC, its three subsidiaries (CNIC, GCSC, ACIC), and an affiliate, CIT. The business operations of the Group are divided among the five branch offices. Business production, profits and losses, loss ratios, and other financial statistics are monitored and managed by branch office results, instead of a legal entity basis.

The pooled business of the five insurers in the Columbia Insurance Group is written directly in a total of nineteen states. The states with the largest percentage of 2009 direct written premiums for CMIC and Columbia Insurance Group were as follows:

State	CMIC 2009 Direct Written Premiums	CMIC % of Total	Pooled Group 2009 Direct Written Premiums	Group % of Total
Missouri	$34,217,144	34.7%	$ 50,964,252	20.2%
Arkansas	29,734,872	30.2%	35,771,929	14.2%
Kansas	10,197,183	10.3%	27,106,812	10.7%
Nebraska	7,669,427	7.8%	27,094,989	10.7%
Georgia	0	0.0%	41,605,104	16.5%
All Other	16,780,192	17.0%	69,727,427	27.6%
Total	$98,598,818	100.0%	$252,270,513	100.0%

The Group is highly concentrated in commercial lines, which are less susceptible to catastrophe losses from severe weather events, in comparison to personal lines. Business owners policies or "BOPs" are constantly being developed to meet the specialized business needs and fuel the future growth in commercial lines.

The major lines of business for CMIC and for the total pooled business of the Group, based upon 2009 direct written premiums, are listed in the table below.

Line of Business	CMIC 2009 Direct Written Premiums	CMIC % of Total	Pooled Group 2009 Direct Written Premiums	Group % of Total
Commercial Multiple Peril	$20,025,618	20.3%	$ 90,704,132	36.0%
Auto Physical Damage	28,597,396	29.0%	36,176,396	14.3%
Private Pass. Auto Liability	28,243,323	28.6%	28,242,836	11.2%
Commercial Auto Liability	4,335,497	4.4%	23,972,632	9.5%
Workers' Compensation	3,580,962	3.6%	25,526,217	10.1%
All Other	13,816,022	14.0%	47,648,300	18.9%
Total	$98,598,818	100.0%	$252,270,513	100.0%

Business for Columbia Insurance Group is produced by 873 independent agencies. Production is evenly distributed across the network of agencies. There was no agency that produced more than 6% of direct written premiums in 2009.

GROWTH OF COMPANY

The table below shows the Company's premium writings and writing ratios for the most recent five years, which includes the current examination period.

Year	Direct Premiums Written	Net Premiums Written	Change in Net Premiums	Capital and Surplus	Ratio of Net Premiums to Surplus
2005	$71,225,734	$146,818,173	na	$143,833,229	1.02
2006	74,169,644	143,366,766	-2.4%	166,941,408	0.86
2007	79,364,828	144,998,315	1.1%	184,797,981	0.78
2008	93,110,122	146,755,503	1.2%	146,318,231	1.00
2009	98,598,818	153,097,427	4.3%	165,546,205	0.92

Premium writings on a direct and net basis were mostly stable during the examination period. A 17% increase in direct premiums in 2008 was due to a $14.2 million increase in the private passenger auto lines of business. A management decision was made to write private passenger auto business only in Columbia Mutual, beginning in 2008. This strategy shifted a significant amount of direct business that was previously written by CNIC to Columbia Mutual. The premium to surplus ratio has changed very little from the end of the prior examination period (2005) to the end of the current examination period (2009).

Significant increases to capital and surplus in 2006 and 2007 were offset by a very large decrease in 2008. A $19.6 million underwriting loss in 2008 due to large storm losses was further exacerbated with unrealized losses on common stocks totaling $22.8 million. Columbia Mutual's three subsidiaries experienced the same underwriting losses from frequent severe storms, which resulted in a $15.0 million decrease in CMIC's equity in the subsidiaries' common stock. Positive results in 2009 were able to increase the overall capital and surplus by $20.7 million or 14% during the four years (2006 to 2009) of the current examination period.

LOSS EXPERIENCE

The table below shows the Company's incurred losses and loss ratios for the most recent five years, which includes the current examination period.

Year	Net Premiums Earned	Net Losses and Loss Adjustment Expenses	Loss Ratio
2005	$138,556,909	80,113,582	57.8%
2006	141,439,415	87,340,472	61.8%
2007	146,179,723	91,795,635	62.8%
2008	146,988,467	124,539,160	84.7%
2009	149,539,065	111,829,270	74.8%

Loss ratios were higher than normal in 2008 and 2009 due to large property losses from major storm activity in those years. The frequency of severe storm losses from wind and hail in 2008 was greater than any year in the Company's history.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2006	2007	2008	2009
Direct Business	$74,169,644	$79,364,828	$93,110,122	$ 98,598,818
Reinsurance Assumed:				
Affiliates	133,750,085	129,328,095	116,640,708	167,394,843
Non-affiliates	309,907	305,434	283,005	251,123
Reinsurance Ceded:				
Affiliates	(45,273,716)	(45,788,940)	(46,343,844)	(92,003,086)
Non-affiliates	(19,589,154)	(18,211,102)	(16,934,488)	(21,144,271)
Net Premiums Written	$143,366,766	$144,998,315	$146,755,503	$153,097,427

