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 for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Columbia Mutual Insurance Company for the period ended December 31, 2013, 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, financial statement changes resulting from examination, 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, 2013 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 14th day of June, 2015.

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

REPORT OF THE

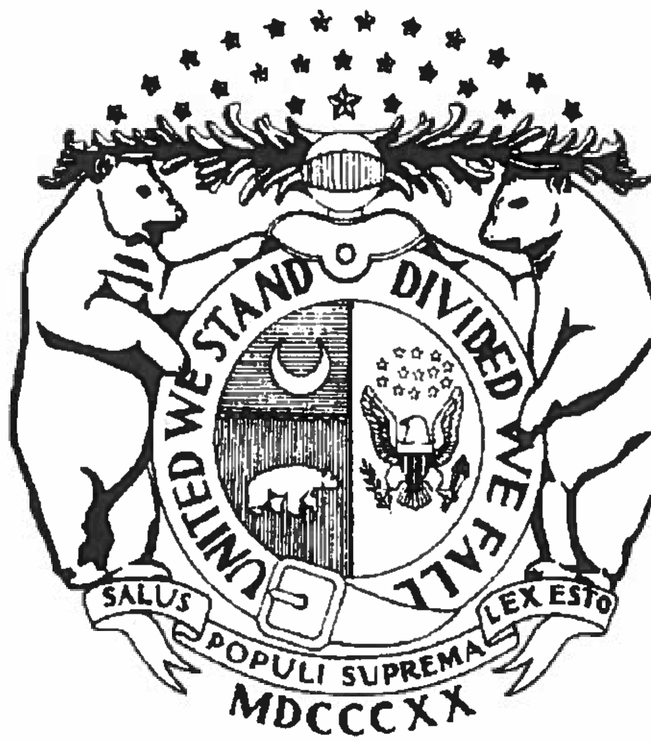
FINANCIAL EXAMINATION OF

COLUMBIA MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

FILED
JUN 25 2015
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 7, 2015

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

Director Huff:

In accordance with your financial examination warrant, a full scope 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 November 3, 2014, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of CMIC. The last examination was completed as of December 31, 2009. This examination covers the period of January 1, 2010, through December 31, 2013. This examination also included the material transactions or events occurring subsequent to December 31, 2013.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (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.

This examination was coordinated with the concurrent examinations conducted by other state insurance departments, as follows: Georgia Office of Insurance and Safety Fire Commissioner examination of Georgia Casualty and Surety Company, Nebraska Department of Insurance examination of Columbia National Insurance Company, Texas Department of Insurance examination of Association Casualty Insurance Company. These three insurers are subsidiaries of Columbia Mutual.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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, 2013 through December 31, 2013. Areas in which the testing and results from the CPA workpapers were relied upon in our examination included internal controls, paid claims data, claim approval authorization, intercompany pooling transactions, written premium and premium receivable attributes, mortgage loan confirmations, bank 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

There were no significant subsequent events noted from December 31, 2013 through the date of this report.

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).

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
2010	$167,936
2011	174,898
2012	158,163
2013	135,601

The Company received dividends in 2010 from its insurance subsidiaries, as follows: Columbia National Insurance Company (through Columbia Insurance Group, Inc.) – $2,000,000, Association Casualty Insurance Company – $500,000, Georgia Casualty and Surety Company – $500,000. No dividends were received from the subsidiaries in 2011, 2012 or 2013.

Mergers and Acquisitions

There were no mergers or acquisitions involving the Company or its subsidiaries during the examination period.

CORPORATE RECORDS

The Company's Articles of Association and Bylaws were reviewed. There were no amendments or changes to the Articles of Association or Bylaws during the examination period.

