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, 2005

ORDER

After full consideration and review of the report of the financial examination of Columbia Mutual Insurance Company for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER 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 mentioned in the General Comments and/or 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 March 30, 2007.

DOUGLAS M. OMMEN, Director
Department of Insurance, Financial Institutions
and Professional Registration

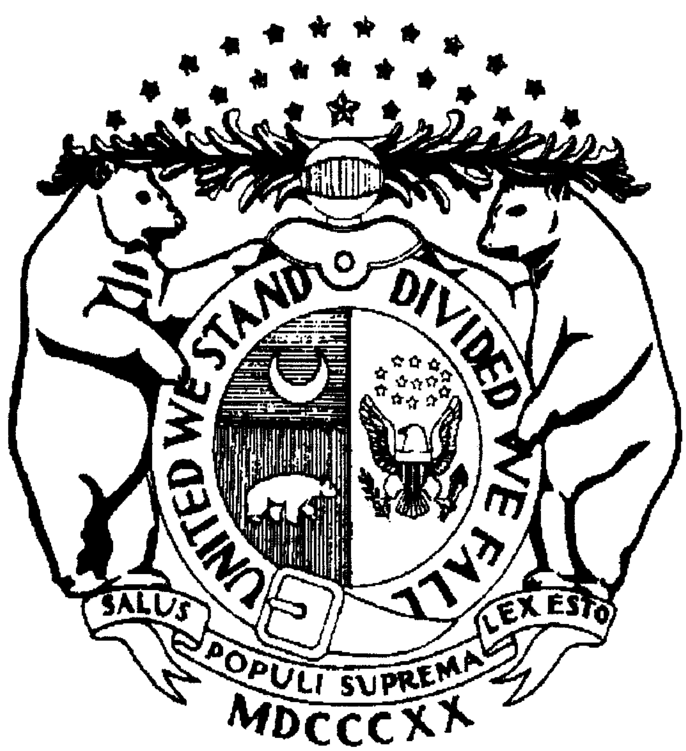
REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

COLUMBIA 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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Columbia, Missouri
January 12, 2007

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

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
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

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 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 August 21, 2006, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of CMIC was made as of December 31, 2001, 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, 2002, through December 31, 2005, 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 conducted concurrently with the examination of the Company's affiliate, Citizens Mutual Insurance Company (CIT).

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 using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, 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 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, 2005, through December 31, 2005. Information relied upon included bank confirmations, attorney letters, tests of controls, and narrative descriptions of processes and controls.

COMMENTS – PREVIOUS EXAMINATION

The previous financial examination of CMIC was conducted by the DIFP for the period ending December 31, 2001. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Board of Director's Compensation

Comment: It was recommended that the Company continue to monitor the annual fees paid to the Board of Directors to ensure that the compensation is comparable with amounts paid by other similar sized mutual property and casualty insurers.

Company's Response: The Company stated that it was their belief that the compensation paid to Board members is a reasonable benefit concerning the high caliber of the individuals who serve on our Board, and the extensive services they provide. It was further stated that CMIC will continue to monitor Board compensation and expenses to ensure that they are comparable to other mutual property and casualty insurers and that policyholders receive a reasonable benefit for this expense.

Current Findings: The fees of $40,000 (plus $5,000 for the Chairman) per year that are paid to each Director have not changed since 1998. No reasons for concern were noted in the current examination regarding compensation paid to the Board of Directors.

Information Systems

Comment: The following recommendations were made for information systems:

(1) The ability of employees to perform all non-inquiry functions within live financially significant applications should be granted on an exception only basis.
(2) The ability of programmers to directly modify live production environment data that is financially significant should be granted on an exception only basis.
(3) The auditing features on the AS/400 systems should be enabled and pertinent events, such as authority failures, changing of user access profiles, and object creation and deletion, should be logged and periodically reviewed.
(4) The Company should implement and test its anticipated "cold-site" disaster recovery arrangements, including the restoration of financially significant systems from backup media.

Company's Response: The Company's responses to the four recommendations for information systems were as follows:

(1) (2) "Columbia Insurance Group has recently installed an automated product that allows the companies to segregate duties. This product limits the ability of various persons to move or change programs or the data contained therein. In addition, the product provides differing levels of authority by designated position. There are currently separate developer and quality assurance libraries for both development and testing. The system only allows the migration of files and programs by using the newly installed product. Only senior programmer / analyst and management have the authority to move files or programs into production. Non-inquiry and modification of live production data that is financially significant may only be accomplished in a controlled environment. Data file utility logs are placed in a specific out-queue, and they are periodically reviewed by management."
(3) The Company stated that the auditing feature on the AS/400 will be enabled during the third quarter of 2003 in conjunction with a data center upgrade. The suggested functions are contained within the AS/400 auditing features.
(4) "The companies have developed a comprehensive business continuity plan which will enable the companies to resume business as quickly as possible following a major catastrophe. The business continuity plan is not only limited to information systems but also extends to all facets of business conducted by the companies. A surprise test of the business continuity plan was conducted in November of 2002 and the test was very successful. The Company is currently in the process of reviewing several cold-site disaster recovery arrangements, including the use of one or more of the Company's branch office facilities in order to function as a base data processing center, and it would also function as a backup facility for both data and voice telecommunications."

