

JAN 07 2019

FILED

CERTIFICATION

January 7, 2019

I, Bruce R. Ramage, Director of Insurance of the State of Nebraska, do hereby certify that the attached is a full and correct copy of the Financial Examination Report of

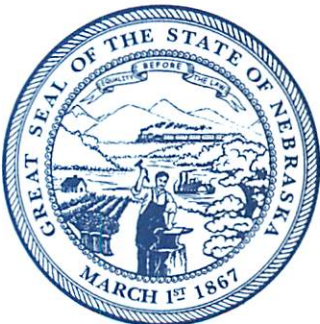
COLUMBIA NATIONAL INSURANCE COMPANY

as of

DECEMBER 31, 2017

The report is now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

Notice of the proposed report for the financial examination of

COLUMBIA NATIONAL INSURANCE COMPANY

10820 HARNEY CIRCLE

OMAHA, NEBRASKA 68154

dated as of December 31, 2017 verified under oath by the examiner-in-charge on November 30, 2018 and received by the company on December 7, 2018, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3) (a).

Dated this 21th day of December 2018.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE

A handwritten signature in black ink, appearing to read 'Justin C. Schrader', is written over a faint, illegible background.

Justin C. Schrader, CFE
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

COLUMBIA NATIONAL INSURANCE COMPANY

as of

December 31, 2017



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Columbia, Missouri
October 16, 2018

Honorable Bruce R. Range
Director of Insurance
Nebraska Department of Insurance
1135 M Street, Suite 300
PO Box 82089
Lincoln, Nebraska 68501-208941

Dear Sir:

Pursuant to your instruction and authorizations, and in accordance with statutory requirements, an examination has been conducted of the financial condition and business affairs of:

COLUMBIA NATIONAL INSURANCE COMPANY

which has its Statutory Home Office located at

**10820 Harney Circle
Omaha, Nebraska 68154**

with its Principal Executive Office located at

**2102 White Gate Drive
Columbia, Missouri 65202**

(hereinafter also referred to as the “Company”) and the report of such examination is respectfully presented herein.

INTRODUCTION

The Company was last examined as of December 31, 2013 by the States of Nebraska and Missouri. The current financial condition examination covers the intervening period to, and including, the close of business on December 31, 2017, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska, Missouri, and Texas participated in this examination and assisted in the preparation of this report.

The same examination staff conducted a concurrent financial condition examination of the Company's ultimate parent, Columbia Mutual Insurance Company (CMIC), and the Company's affiliates, Association Casualty Insurance Company, and Citizens Mutual Insurance Company.

SCOPE OF EXAMINATION

This examination was conducted pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook (Handbook) and Section §44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that examiners plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including, but not limited to: corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and Annual Statement Instructions, when applicable to domestic state regulations.

The examination was completed under coordination of the holding company group approach with the Missouri Department of Insurance, Financial Institutions, and Professional Registration (DIFP) as the coordinating state, the Nebraska Department of Insurance, and the Texas Department of Insurance. The companies examined under this approach benefit to a large degree from common management, systems and processes, and internal control and risk management functions that are administered at the consolidated or business unit level.

The coordinated examination applies procedures sufficient to comprise a full scope financial examination of each of the companies in accordance with the examination procedures and standards promulgated by the NAIC and by the respective state insurance departments where

the companies are domiciled. The objective is to enable each domestic state to report on their respective companies' financial condition and to summarize key results of examination procedures.

A general review was made of the Company's operations and the manner in which its business has been conducted in order to determine compliance with statutory and charter provisions. The Company's history was traced and has been set out in this report under the caption "Description of Company". All items pertaining to management and control were reviewed, including provisions for disclosure of conflicts of interest to the Board of Directors and the departmental organization of the Company. The Articles of Incorporation and By-Laws were reviewed, including appropriate filings of any changes or amendments thereto. The minutes of the meetings of the shareholder, Board of Directors and committees, held during the examination period, were read and noted. Attendance at meetings, proxy information, election of Directors and Officers, approval of investment transactions, and authorizations of salaries were also noted.