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, 2013, were as follows:

Name	Principal Occupation and Business Affiliation
D. Christopher Belcher	Assistant Teaching Professor, University of Missouri
Bernard J. Fechtel	Owner and President, Fechtel Beverage & Sales, Inc.
Robert A. Gerding	President, Gerding, Korte & Chitwood, CPAs
Jeffrey C. Greenwald	President and CEO, INSPRO, Inc.
William E. Gusenius	Attorney, Gusenius Law Firm
Laura K. Hinson	Retired (former CFO and Treasurer), QBE the Americas
Teresa R. Maledy	Regional President, Commerce Bank
Betty J. Schuster	Agent, Principal Financial Group
Gary W. Thompson	President and CEO, Columbia Insurance Group

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, 2013, were as follows:

Audit Committee	Compensation Committee
William E. Gusenius (Chair)	Bernard J. Fechtel (Chair)
Robert A. Gerding	Jeffrey C. Greenwald
Laura K. Hinson	Laura K. Hinson
Teresa R. Maledy	Teresa R. Maledy
Roger D. Ballard (non-voting)	Stephen B. Lubbering (non-voting)

Finance Committee	Governance/Nominating Committee
Betty J. Schuster (Chair)	Robert A. Gerding (Chair)
D. Christopher Belcher	William E. Gusenius
Bernard J. Fechtel	Betty J. Schuster
Jeffrey C. Greenwald	Gary W. Thompson
A. Benjamin Galloway (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, and the Information Technology 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, 2013, were as follows:

Name	Office
Robert A. Gerding	Chairman of the Board
Gary W. Thompson	Vice Chairman, President and Chief Executive Officer
Gina D. Boone	Secretary, Vice President, and General Counsel
Roger D. Ballard [1]	Senior Vice President, Treasurer and CFO
A. Benjamin Galloway	Senior Vice President and Chief Risk Officer
Jon R. Erickson	Senior Vice President and Chief Claims Officer
Mark R. Dale	Vice President – Omaha Branch Manager
Michelle J. DeVore	Vice President – Columbia Branch Manager
Stephen B. Lubbering	Vice President – Human Resources
Robert K. O'Reilly, Jr.	Vice President – Atlanta Branch Manager
Rory Read	Vice President – Information Technology
Byron C. Smith	Vice President – Austin Branch Manager
Dwight P. Tully	Vice President – Salina Branch Manager

[1] Retired in July 2014. Replaced by Kelly J. Klug

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.

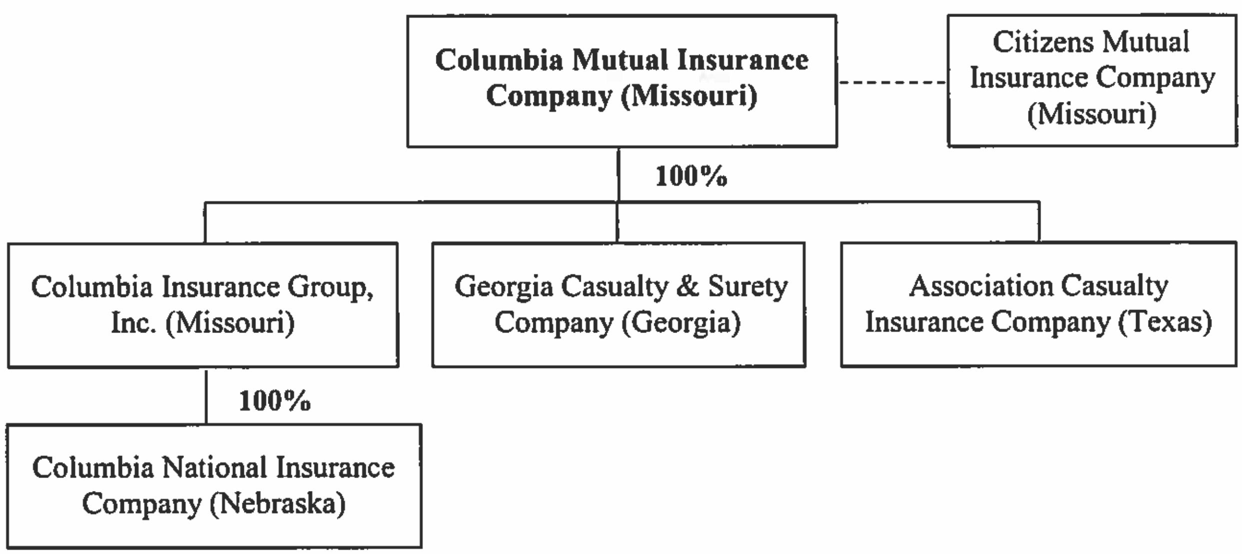
Below is a description of the business operations of CMIC's subsidiaries and affiliates.