Current Findings: No significant problems were noted in the review of information systems during the current examination.

Guaranty Fund Deposits

Comment: It was stated that the Company should not report Missouri guaranty fund deposits as admitted assets in future Annual Statement filings, in accordance with Section 375.774 RSMo (Certificate of Contribution, Issued When).

Company's Response: The Company stated that procedures have been put in place to assure proper reporting of Missouri guaranty fund deposits. It was also stated that these deposits were properly reported in the 2002 Annual Statement.

Current Findings: Section 375.774 RSMo was revised in 2004 to allow all Missouri guaranty fund contributions to be reported as admitted assets over a three-year amortization period. Thus, the prior exam comment is no longer applicable.

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).

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

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
2002	$ 92,904
2003	77,072
2004	4,745
2005	0

Management

The management of the Company is vested in a Board of Directors that are appointed by the policyholders. The Company's Articles of Association and Bylaws specify that the number of directors shall be nine. Each director must also be a policyholder of CMIC. The Board of Directors appointed and serving, as of December 31, 2005, were as follows:

Name and Address	Principal Occupation and Business Affiliation
John S. Blakemore Columbia, MO	Professor Stevens College
Dale H. Creach Columbia, MO	Retired – former President MFA Oil Company
Robert A. Gerding Columbia, MO	President Gerding, Corte & Chitwood, P.C., CPA's
William E. Gusenius Lindsborg, KS	Attorney Gusenius Law Firm
Joe W. Scallorns California, MO	Retired – former President Farmers & Traders Bank
Betty J. Schuster Columbia, MO	Agent Principal Financial Group
Robert J. Wagner Columbia, MO	President and Chief Executive Officer Columbia Insurance Group, Inc.
Gene E. Wills Millersville, MO	President and Chief Executive Officer Wills Insurance Agency
Marvin E. Wright Columbia, MO	General Counsel University of Missouri System

Committees

The Bylaws provide that the Board of Directors may appoint such committees and vest powers and authority in such committees as the Board may see fit. As of December 31, 2005, the members of each committee were as follows:

Executive/Governance Committee
Marvin E. Wright – Chairman
Dale H. Creach – Member
Joe W. Scallorns – Member
Robert J. Wagner – Ex Officio Member

Audit Committee
Robert A. Gerding – Chairman
John S. Blakemore – Member
Joe W. Scallorns – Member
William E. Gusenius – Member

Finance Committee
Dale H. Creach – Chairman
Robert A. Gerding – Member
Betty J. Schuster – Member
Gene E. Wills – Member
Robert J. Wagner – Ex Officio Member

Nominating Committee
Joe W. Scallorns – Chairman
Betty J. Schuster – Member
Gene E. Wills – Member
Robert J. Wagner – Ex Officio Member
Marvin E. Wright – Ex Officio Member

Officers

The officers elected by the Board of Directors and serving, as of December 31, 2005, were as follows:

Name	Office
Marvin E. Wright	Chairman of the Board
Robert J. Wagner	Vice Chairman, President and Chief Executive Officer
Gary W. Thompson	Executive Vice President and Chief Operating Officer
James E. Cunningham	Secretary and General Counsel
Roger D. Ballard	Senior Vice President & Treasurer
Roger D. Birdsong	Senior Vice President
James R. Beerman	Vice President – Omaha Branch Manager
Jon R. Erickson	Vice President – Claims
A. Ben Galloway	Vice President – Investments
Salvatore J. Losapio	Vice President – Marketing
Stephen B. Lubbering	Vice President – Human Resources
Robert K. O'Reilly, Jr.	Vice President – Atlanta Branch Manager
Rory Read	Vice President – Information Technology
Dennis D. Roth	Vice President – Change Management
Dwight P. Tully	Vice President – Salina Branch Manager

Conflict of Interest

The Company has a policy that requires all officers and directors to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Association and Bylaws for the examination period. There were no amendments or changes to the Articles of Association or Bylaws during the period under examination.