The fidelity bond and other insurance coverages protecting the Company's property and interests were reviewed. Certificates of Authority to conduct the business of insurance in the various states were inspected, and a survey was made of the Company's general plan of operation.

Data reflecting the Company's growth during the period under review, as developed from the Company's filed annual statements, is reflected in the financial section of this report under the caption "Body of Report".

The Company's reinsurance facilities were ascertained and noted, and have been commented upon in this report under the caption "Reinsurance". Accounting records and

procedures were tested to the extent deemed necessary through the risk-focused examination process. The Company's method of claims handling and procedures pertaining to the adjustment and payment of incurred losses were also noted.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by BKD, LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2017. Portions of the auditor's workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Title 210 (Rules of the Nebraska Department of Insurance), Chapter 56, Section 013.

Any failure of items to add to the totals shown in schedules and exhibits appearing throughout this report is due to rounding.

DESCRIPTION OF COMPANY

HISTORY

The Company was incorporated under the laws of the State of Nebraska on August 13, 1985, as the National Ahmanson Insurance Company, and commenced business on December 31, 1985. Shortly after incorporation, by amendment to its Articles of Incorporation filed November 26, 1985, the name of the Company was changed to National American Insurance Company of Nebraska. H. F. Ahmanson & Company, a Los Angeles based financial services holding company, subscribed to 100% of the authorized capital stock.

On June 14, 1988, Dardof, Inc., a Missouri corporation wholly owned by Columbia Mutual Casualty Insurance Company, CMIC, and Farmers Mutual Hail Insurance Company of Missouri, purchased 100% of the issued and outstanding common stock from H. F. Ahmanson & Company.

Effective December 31, 1988, the name of the Company was then changed to Columbia National Insurance Company.

During 1989, Dardof, Inc., parent of the Company, changed its name to Columbia Insurance Group, Inc. On December 1, 1989, the three mutual parent companies of Columbia Insurance Group, Inc. merged, with the surviving company being Columbia Mutual Casualty Insurance Company. Its name was then changed to CMIC.

On April 1, 2006, Patrons Insurance Company, a CMIC subsidiary, was merged into the Company.

The Articles of Incorporation state that the nature of the business, and the objects and purposes to be transacted, provided, and carried on by the Company, are those of an insurance company. Its duration is to be perpetual.

MANAGEMENT AND CONTROL

Holding Company

The Company is a member of an insurance holding company system as defined by Nebraska Statute. An organizational listing flowing from the ‘Ultimate Controlling Person’, as reported in the 2017 Annual Statement, is represented by the following (subsidiaries are denoted through the use of indentations, and unless otherwise indicated, all subsidiaries are 100% owned):

- Columbia Mutual Insurance Company (MO)
- Association Casualty Insurance Company (TX)
- Georgia Casualty & Surety Company (GA)
- Columbia Insurance Group, Inc. (MO)
- Columbia National Insurance Company (NE)

Citizens Mutual Insurance Company (MO) is also a member of this group.

Shareholder

The By-Laws of the Company state, “an annual meeting of the Shareholders shall be held on or before June 30th of each year at a time and place designated by the Board of Directors. At the annual meeting, the Shareholders shall elect Directors by a plurality vote and transact such other business as may properly be brought before the meeting.”

The Company's Articles of Incorporation state, “that the authorized capital stock of the Company shall be Four Million Dollars (\$4,000,000) divided into Two Million (2,000,000) shares of common stock of the par value of Two Dollars (\$2.00) per share.” Currently, 1,450,000 shares are outstanding in the name of Columbia Insurance Group, Inc. for a total paid-in capital of \$2,900,000.

During the examination period, the Company declared and paid a dividend for the years 2014, 2015, and 2016, in the amounts of \$1,000,000 each year.