- **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. CNIC had $104 million of direct written premiums in 2013. The states with the largest amount of premium volume are Nebraska, Kansas, Georgia, and Oklahoma. These four states accounted for 75% of CNIC's 2013 direct written premiums.
- **Georgia Casualty & Surety Company (GCSC)** – A Georgia property and casualty insurer that was formed in 1947 and acquired by Columbia Mutual in 2008. GCSC had $7 million of direct written premiums in 2013. Georgia and Texas accounted for 58% and 22%, respectively, of GCSC's direct written premiums in 2013.
- **Association Casualty Insurance Company (ACIC)** – A Texas property and casualty insurer that was formed in 1978 and acquired by Columbia Mutual in 2008. ACIC had $28 million of direct written premiums in 2013. Texas and Georgia accounted for 46% and 35%, respectively, of ACIC's direct written premiums in 2013.
- **Citizens Mutual Insurance Company (CIT)** – A farm mutual insurer domiciled in Missouri. Direct written premiums in 2013 were $4 million that was written only 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.

Organizational Chart

Below is the organization chart of Columbia Insurance Group, as of December 31, 2013.



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

Intercompany Agreements

The Company's agreements with related parties that were in effect, as of December 31, 2013 and subsequent periods are outlined below.

1. **Type:** Tax Allocation Agreement

   Parties: CIG, CNIC, GCSC, ACIC

   Effective: October 15, 2008

   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.

2. **Type:** Intercompany Reinsurance Agreement

   Parties: CNIC, GCSC, ACIC, CIT

   Effective: January 1, 2009

   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 of 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.

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

   Parties: CIG, CNIC, GCSC, ACIC, CIT

   Effective: January 1, 2011

   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.

4. **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.

Intercompany Payments

The following table summarizes the payments made during the examination period, between CMIC and its subsidiaries, pursuant to intercompany agreements and other transactions:

Subsidiary/		Amount Incurred / (Earned)			
Affiliate	Agreement	2010	2011	2012	2013
CIG	Tax Allocation	195,697	0	0	0
CNIC	Tax Allocation	(841,000)	774,618	0	0
GCSC	Tax Allocation	(265,000)	243,740	0	0
ACIC	Tax Allocation	(160,000)	144,345	0	0
CNIC	Intercompany Reinsurance	950,430	(11,684,517)	(3,445,242)	(3,936,251)
GCSC	Intercompany Reinsurance	1,343,054	(65,078)	5,775,204	4,771,943
ACIC	Intercompany Reinsurance	156,328	6,792,565	9,249,348	8,986,650
CIT	Intercompany Reinsurance	482,017	(401,051)	131,868	283,666
CIG	Personnel and Services [2]	25,038,364	16,693,123	16,080,941	16,056,281
CNIC	Facilities and Services [3]	n/a	(2,219,314)	(2,374,788)	(2,353,059)
GCSC	Facilities and Services [3]	n/a	(916,742)	(981,913)	(974,999)
ACIC	Facilities and Services [3]	n/a	(1,173,987)	(1,256,475)	(1,244,347)
CIT	Facilities and Services [3]	n/a	(117,426)	(140,156)	(130,342)
CIG	Lease (Salina, KS) [4]	(66,000)	n/a	n/a	n/a
CIG	Lease (Columbia, MO) [4]	(524,340)	n/a	n/a	n/a
TOTAL		$26,309,550	$8,070,276	$23,038,787	$21,459,542

[2] Agreement had different terms in 2010 and was revised, effective January 1, 2011
[3] Agreement was effective on January 1, 2011
[4] Agreement terminated, effective January 1, 2011

FIDELITY BOND AND OTHER INSURANCE

The Company and its subsidiaries are named insureds on a financial institution bond to cover losses resulting from fraudulent or dishonest acts of an employee. The 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 is a named insured on self-insured commercial policies issued either by CMIC or its subsidiaries, ACIC and CNIC. The self-insured policies pertain to the following coverages: property, general liability, and umbrella liability. The Company or its subsidiary, CIG, are named insureds on the following policies issued by non-affiliates: insurance company professional liability, director's and officer's liability, commercial auto liability, worker's compensation and employer's liability, employment practices liability, and cyber risk 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 2013, CIG had approximately 300 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, and tuition reimbursement. Employees are also provided with a 401(k) savings / retirement plan and a short-term incentive plan. Members of management at the officer level have a long-term incentive plan and a deferred compensation plan. The Company's Board of Directors have a defined benefit pension plan and a deferred compensation plan. Salary and benefit costs for CIG employees are charged to the Company, pursuant to a Personnel and Services 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 29 states, but only writes direct business in the 14 states.