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

Acquisitions, Mergers and Major Corporate Events

Subsequent to the examination date, two wholly owned insurance subsidiaries of Columbia Insurance Group, Inc. were merged. Effective April 1, 2006, Columbia National Insurance Company and Patrons Insurance Company were merged, with Columbia National Insurance Company being the surviving entity.

Surplus Debentures

The Company had two surplus notes issued and outstanding, as of December 31, 2005, with total principal balances of $20,000,000. A $15,000,000 floating rate surplus note was issued on December 4, 2002 and a $5,000,000 floating rate surplus note was issued on May 15, 2003. Both notes are payable to the holder, Hare & Co., a nominee of the Bank of New York. The principal balances are due thirty (30) years after the issue dates. The interest payable each quarter for the $15,000,000 note is based upon the 3-month LIBOR plus 4.00%, which equaled an annual rate of 8.84%, as of June 5, 2006. The interest payable for the $5,000,000 note is based upon the 3-month LIBOR plus 4.10%, which equaled an annual rate of 8.85%, as of May 15, 2006. Interest and principal payments may only be made with the prior approval of the Director of the DIFP. Total interest paid for both notes during the examination period was $3,483,044.

AFFILIATED COMPANIES

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 CMIC for each year of the examination period. The Company does not have any stockholders or controlling entity due to its formation as a mutual entity. The Company is ultimately owned by its policyholders.

The operations of the Company's subsidiaries and affiliate are described as follows:

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 property and casualty insurer domiciled in Nebraska.

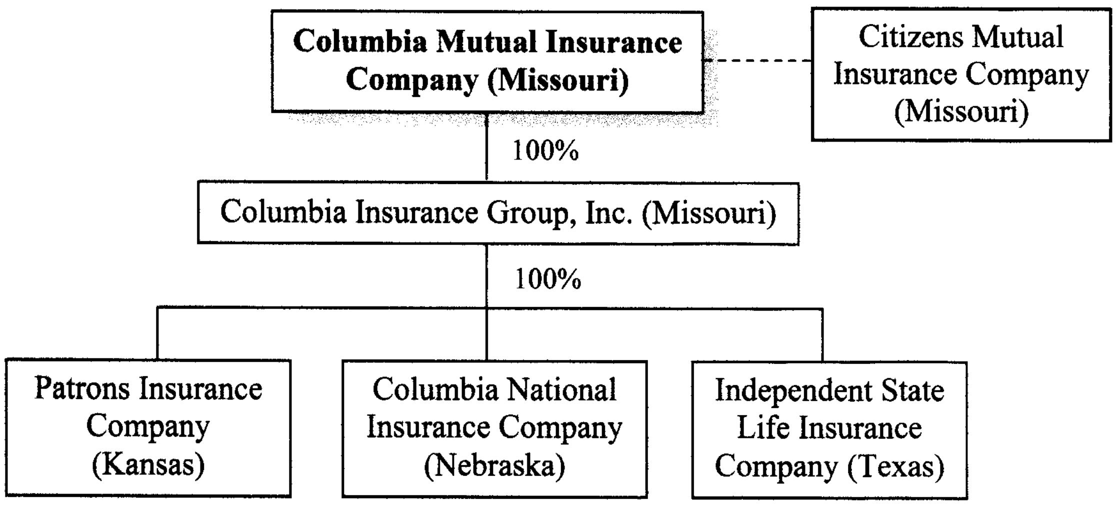
Patrons Insurance Company (PIC) – A property and casualty insurer domiciled in Kansas. Effective April 1, 2006, PIC was merged into CNIC.

Independent State Life Insurance Company (ISLIC) – A life and health insurer domiciled in Texas. The Company has been in run-off status since 1996.

Citizens Mutual Insurance Company (CIT) – A farm mutual insurer domiciled in Missouri. The Board of Directors of CIT consist of CIG employees and common directors of CMIC. CIT has the same officers as CMIC.

Organizational Chart

The following table depicts the holding company system of CMIC, its subsidiaries and affiliate, as of December 31, 2005:



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

Intercompany Agreements

The Company's intercompany agreements in effect, as of December 31, 2005, and subsequent periods are outlined below.

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

   Affiliates: CIG, CNIC, CIT

   Effective: December 1, 1990

   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.

   Exception: The Agreement does not have terms for the allocation of expenses from CIG to CMIC, CNIC, and CIT. The allocations in the examination period were made by using the pooling percentages from the Reinsurance and Cost Sharing Agreement. The Company should amend the Agreement to add terms that define the allocation methodology to be used.

2. **Type:** Reinsurance and Cost Sharing Agreement

   Affiliates: CNIC, PIC, CIT

   Effective: January 1, 1992 and terminated January 1, 2006 [Note: This Agreement was replaced by the Intercompany Reinsurance Agreement described below, which has similar terms.]