Board of Directors

The Articles of Incorporation state, “the government of the Company and the management of its affairs shall be vested in a Board of Directors of not less than five (5) nor more than twenty-one (21) members, at least one of which shall be a Nebraska resident. The Board of Directors shall be elected annually by the Shareholders at their annual meeting, which meeting shall be held during the first calendar quarter of each year, at such time and place within or without the State of Nebraska as may be designated by the Board of Directors.” Article III, section 2 of the By-Laws states that, “the Board of Directors of the Company shall consist of a minimum of five (5) Directors and a maximum of thirteen (13) Directors.”

The following persons were serving as Directors at December 31, 2017:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Robert A. Gerding Columbia, Missouri	Retired, Former Owner and President at Gerding, Korte & Chitwood, PC
Gina B. Gervino Columbia, Missouri	Vice President, General Counsel, Secretary Columbia Insurance Group
Kelly J. Klug Columbia, Missouri	Senior Vice President, Chief Financial Officer, Treasurer, Columbia Insurance Group
Shane C. Martinez Omaha, Nebraska	Vice President, Omaha Branch Manager, Columbia Insurance Group
Gary W. Thompson Columbia, Missouri	President, Chief Executive Officer, Columbia Insurance Group

Officers

The By-Laws state, “the Officers of the corporation shall be a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary and a Treasurer, and may also include such other Officers as may be elected or appointed...”

The following is a listing of Officers elected and serving the Company at December 31, 2017:

<u>Name</u>	<u>Office</u>
Gary W. Thompson	Chairman of the Board, President, and Chief Executive Officer
Gina B. Gervino	Secretary, Senior Vice President, and General Counsel
Kelly J. Klug	Senior Vice President, Treasurer, and Chief Financial Officer
Scott D. Mackey	Senior Vice President, Chief Underwriting Officer
Michele J. DeVore	Vice President, Columbia Branch Manager
Elizabeth M. Dinnin	Vice President, Atlanta Branch Manager

<u>Name</u>	<u>Office</u>
Douglas A. Duncan	Vice President, Chief Information Officer
Michael S. LeBlanc	Vice President, Claims
Stephen B. Lubbering	Vice President, Human Resources
Shane C. Martinez	Vice President, Omaha Branch Manager
Robert K. O'Reilly Jr.	Vice President, Executive Consultant
Byron C. Smith	Vice President, Austin Branch Manager
Dwight P. Tully	Vice President, Salina Branch Manager

TRANSACTIONS WITH AFFILIATES

Personnel and Service Agreement

Under the terms of the personnel and services agreement, Columbia Insurance Group, Inc. provides the employees necessary or appropriate to conduct all business operations of the Company and its affiliates. Columbia Insurance Group, Inc. is responsible for the wages, salaries, employee benefits, payroll taxes, and all other similar costs and expenses of the employees. Any cost or expense that is directly attributable to an individual entity will be reimbursed to Columbia Insurance Group, Inc. by the specific entity to which the cost or expense is related. Any cost or expense that is attributable to the group as a whole will be allocated and reimbursed to Columbia Insurance Group, Inc. based upon each entity's specific pooling percentage from the Amended and Restated Intercompany Reinsurance Agreement. This agreement took effect January 1, 2011 and remains in force until terminated by either party upon thirty days written notice to the other party.

Facilities and Services Agreement

Under the terms of this agreement, CMIC provides or causes to be provided various facilities and services necessary to conduct the business operations of the Company and its affiliates. The facilities and services to be provided include office space, equipment, supplies, data processing, telecommunications, information technology services, investment services, and several other services. Costs incurred by CMIC to provide the facilities and services will be exclusive of the payroll and benefit costs that are subject to a separate Personnel and Services Agreement. Any cost or expense that is directly attributable to an individual entity will be reimbursed to CMIC by the specific entity to which the cost or expense is related. Any cost or 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 Amended and Restated Intercompany Reinsurance Agreement. This agreement took effect January 1, 2011 and remains in force until terminated by either party upon thirty days written notice to the other party.

Tax Allocation Agreement

The Company is also a party to a tax allocation agreement with its ultimate parent and four other affiliates. This agreement provides for allocating the consolidated tax liability, for compensating any member for use of its losses or tax credits, and to provide for the allocation and payment of any refund arising from a carryback or carryforward of losses or tax credits or certain other items.