Assumed

The Company has an intercompany pooling agreement with CNIC, GCSC, ACIC and CIT that was previously described in the Intercompany Agreements section of this report. Columbia Mutual assumes 100% of the net direct and assumed business of these affiliated insurers, pursuant to the terms of the agreement. The assumed business from the pooling agreement accounted for 99.8% of total assumed premiums in 2009 and 99.5% of assumed case loss and LAE reserves, as of December 31, 2009. Ceding of the pooled business back to the affiliates is discussed in the Ceded section of this report. The immaterial amounts of remaining business assumed by CMIC are from pools and associations.

Ceded

The business assumed by CMIC from its three insurance subsidiaries and an affiliate, CIT, are combined with CMIC's direct and assumed business to form the total pooled business for Columbia Insurance Group. After application of outside reinsurance, CMIC cedes back a percentage of the net pooled business to the affiliates, pursuant to the intercompany pooling agreement. As of December 31, 2009 and currently, the pooling percentages of the affiliates for the net pooled business were 17% for CNIC, 9% for ACIC, 7% for GCSC, and 1% for CIT. The remaining 66% is retained by CMIC.

All of CMIC's reinsurance agreements with unaffiliated reinsurers also cover the risks assumed from the Company's subsidiaries and CIT under the intercompany pooling arrangement. Thus, these reinsurance agreements cede the gross pooled risks of the five insurers included in Columbia Insurance Group. Below is a summary of the major external reinsurers, based upon 2009 ceded premiums and net reinsurance recoverables, as of December 31, 2009:

Name of Reinsurer	2009 Premiums Ceded	Percent of Ceded Premiums	Net Reins. Recoverable 12/31/2009	Percent of Net Recov.
Munich Reinsurance America, Inc.	7,907,000	37.4%	12,252,000	51.1%
Westport Insurance Corporation	55,000	0.3%	8,474,000	35.4%
General Reinsurance Corporation	6,937,000	32.8%	1,998,000	8.3%
Factory Mutual Insurance Co.	1,974,000	9.3%	875,000	3.7%
All Others	4,271,000	20.2%	357,000	1.5%
Total Ceded – Unaffiliated	$21,144,000	100.0%	$23,956,000	100.0%

The external reinsurance program is structured with per risk, per occurrence, and catastrophe coverages. The significant per risk and per occurrence reinsurers are Munich Reinsurance America, Inc. and General Reinsurance Corporation. Westport Insurance Corporation was the main per risk / per occurrence reinsurer for 2003 and prior accident years. Factory Mutual Insurance Company is the reinsurer for boiler, machinery and equipment risks. Property catastrophe coverage is provided by various Lloyd's syndicates and other authorized and unauthorized reinsurers in Bermuda.

The per risk property reinsurance coverage for 2009 and 2010 cedes 100% of risks in excess of a $1,000,000 retention per property risk, up to a reinsured limit of $10,000,000 per risk. The Group has a three-layer property catastrophe program with several participating reinsurers. The 2009 and 2010 catastrophe coverages for each layer are as follows:

Layer	Subject Net Losses	Reinsurance %
First	$10,000,000 excess of $10,000,000	95%
Second	$20,000,000 excess of $20,000,000	95%
Third ^	$30,000,000 excess of $40,000,000	95%

^ Earthquake losses only

During 2009 and 2010, the reinsurance coverage for casualty and workers' compensation policies cedes 100% of losses in excess of a $1,000,000 retention per occurrence, up to a reinsured limit of $10,000,000 per occurrence. There is an additional $10,000,000 layer of coverage for workers' compensation and casualty clash occurrences (two or more policies involved), in excess of a $10,000,000 retention.

The Group has facultative reinsurance coverage to cede risks on a quota share basis for commercial and personal umbrella liability policies. For 2009, accepted risks are ceded 95% of the first $1,000,000 of losses per risk and 100% of losses in excess of $1,000,000. The facultative coverage for 2010 was changed to cede 97.5% of the first $5,000,000 of losses per accepted risks and 100% of losses in excess of $5,000,000. There are also facultative agreements to cede property risks.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

The Group's business applications are run through servers located in the data center of the home office in Columbia, Missouri. An IBM iSeries server is used to host the WINS application for policy and claims management. An HP Proliant server is used to host the Microsoft Dynamics (formerly Great Plains) application for the general ledger system, financial reporting, the CAS system for claims management, and the SunGard system for investment management. Routers connect the four branch offices located in Atlanta, Austin, Omaha, and Salina (Kansas) to the computer systems in the home office via the internet.

The CPA firm, KPMG, LLP, of Kansas City, Missouri issued audited statutory financial statements of the Company for all years in the examination period.