   Terms: The total risks from all insurance and reinsurance policies written by CMIC, CNIC, PIC, and CIT shall be ceded and assumed by each entity, based upon the following percentages: CNIC – 18%, PIC – 5%, CIT – 1%. CMIC retains the remaining 76% of the pooled business. Settlements of balances due relating to premiums, losses, and commissions will be made on a quarterly basis. All other pooled underwriting expenses will be settled on a monthly basis.

3. **Type:** Tax Allocation Agreement

   Affiliates: CIG, CNIC, PIC, ISLIC

   Effective: 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 10 days of the date the consolidated payment is due to the Internal Revenue Service. CMIC will refund any amounts due to the subsidiaries within 30 days after the refund is received or will apply a credit towards the next tax payment.

4. **Type:** Lease Agreement

   Affiliate: CIG

   Effective: January 1, 2004 to December 31, 2006

   Terms: CIG leases an 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 is $4,500 per month.

5. **Type:** Lease

   Affiliate: CIG

   Effective: January 1, 2005 to December 31, 2007

   Terms: CIG leases 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 is $43,695 per month.

6. Type: Intercompany Reinsurance Agreement

Affiliates: CNIC, PIC, CIT

Effective: January 1, 2006 [Note: This Agreement replaces the Reinsurance and Cost Sharing Agreement described previously, which had similar terms.]

Terms: CMIC agrees to assume 100% of the premiums, expenses, and loss reserves for all insurance policies issued and assumed by CNIC, PIC, and CIT. The insurance policies issued and assumed by CMIC are pooled with the business assumed from the affiliates. The pooled business of all four entities is ceded, pursuant to reinsurance agreements with non-affiliated reinsurers. The net premiums, expenses, and loss reserves from the pooled business that remains is then retroceded back to the affiliates, per the following percentages: CNIC – 18%, PIC – 5%, CIT – 1%. CMIC retains the remaining 76% of the net pooled business. Settlements of balances due relating to pooled transactions will be due within 30 days after monthly reports have been rendered.

Intercompany Transactions

The Company and its subsidiaries are named insureds on several insurance policies issued by CMIC. Premiums are charged to the subsidiaries through intercompany allocations.

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

Subsidiary/		Net Paid / (Received)			
Affiliate	Agreement / Transaction	2002	2003	2004	2005
CNIC	Cash Dividends	($ 1,750,000)	($ 1,600,000)	($ 1,600,000)	($ 1,600,000)
PIC	Cash Dividends	(250,000)	(400,000)	(400,000)	(400,000)
CIG	Personnel and Service	15,526,696	17,155,522	17,012,784	21,709,080
CNIC	Reins. and Cost Sharing	*0	4,436,011	9,521,236	9,308,251
PIC	Reins. and Cost Sharing	*0	57,964	(174,712)	(364,123)
CIT	Reins. and Cost Sharing	*0	292,969	655,988	726,672
CIG	Tax Allocation	0	(7,875)	8,265	(18,809)
CNIC	Tax Allocation	(411,370)	(1,186,608)	(1,696,158)	(1,640,000)
PIC	Tax Allocation	(66,811)	(333,403)	(360,189)	(518,000)
ISLIC	Tax Allocation	0	(11,464)	(10,441)	(11,320)
CIG	Lease (Salina, KS)	(50,000)	(50,000)	(54,000)	(54,000)
CIG	Lease (Columbia, MO)	(458,796)	(458,796)	(458,796)	(524,340)
TOTAL		$12,539,719	$17,894,320	$22,443,977	$26,613,411

* Note: The parties to the Reinsurance and Cost Sharing Agreement had a joint bank account throughout 2002. Each entity's share of pooled premium, losses, and other pooled items were settled by each entity depositing or withdrawing funds from the joint account. There were no direct payments between affiliates in 2002. The joint account was terminated in 2003 and direct settlements between CMIC and subsidiaries began in June 2003.

FIDELITY BOND AND OTHER INSURANCE

CMIC has a self-insured fidelity bond that covers losses resulting from fraudulent or dishonest acts of an employee. The Company's subsidiaries are also named insureds on this bond. The bond provides coverage with a liability limit of $1,000,000 and no deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company is a named insured on other self-insured policies issued either by CMIC or its subsidiaries, CNIC and PIC. The self-insured policies are as follows: property, general liability, commercial umbrella liability, automobile physical damage and liability, and worker's compensation. These self-insured policies are subject to the reinsurance coverages that are provided by the various agreements described in the Reinsurance section of this report. The Company is also a named insured on the following policies issued by non-affiliates: errors and omissions and director's and officer's 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. As of December 31, 2005, CIG had 260 total employees. The employees are located in the Columbia, Missouri home office and branch offices in Salina, Kansas, Omaha, Nebraska, Conway, Arkansas, and Atlanta, Georgia. The employees also work on the operations of the Company's other subsidiaries, CNIC, PIC, and ISLIC, and an affiliate, CIT.