TERRITORY AND PLAN OF OPERATION

As evidenced by current or continuous Certificates of Authority, the Company is licensed to transact business in the states of Alabama, Arkansas, Georgia, Illinois, Iowa, Kansas, Kentucky,

Mississippi, Missouri, Nebraska, New Mexico, North Carolina, Oklahoma, South Carolina, South Dakota, Tennessee, and Texas.

The Company writes property and casualty lines of business in all states in which it is currently licensed, with the exception of Kentucky, Mississippi, New Mexico, North Carolina, and South Carolina. The majority of the business has been written in the states of Georgia, Iowa, Kansas, Nebraska, and South Dakota. All of the business is produced through independent agents.

Responsibility for Kansas and Oklahoma operations is with the Company's branch office in Salina, Kansas. Responsibility for the Nebraska, Iowa, and South Dakota operations is under the direction of the branch office in Omaha, Nebraska. Responsibility for the Arkansas, Illinois, and Missouri operations is with the branch office in Columbia, Missouri. Responsibility for the current operations in Alabama, Georgia, and Tennessee and the future operations in Kentucky, Mississippi, North Carolina, and South Carolina is with the branch office in Atlanta, Georgia. Responsibility for the current operations in Texas and future operations in New Mexico is with the branch office in Austin, Texas. The offices contract directly with independent agents in their jurisdiction and set the underwriting policies for their respective states.

Each agency is contracted with the Company. The contracts provide for commissions to be paid to the agency on new and renewal business. A contingent commission allowance is provided subject to minimum premium writings and profitability. The Company currently has approximately 572 property and casualty master agencies.

REINSURANCE

Pooling

The Company and its affiliates, CMIC, Citizens Mutual Insurance Company, Association Casualty Insurance Company, and Georgia Casualty & Surety Company have entered into an agreement for the mutual reinsurance of the business written by the companies and for the equitable apportionment of expenses and costs of writing the business. This was done through a desire to bring about simplification of operations and to capitalize on the economies of uniform handling.

The total risks underwritten by any of the companies involved in this pool arrangement are ceded to CMIC net of risks in excess of the pool's reinsurance limits, which are facultatively ceded. The business assumed by CMIC, combined with CMIC's direct and other assumed business, forms the total pooled business. All of CMIC's reinsurance agreements with unaffiliated reinsurers cover the pooled business.

CMIC's reinsurance program with unaffiliated reinsurers is structured with per risk, per occurrence, and catastrophe coverages. Workers' compensation reinsurance and facultative reinsurance coverage on a quota share basis for commercial and personal umbrella liability policies is also in place.

Pooled risks are then reinsured by the pool participants on a fixed percentage basis, net of the pool's underlying reinsurance program, as follows:

Columbia Mutual Insurance Company (CMIC)	66%
Columbia National Insurance Company (CNIC)	17
Association Casualty Insurance Company (ACIC)	9
Georgia Casualty & Surety Company (GCSC)	7
Citizens Mutual Insurance Company (CIT)	<u>1</u>
	<u>100%</u>

The settlement of all assumed and ceded transactions between CMIC and the other affiliated Companies, pursuant to the agreement, will be made on a monthly basis within 90 days after the end of each month.

General

All contracts reviewed contained standard insolvency, arbitration, errors and omissions, and termination clauses where applicable.

BODY OF REPORT

GROWTH

The following comparative data reflects the growth of the Company during the period covered by this examination:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Bonds	\$63,071,645	\$64,299,262	\$66,798,626	\$65,548,839
Admitted assets	88,984,985	89,429,979	92,926,260	90,664,234
Loss reserves	21,881,332	20,651,387	20,413,190	25,342,977
Total liabilities	52,195,738	51,420,838	54,200,607	53,731,669
Capital and surplus	36,789,247	38,009,141	38,725,653	36,932,565
Premiums earned	31,534,148	31,782,352	35,281,052	38,166,428
Losses incurred	17,265,397	16,710,740	20,403,565	26,512,820
Net investment income	1,399,252	1,461,541	1,432,015	1,567,902
Net income	2,802,964	3,638,757	1,754,336	(69,122)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the State of Nebraska Department of Insurance and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial