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 an 18 state territory that is concentrated mostly in the Midwest and Southeast regions. The states with the largest percentage of 2013 direct written premiums for CMIC and Columbia Insurance Group were as follows:

State	CMIC 2013 Direct Written Premiums	CMIC % of Total	Pooled Group 2013 Direct Written Premiums	Group % of Total
Missouri	$ 48,260,095	33.8%	$ 58,033,951	20.3%
Arkansas	32,206,492	22.6%	34,321,844	12.0%
Kansas	10,905,102	7.6%	32,575,845	11.4%
Nebraska	10,690,688	7.5%	33,638,289	11.8%
Georgia	7,797,124	5.5%	41,353,618	14.5%
All Other	32,885,669	23.0%	86,061,379	30.1%
Total	$142,745,170	100.0%	$285,984,926	100.0%

The major lines of business for CMIC and for the total pooled business of CIG, based upon 2013 direct written premiums, are listed in the table below.

Line of Business	CMIC 2013 Direct Written Premiums	CMIC % of Total	Pooled Group 2013 Direct Written Premiums	Group % of Total
Commercial Multiple Peril	$69,262,417	48.50%	$125,476,209	43.90%
Private Pass. Auto Liability	24,377,064	17.10%	24,377,064	8.50%
Auto Physical Damage	24,084,844	16.90%	33,163,392	11.60%
Workers' Compensation	5,367,636	3.80%	25,045,381	8.80%
Commercial Auto Liability	4,991,618	3.50%	24,561,087	8.60%
All Other	14,661,591	10.30%	53,361,793	18.70%
Total	$142,745,170	100.00%	$285,984,926	100.00%

CIG is highly concentrated in commercial lines, which comprised 73% and 79% of total direct written premiums in 2013 and 2014, respectively. The high level of commercial premium volume has increased from 67% of total premiums in 2009. Small to medium sized businesses, (e.g., restaurants, contractors, auto repair shops) are the primary focus of the products that are marketed. CIG withdrew from the homeowners line of business beginning in 2013 and fully completed by the end of 2014.

Business for Columbia Insurance Group is produced by approximately 600 independent agencies. Production is evenly distributed across the network of agencies. There was no agency that produced more than 2% of direct written premiums in 2013 or 2014.

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
2010	$101,815,513	$152,244,682	na	$186,550,944	0.82
2011	106,031,702	159,486,672	4.8%	158,562,594	1.01
2012	142,392,829	171,953,181	7.8%	136,278,903	1.26
2013	142,745,170	148,936,242	-13.4%	155,465,093	0.96
2014	130,978,781	116,227,188	-22.0%	168,135,246	0.69

Direct premium writings increased significantly in 2012 due to a $37.5 million increase in commercial multiple peril line of business. Policies from select commercial products were transferred upon renewal from the CNIC subsidiary to Columbia Mutual in 2012. The large decrease in net premiums in 2013 was due to a 25% quota share reinsurance agreement that ceded premiums for in-force policies, as of December 31, 2013. Both direct and net premiums decreased in 2014 due to the exit from the homeowners line of business and a full year impact of ceded premiums from the quota share reinsurance.

Significant decreases to capital and surplus and corresponding increases in the premium to surplus ratio occurred in 2011 and 2012, which were due to increased frequency and severity of claims from storm events. Overall, surplus decreased 26% in the two year period. Profitability was restored in 2013 and 2014 from rate increases, moderation of storm losses, surplus relief from the quota share reinsurance agreement, and termination of poorly performing business.