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. 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. The liabilities for the Company's allocated share of benefits payable to CIG employees and to CMIC's Directors were reported in the Other Expenses line of the 2005 Annual Statement.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2005, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The funds on deposit, as of December 31, 2005, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
State and Municipal Bonds	$1,700,000	$1,715,635	$1,693,893

Deposits with Other States

The Company also has funds on deposit with other states. Those funds on deposit, as of December 31, 2005, were as follows:

State	Type of Security	Par Value	Fair Value	Statement Value
Georgia	U.S. Gov. Agency Bonds	$100,000	$100,688	$ 99,130
Louisiana	Certificate of Deposit	20,000	20,000	20,000
New Mexico	U.S. Gov. Agency Bonds	355,000	341,961	355,000
Virginia	U.S. Gov. Agency Bonds	225,000	216,736	225,000
Total		$700,000	$679,385	$699,130

INSURANCE PRODUCTS AND RELATED PRACTICES

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 Arkansas, Illinois, Iowa, Kansas, Missouri and Nebraska.

The Company operates under the Columbia Insurance Group brand name, which consists of CMIC, its two P&C subsidiaries – CNIC and PIC, and an affiliate, CIT. The business of all four entities are pooled pursuant to an Intercompany Reinsurance Agreement that is described in the Intercompany Agreements section of this report. CNIC writes direct business in the same six states as CMIC, but also has direct written premiums in Georgia, Oklahoma, South Dakota, and Tennessee. PIC has direct business in Kansas only and CIT writes in Missouri only. The following five states comprised 84% of the total 2005 direct written premiums for the Columbia Insurance Group: Missouri (24% of total), Arkansas (17%), Georgia (16%), Nebraska (15%), and Kansas (12%).

The major lines of business for the Columbia Insurance Group, based upon 2005 direct written premiums, are as follows:

Line of Business	Percentage of Total Direct Written Premiums
Commercial Multiple Peril	37.6%
Auto Physical Damage	13.6%
Private Passenger Auto Liability	10.9%
Commercial Auto Liability	8.9%
Workers' Compensation	8.1%
All Other	20.9%
Total	100.0%

The Columbia Insurance Group's business is produced by 547 independent agencies in the ten state operating territory. The Company does not utilize any advertising to attract potential policyholders. The marketing efforts are limited to its website that provides information for agencies and prospective policyholders. The Company also has brochures for prospective insureds that are distributed to the independent agencies that explain the main policies issued by CIG.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent DIFP market conduct examination report was issued January 10, 2006, and covered the period from January 1, 2004 to December 31, 2004. No significant problems were noted from review of this report. There were no market conduct examinations from any other states during the examination period.

REINSURANCE

General

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

	2002	2003	2004	2005
Direct Business	$ 65,845,243	$ 68,449,291	$ 69,579,733	$ 71,225,734
Reinsurance Assumed:				
Affiliates	108,678,881	115,982,959	125,770,932	130,450,048
Non-affiliates	983,631	236,577	284,628	333,378
Reinsurance Ceded:				
Affiliates	(45,331,269)	(52,249,154)	(55,676,807)	(38,740,323)
Non-affiliates	(21,667,831)	(16,123,168)	(16,032,689)	(16,450,664)
Net Premiums Written	**$108,508,655**	**$116,296,505**	**$123,925,797**	**$146,818,173**

Assumed

The Company has an intercompany pooling agreement with CNIC, PIC, and CIT that was previously described in the Intercompany Agreements section of this report. CMIC assumes 100% of the direct and assumed business of these affiliated insurers, pursuant to the terms of the agreement. The assumed business from the pooling agreement accounted for 99.7% of total assumed premiums in 2005 and 98.4% of assumed case loss and LAE reserves, as of December 31, 2005. 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 is from pools and associations.

Ceded

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.

Below is a summary of the 2005 premiums and loss and LAE reserves ceded, as of December 31, 2005, by reinsurer:

Name of Reinsurer	2005 Premiums Ceded	Percent of Ceded Premiums	Reserves Ceded at 12/31/2005	Percent of Ceded Reserves
Affiliated (Pooling):				
Citizens Mutual Insurance Co.	$ 1,855,000	3.4%	$ 955,000	1.8%
Columbia National Insurance Co.	28,435,000	51.5%	17,206,000	33.1%
Patrons Insurance Company	8,450,000	15.3%	4,780,000	9.2%
Unaffiliated:				
American Re-Insurance Company	11,997,000	21.7%	11,469,000	22.1%
Employers Reinsurance Corp.	0	0.0%	11,802,000	22.7%
General Reinsurance Corporation	80,000	0.1%	4,992,000	9.6%
All Others	4,374,000	7.9%	757,000	1.5%
Total Ceded	$55,191,000	100.0%	$51,961,000	100.0%

The terms of the significant reinsurance agreements, as of December 31, 2005, with the above listed reinsurers are explained below.