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses was issued by Mark A. Doepke, FCAS, MAAA, of Actuarial Advisors, Inc. in Minneapolis, Minnesota, for all years of the examination period.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP as of December 31, 2009, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities to be Deposited). The funds on deposit were as follows:

Type of Security	Par Value	Fair Value	Statement Value
State and Municipal Bonds	\$2,000,000	\$2,130,860	\$2,020,161

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit, as of December 31, 2009, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Georgia	U.S. Gov. Agency Bonds	\$102,500	\$106,880	\$100,320
New Mexico	U.S. Gov. Agency Bonds	355,000	370,301	371,693
Virginia	U.S. Gov. Agency Bonds	225,000	234,698	235,580
Total		\$682,500	\$711,879	\$707,593

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Columbia Mutual Insurance Company for the period ending December 31, 2009. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Comments on Financial Statement Items." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2009

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$173,811,365	$ 0	$173,811,365
Common Stocks	110,353,853	0	110,353,853
Mortgage Loans on Real Estate	10,863,543	0	10,863,543
Real Estate	2,401,294	0	2,401,294
Cash, Cash Equivalents and Short-Term Investments	7,909,944	0	7,909,944
Other Invested Assets	1,059,638	93,898	965,740
Investment Income Due and Accrued	1,969,708	0	1,969,708
Uncollected Premiums and Agents' Balances	15,790,969	429,997	15,360,972
Deferred Premiums	23,850,689	125,948	23,724,741
Amounts Recoverable from Reinsurers	459,928	0	459,928
Funds Held by Reinsured Companies	11,115	0	11,115
Other Reinsurance Amounts Receivable	2,085,071	0	2,085,071
Federal Income Tax Recoverable	1,229,693	0	1,229,693
Net Deferred Tax Asset	10,773,465	2,599,737	8,173,728
Guaranty Funds Receivable	428,756	0	428,756
EDP Equipment and Software	1,233,718	542,644	691,074
Furniture and Equipment	183,069	183,069	0
Receivable from Parent, Sub., Affiliates	303,673	0	303,673
Aggregate Write-In Assets	1,549,934	549,043	1,000,891
TOTAL ASSETS	$366,269,425	$4,524,336	$361,745,089

Liabilities, Surplus and Other Funds
as of December 31, 2009

Losses	$ 81,979,523
Reinsurance Payable on Paid Losses	335,324
Loss Adjustment Expenses	27,659,154
Commissions Payable	4,462,676
Other Expenses	1,808,364
Taxes, Licenses and Fees	2,260,271
Unearned Premium	70,701,573
Advance Premium	1,846,048
Ceded Reinsurance Premiums Payable	1,499,722
Funds Held Under Reinsurance Treaties	172,920
Remittances and Items Not Allocated	55,055
Provision for Reinsurance	2,000
Payable to Parent, Subsidiaries and Affiliates	3,098,623
Aggregate Write-In Liabilities	317,631
TOTAL LIABILITIES	**$196,198,884**
Aggregate Write-Ins for Special Surplus Funds	1,118,871
Surplus Notes	20,078,184
Unassigned Funds (Surplus)	144,349,150
Capital and Surplus	**$165,546,205**
TOTAL LIABILITIES AND SURPLUS	**$361,745,089**

Statement of Income
For the Year Ended December 31, 2009

Premium Earned	$149,539,065
DEDUCTIONS:	
Losses Incurred	96,916,190
Loss Adjustment Expenses Incurred	14,913,080
Other Underwriting Expenses Incurred	44,756,001
Total Underwriting Deductions	$156,585,271
Net Underwriting Loss	($ 7,046,206)
Net Investment Income Earned	9,730,754
Net Realized Capital Gains	2,271,694
Net Investment Gain	$ 12,002,448
Other Income	912,394
Dividends to Policyholders	246,057
Federal Income Taxes Incurred	675,169
Net Income	$ 4,947,410
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2008	$146,318,231
Net Income	4,947,410
Change in Net Unrealized Capital Gains or (Losses)	11,160,492
Change in Net Deferred Income Tax	(769,938)
Change in Non-Admitted Assets	2,725,139
Change in Provision for Reinsurance	46,000
Change in Surplus Notes	(32,469)
Aggregate Write-In for Gains and Losses in Surplus	1,151,340
Surplus as Regards Policyholders, December 31, 2009	$165,546,205

Comments on Financial Statement Items

None.

Examination Changes

None.

General Comments and/or Recommendations

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Columbia Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CFE, Steve Koonse, CFE, Jeff Blume and Timothy Carroll, examiners for the Missouri DIFP, participated in this examination. Jon Michelson, FCAS, MAAA, of Expert Actuarial Services, LLC, also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of)

I, Tim L. Tunks, 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 Columbia Mutual Insurance 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.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 22nd day of April, 2011.

My commission expires: Sept 5, 2013 Helen Jeavons

Notary Public

HELEN JEAVONS
Notary Public-Notary Seal
State of Missouri, County of Boone
Commission # 09754673
My Commission Expires Sept. 5, 2013

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.

Mark A. Nance, CPA, CFE
Audit Manager
Missouri DIFP