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
2010	$150,101,289	$105,435,426	70.2%
2011	155,726,453	145,120,341	93.2%
2012	166,540,951	146,180,178	87.8%
2013	170,953,236	126,941,400	74.3%
2014	122,426,705	82,534,116	67.4%

Loss ratios were higher than normal in 2011 and 2012 due to large property losses from major storm activity in those years. Losses from severe storms (wind, hail, tornados) in 2011 were 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:

	2010	2011	2012	2013
Direct Business	$101,815,513	$106,031,702	$142,392,829	$142,745,170
Reinsurance Assumed:				
Affiliates	148,878,955	158,792,313	141,407,207	136,538,034
Non-affiliates	256,056	177,047	255,872	314,817
Reinsurance Ceded:				
Affiliates	(78,429,079)	(82,159,801)	(88,581,942)	(76,724,730)
Non-affiliates	(20,276,763)	(23,354,589)	(23,520,785)	(53,937,049)
Net Premiums Written	$152,244,682	$159,486,672	$171,953,181	$148,936,242

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 2013 and 99.8% of assumed case loss and LAE reserves, as of December 31, 2013. 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, 2013 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 2013 ceded premiums and net reinsurance recoverables, as of December 31, 2013:

Name of Reinsurer	2013 Premiums Ceded	Percent of Ceded Premiums	Net Reins. Recoverable	Percent of Net Recov.
Munich Reinsurance America, Inc.	38,055,000	70.60%	34,082,000	67.20%
General Reinsurance Corporation	8,700,000	16.10%	8,693,000	17.10%
Westport Insurance Corporation	0	0.00%	6,719,000	13.30%
Factory Mutual Insurance Co.	2,331,000	4.30%	1,051,000	2.10%
All Others	4,851,000	9.00%	142,000	0.30%
Total Ceded – Unaffiliated	$53,937,000	100.00%	$50,687,000	100.00%

The Company executed a quota share reinsurance agreement, effective December 31, 2013, with Munich Reinsurance America, Inc. (Munich Re). Columbia Mutual ceded 25% of unearned premiums for policies in-force, as of the effective date. Beginning January 1, 2014, Columbia Mutual cedes 25% of new and renewal premiums to Munich Re. The quota share agreement will terminate on January 1, 2016. Munich Re also provides reinsurance on an automatic and facultative basis for umbrella liability policies.

The Company has reinsurance agreements with General Reinsurance Corporation (Gen Re) that provide layered coverage on an excess of loss basis for property and casualty risks. Columbia Mutual has a $1,000,000 retention per property risk and per liability occurrence under both the 2013 and 2014 agreements. Losses in excess of the $1,000,000 retention are ceded 100% to Gen Re, up to a reinsured limit of $10,000,000 per risk / 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.

Westport Insurance Corporation (Westport) was the primary per risk / per occurrence reinsurer for 2003 and prior accident years. Reserves ceded to Westport, as of the examination date, are mostly for worker's compensation policies. 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. The Group has a three-layer property catastrophe program with several participating reinsurers. The 2013 and 2014 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	$10,000,000 excess of $40,000,000	95%

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 utilize servers of a third-party vendor that are located in a data center in Kansas City, Missouri. Routers connect the four branch offices located in Atlanta, Austin, Omaha, and Salina to the data center in Kansas City, Missouri. Significant business applications are as follows:

- Insurity WINS – Policy and claims management
- Microsoft Dynamics GP – General ledger system and financial reporting
- CAS – Claims management
- SunGard iWORKS – Statutory financial statements
- New England Asset Management (third-party vendor) – Investment management

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, 2013, 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	$2,032,550	$2,003,350

Deposits with Other States

The Company has funds on deposit with other states. Those funds on deposit, as of December 31, 2013, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Georgia	U.S. Gov. Agency Bond	$ 100,000	$ 111,656	$ 102,164
New Mexico	U.S. Gov. Agency Bond	355,000	396,379	362,683
North Carolina	U.S. Treasury Note	350,000	358,533	350,473
Virginia	U.S. Gov. Agency Bond	225,000	251,226	229,870
Total		$1,030,000	$1,117,794	$1,045,190

Other Deposits

The Company also has funds pledged as collateral with the Federal Home Loan Bank (FHLB) to secure outstanding loan balances. Three bonds with a total book value of $2,362,679 were pledged to the FHLB, as of December 31, 2013.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Columbia Mutual Insurance Company for the period ending December 31, 2013. 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, 2013