CMIC assumes 100% of the business written by three affiliates, as described in the Assumed section above. The assumed business from these affiliates is combined with CMIC's direct and assumed business to form the total pooled business for all four insurers, collectively referred to as "the Companies." After application of outside reinsurance, CMIC cedes back a percentage of the net pooled business to the affiliates, pursuant to the intercompany pooling agreements. As of December 31, 2005 and currently, the pooling percentages of the affiliates for the net pooled business were 18% for CNIC, 5% for PIC, and 1% for CIT. The remaining 76% is retained by CMIC.

All of CMIC's reinsurance agreements with unaffiliated reinsurers are joint agreements with its three P&C affiliates. These joint reinsurance agreements cede the pooled risks of the four Companies. Thus, all of the reinsurance agreements described below include CMIC as a party to the agreements.

The Companies have an excess of loss reinsurance agreement, effective August 1, 2003, with American Re-Insurance Company (American Re) that covers property and casualty risks. The Companies' retention is $550,000 per property risk and American Re is ceded the next $450,000 of losses in the first layer that has a coverage limit of $1,350,000 per occurrence. The second layer cedes the next $1,000,000 property losses in excess of $1,000,000 per risk to American Re with a limit of $2,000,000 per occurrence. The Companies' retention is $550,000 per casualty risk and American Re is ceded the next $450,000 of losses in the first layer and the next $5,000,000 in the second layer. This agreement was amended, effective August 1, 2006, to increase the retention to $600,000 for both property and casualty risks and increase coverage for worker's compensation risks up to a maximum of $10,000,000 in ultimate net loss.

The Companies have a facultative binding agreement, effective January 1, 1996, with American Re to cede risks on a quota share basis for commercial and personal umbrella liability policies. American Re can decline a risk which would terminate its liability under the agreement within 30 days after the Companies' receipt of its notice of declination. The Companies cede 95% of the first $1,000,000 of losses per risk to American Re and 100% of losses in excess of $1,000,000 up to a maximum of $5,000,000 per risk. The Companies receive a ceding commission of 30% and is eligible for a contingent commission equal to 27.5% of any net profits from the covered business.

The Companies have an excess of loss agreement, effective January 1, 1995, with Employers Reinsurance Corporation (ERC) to cede property and casualty risks. This agreement was terminated for new business, effective August 1, 2003, and was replaced by the excess of loss agreement with American Re, described above. The retentions and coverages pursuant to this agreement were structured similarly to those in the current agreement with American Re. The Companies' retention, as of the August 1, 2003 termination date, is $500,000 for both property and casualty risks. ERC is ceded the next $500,000 of property losses per risk in the first layer with a coverage limit of $1,000,000 per occurrence. The second layer cedes the next $1,000,000 of property losses in excess of $1,000,000 per risk to ERC with a limit of $2,000,000 per occurrence. ERC is ceded $500,000 of casualty losses in excess of the retention for the first layer, the next $1,000,000 for the second layer, and the next $4,000,000 for the third layer.

Business is ceded to General Reinsurance Corporation (General Re) on a facultative basis. Approximately $4,900,000 of the total loss and LAE reserves ceded to General Re, as of December 31, 2005, were attributable to one facultative agreement involving a products liability claim that occurred during the policy period from July 1999 to June 2000. Pursuant to this agreement, the Companies retain 10% of the first $1,000,000 of losses and any losses in excess of $1,000,000 up to a maximum of $10,000,000 are ceded 100% to General Re.

The Companies have a five-layer property catastrophe program that is implemented by two separate agreements with several participating reinsurers. The reinsurance coverages for the combined subject net losses of the Companies' for each layer are as follows:

Layer	Subject Net Losses	Reinsurance %
First	$5,000,000 excess of $5,000,000	95%
Second	$5,000,000 excess of $10,000,000	95%
Third	$10,000,000 excess of $15,000,000	95%
Fourth	$15,000,000 excess of $25,000,000	95%
Fifth	$30,000,000 excess of $40,000,000	95%

The first four layers are contained in a catastrophe excess of loss agreement, effective January 1, 2005 to December 31, 2005, with 19 reinsurers. The fifth layer is included in a catastrophe excess of loss agreement, effective January 1, 2005 to December 31, 2005, with 24 reinsurers. Management stated that the fifth layer is intended to cover the risk of earthquake from the New Madrid fault. The participation of each reinsurer is defined in an Interest and Liabilities Agreement with each reinsurer. Axis Specialty Limited, a Bermuda company, and several Lloyd's Underwriter Syndicates were the two largest participants in the 2005 agreement for the first four layers. The largest participants in the fifth layer for 2005 were several Lloyd's Underwriter Syndicates, Axis Specialty Limited and another Bermuda company, Partners Reinsurance Company, Ltd.