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$191,857,558	$ 0	$191,857,558
Common Stocks	103,409,632	0	103,409,632
Mortgage Loans on Real Estate	10,419,571	0	10,419,571
Real Estate	6,805,612	0	6,805,612
Cash, Cash Equivalents and Short-Term Investments	(1,808,766)	0	(1,808,766)
Other Invested Assets	406,344	0	406,344
Investment Income Due and Accrued	1,243,575	0	1,243,575
Uncollected Premiums and Agents' Balances	17,990,666	239,201	17,751,465
Deferred Premiums	27,266,080	149,275	27,116,805
Amounts Recoverable from Reinsurers	959,618	0	959,618
Funds Held by Reinsured Companies	7,484	0	7,484
Other Reinsurance Amounts Receivable	4,764,668	0	4,764,668
Federal Income Tax Recoverable	0	0	0
Net Deferred Tax Asset	18,632,487	5,012,202	13,620,285
Guaranty Funds Receivable	23,850	0	23,850
EDP Equipment and Software	980,590	613,445	367,145
Furniture and Equipment	46,285	46,285	0
Receivable from Parent, Sub., Affiliates	404,046	0	404,046
Aggregate Write-In Assets	1,057,764	50,000	1,007,764
TOTAL ASSETS	**$384,467,064**	**$6,110,408**	**$378,356,656**

LIABILITIES, SURPLUS AND OTHER FUNDS
as of December 31, 2013

Losses	$104,043,559
Reinsurance Payable on Paid Losses	407,364
Loss Adjustment Expenses	27,991,412
Commissions Payable	6,225,832
Other Expenses	2,764,527
Taxes, Licenses and Fees	1,999,863
Borrowed Money	2,140,289
Unearned Premium	60,233,686
Advance Premium	1,932,082
Ceded Reinsurance Premiums Payable	4,329,231
Funds Held Under Reinsurance Treaties	10,152,245
Remittances and Items Not Allocated	36,325
Provision for Reinsurance	1,000
Payable to Parent, Subsidiaries and Affiliates	0
Aggregate Write-In Liabilities	634,148
TOTAL LIABILITIES	**$222,891,563**
Surplus Notes	20,077,787
Unassigned Funds (Surplus)	135,387,306
Capital and Surplus	$155,465,093
TOTAL LIABILITIES AND SURPLUS	**$378,356,656**

STATEMENT OF INCOME
For the Year Ended December 31, 2013

Premium Earned	**$170,953,236**
DEDUCTIONS:	
Losses Incurred	108,957,005
Loss Adjustment Expenses Incurred	17,984,395
Other Underwriting Expenses Incurred	43,570,233
Total Underwriting Deductions	$170,511,633
Net Underwriting Gain	**$ 441,603**
Net Investment Income Earned	4,918,873
Net Realized Capital Gains	841,264
Net Investment Gain	**$ 5,760,137**
Other Income	1,432,442
Dividends to Policyholders	135,601
Federal Income Taxes Incurred	(433,379)
Net Income	**$ 7,931,960**
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2012	$136,278,903
Net Income	7,931,960
Change in Net Unrealized Capital Gains or (Losses)	10,748,550
Change in Net Deferred Income Tax	(2,692,615)
Change in Non-Admitted Assets	3,220,845
Change in Provision for Reinsurance	1,000
Change in Surplus Notes	(1,290)
Aggregate Write-In for Gains and Losses in Surplus	(22,260)
Surplus as Regards Policyholders, December 31, 2013	**$155,465,093**

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, Marc Peterson, CFE, Steve Koonse, CFE, Emily Pennington, and Kim Dobbs, CFE, AES, examiners for the Missouri DIFP, participated in this examination. Glenn Tobleman, FCAS, MAAA, of Lewis & Ellis, Inc., 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 7th day of May, 2015.

My commission expires: March 4, 2016

Kathryn Latimer

Notary Public

NOTARY PUBLIC
NOTARY SEAL
STATE OF MISSOURI

KATHRYN LATIMER
My Commission Expires
March 4, 2016
Cole County
Commission #12418395

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