The two catastrophe agreements are renewed each year. The retention of the Companies and the amount of risks covered in each layer were not changed for the two catastrophe agreements, effective January 1, 2006 to December 31, 2006.

ACCOUNTS AND RECORDS

General

The CPA firm, KPMG, LLP, of Omaha, Nebraska, 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 (LAE) was issued by Mark A. Doepke, FCAS, MAAA, for all years in the examination period. Mr. Doepke is employed by the Actuarial Advisors, Inc. in Minneapolis, Minnesota.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of CMIC for the period ending December 31, 2005. 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." 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 "Notes to the Financial Statements." 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, 2005

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$155,525,490	$ 0	$155,525,490
Preferred Stocks	2,995,200	0	2,995,200
Common Stocks	77,186,040	0	77,186,040
Mortgage Loans on Real Estate	8,234,547	0	8,234,547
Real Estate	2,749,011	0	2,749,011
Cash and Short-term Investments	13,102,632	0	13,102,632
Other Invested Assets	435,623	0	435,623
Investment Income Due and Accrued	1,913,446	0	1,913,446
Uncollected Premiums and Agents' Balances in the Course of Collection	13,245,027	333,251	12,911,776
Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due	20,368,322	47,956	20,320,366
Amounts Recoverable from Reinsurers	407,476	0	407,476
Funds Held By or Deposited with Reinsured	6,688	0	6,688
Other Reinsurance Receivables	680,571	0	680,571
Net Deferred Tax Asset	6,864,592	1,099,618	5,764,974
Guaranty Funds Receivable or on Deposit	544,574	0	544,574
EDP Equipment and Software	361,124	0	361,124
Agg. Write-Ins for Other than Invested Assets:	0	0	0
Automobiles	25,766	25,766	0
Deferred Investment Receivable	150,000	0	150,000
TOTAL ASSETS	**$304,796,129**	**$1,506,591**	**$303,289,538**

Liabilities, Surplus and Other Funds
as of December 31, 2005

Losses	$ 62,189,702
Reinsurance Payable on Paid Losses and LAE	315,483
Loss Adjustment Expenses	13,530,733
Commissions Payable	6,472,834
Other Expenses	5,924,797
Taxes, Licenses and Fees	1,329,977
Federal Income Taxes	341,212
Unearned Premiums	65,370,749
Advance Premium	1,745,521
Ceded Reinsurance Premiums Payable	1,998,965
Funds Held by Company Under Reinsurance Treaties	54,602
Amounts Withheld or Retained	85,565
Remittances and Items Not Allocated	72,169
Provision for Reinsurance	24,000
TOTAL LIABILITIES	**$159,456,309**
Surplus Notes	20,153,511
Unassigned Funds (Surplus)	123,679,718
Surplus as Regards Policyholders	**$143,833,229**
TOTAL LIABILITIES AND SURPLUS	**$303,289,538**

Statement of Income
For the Year Ended December 31, 2005

Premium Earned	**$138,556,909**
DEDUCTIONS:	
Losses Incurred	67,701,295
Loss Expenses Incurred	12,412,287
Other Underwriting Expenses Incurred	44,953,447
Total Underwriting Deductions	**$125,067,029**
Net Underwriting Gain	**$ 13,489,880**
Net Investment Income Earned	9,016,415
Net Realized Capital Gains	525,551
Net Investment Gain	**$ 9,541,966**
Other Income	861,794
Federal Income Taxes Incurred	8,561,528
Net Income	**$ 15,332,112**
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2004	$125,550,035
Net Income	15,332,112
Change in Net Unrealized Capital Gains or (Losses)	2,235,071
Change in Net Unrealized Foreign Exchange Capital Gain	0
Change in Net Deferred Income Tax	1,969,713
Change in Non-Admitted Assets	(1,260,702)
Change in Provision for Reinsurance	7,000
Change in Surplus Notes	36,784
Aggregate Write-In for Gains and Losses in Surplus:	0
Accrued Interest on Surplus Notes Not Yet Due	(36,784)
Surplus as Regards Policyholders, December 31, 2005	**$143,833,229**

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

Personnel and Service Agreement with CIG (page 9)

The Agreement does not have terms for the allocation of expenses from CIG to CMIC, CNIC, and CIT. The allocations in the examination period were made by using the pooling percentages from the Reinsurance and Cost Sharing Agreement. The Company should amend the Agreement to add terms that define the allocation methodology to be used.

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, Shawn Hernandez, CFE, Shannon Schmoeger, CFE, and Andy Balas, CFE, examiners for the Missouri DIFP, also participated in this examination. The firm of Lewis & Ellis, Inc., also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of Cole)

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 23 day of January, 2007.

My commission expires: 12-9-2008

Diane M. Meadows
Notary Public

DIANE M. MEADOWS
MY COMMISSION EXPIRES
December 9, 2008
NOTARY SEAL
#04453426
COLE COUNTY
NOTARY PUBLIC, STATE OF MISSOURI

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.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri DIFP

COLUMBIA
INSURANCE GROUP
2102 White Gate Drive
P.O. Box 618
Columbia, Missouri 65205
(573) 474-6193

March 19, 2007

RECEIVED
MAR 21 2007
INSURANCE SOLVENCY & COMPANY REGULATION

Jeff Blume
Missouri Department of Insurance
PO Box 690
Jefferson City, MO 65102

RE: Report of Financial Examination of Columbia Mutual Insurance Company as of 12/31/05

Dear Jeff:

We have received the draft copy of the examination report and presented it to the Board of Directors. The examiners' management letter was extensively discussed with the Board, and we are in the process of implementing those suggestions as outlined in our previous responses.

In addition, the Board adopted an amendment to the Personnel and Service Agreement pursuant to the recommendation of the examiners in their report. I will be making a Form D filing in the very near future requesting approval of those changes.

I have enclosed a copy of an excerpt of the minutes of the Board of Directors meeting of Columbia Mutual Insurance Company in which the examination report was discussed and accepted by the Board. If I may be of additional assistance, please feel free to contact me.

Sincerely,

James E. Cunningham
Secretary/General Counsel

JEC/sg

Enclosure

AN EXCERPT OF THE MINUTES OF THE ANNUAL MEETING OF THE BOARDS OF DIRECTORS OF COLUMBIA MUTUAL INSURANCE COMPANY AND COLUMBIA INSURANCE GROUP, INC.

Tuesday, March 6, 2007
9:00 a.m.

The annual meeting of the Boards of Directors of Columbia Mutual Insurance Company and Columbia Insurance Group, Inc. was called to order by Chairman Marvin Wright at 9:00 a.m. on Tuesday, March 6, 2007 in the Board Room of the Columbia Insurance Group building located at 2102 White Gate Drive, Columbia, Missouri pursuant to notice duly provided to all directors. Directors Marvin Wright, Joe Scallorns, Robert Wagner, Dale Creach, Gene Wills, Betty Schuster, John Blakemore and Bill Gusenius were present. Also in attendance was James Cunningham, Secretary. Chairman Wright declared a quorum to be present.

MISSOURI DEPARTMENT OF INSURANCE EXAMINATION REPORT

Mr. Cunningham then presented the Board with a Report of the Association Financial Examination of Columbia Mutual Insurance Company as of December 31, 2005 which has been received from Mr. Kurt Schmidt, Chief Financial Examiner for the Missouri Department of Insurance Financial Institutions and Professional Registration. He noted that none of the financial statements had been revised as a result of the examination and that the examiners had only one comment and/or recommendation concerning the company's Personnel and Service Agreement. Specifically, it was requested that the basis of allocation utilized by the companies, i.e. the pooling percentages of their respective companies be incorporated into the provisions of the Personnel and Service Agreement. After discussion, upon motion duly made and seconded, it was unanimously agreed by the Board of Directors of Columbia Mutual Insurance Company to receive and accept said examination. Mr. Cunningham then discussed the Management Letter dated February 1, 2007 provided by the examiners which made several non-material recommendations which were not contained in the examination report. Specifically, the examiners recommended adoption of an anti-fraud plan which is being assembled by the companies and the use by the companies of a conflict of interest disclosure form for all officers and directors. Considering the conflict of interest forms, the company has responded that a broader conflict of interest disclosure process than that required by the forms is currently being used by the companies for directors. The Management Letter also required modification of the Inter-Company Reinsurance Agreement to include errors and omissions and arbitration clauses and required that procedures be implemented to require two authorized employees to participate in large wire transfers. Finally, the exam required modifications in how the company discloses and reports various transactions in its financial reporting. The company has agreed to those changes. A copy of the company response to the specific items contained in the Management Letter is attached to these minutes.