statements. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT

December 31, 2017

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$65,548,839		\$65,548,839
Preferred stocks	926,044		926,044
Common stocks	7,432,427		7,432,427
Cash, cash equivalents and short-term investments	2,048,386		2,048,386
Other invested assets	<u>1,216,163</u>		<u>1,216,163</u>
Subtotal, cash and invested assets	\$77,171,859		\$77,171,859
Investment income due and accrued	509,110		509,110
Uncollected premiums and agents' balances in course of collection	4,179,650	\$ 62,761	4,116,889
Deferred premiums and agents' balances	6,172,698	9,901	6,162,797
Amounts recoverable from reinsurers	49,378		49,378
Funds held by or deposited with reinsurers	2,827		2,827
Other reinsurance amounts receivable	187,241		187,241
Net deferred tax asset	1,261,420	50,425	1,210,995
Guaranty funds receivable or on deposit	21,239		21,239
Receivables from parent, subsidiaries and affiliates	<u>1,231,899</u>	<u> </u>	<u>1,231,899</u>
Totals	<u>\$90,787,321</u>	<u>\$123,087</u>	<u>\$90,664,234</u>

Liabilities, Surplus, and Other Funds

Losses	\$25,342,977
Reinsurance payable on paid losses	67,382
Loss adjustment expenses	6,745,463
Commissions payable	1,269,598
Other expenses	10,103
Taxes, licenses and fees	274,812
Unearned premiums	17,164,369
Advance premiums	395,017
Ceded reinsurance premiums payable	1,479,861
Funds held by company under reinsurance treaties	151,122
Remittances and items not allocated	16,596
Payable to parent, subsidiaries and affiliates	243,517
Uncashed checks that are pending escheatment	<u>570,852</u>
Total liabilities	<u>\$53,731,669</u>
Common capital stock	\$ 2,900,000
Gross paid in and contributed surplus	12,806,281
Unassigned funds	<u>21,226,284</u>
Total capital and surplus	<u>\$36,932,565</u>
Totals	<u>\$90,664,234</u>

STATEMENT OF INCOME – 2017

Underwriting Income

Premiums earned	\$38,166,428
Losses incurred	\$26,512,820
Loss adjustment expenses incurred	4,849,933
Other underwriting expenses incurred	11,599,323
Loss portfolio (income) expense	<u>(17,303)</u>
Total underwriting deductions	<u>\$42,944,773</u>
Net underwriting gain or (loss)	<u>\$ (4,778,345)</u>

Investment Income

Net investment income earned	\$ 1,567,902
Net realized capital gain	<u>1,824,847</u>
Net investment gain	<u>\$ 3,392,749</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (69,184)
Finance and service charges not included in premiums	<u>351,211</u>
Total other income	<u>\$ 282,027</u>
Net income before dividends to policyholders and federal income taxes	\$ (1,103,569)
Dividends to policyholders	92,708
Federal income taxes incurred	<u>(1,127,155)</u>
Net income	<u>\$ (69,122)</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Capital and surplus, beginning	<u>\$35,807,777</u>	<u>\$36,789,247</u>	<u>\$38,009,141</u>	<u>\$38,725,653</u>
Net income	\$ 2,802,964	\$ 3,638,757	\$ 1,754,336	\$ (69,122)
Change in net unrealized capital gains	155,384	(354,039)	(123,263)	(717,076)
Change in net deferred income tax	(957,827)	(1,076,389)	103,114	(1,009,026)
Change in nonadmitted assets	(19,051)	11,565	(17,675)	2,136
Dividends to stockholders	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u>(1,000,000)</u>	<u> </u>
Net change for the year	<u>\$ 981,470</u>	<u>\$ 1,219,894</u>	<u>\$ 716,512</u>	<u>\$ (1,793,088)</u>
Capital and surplus, ending	<u>\$36,789,247</u>	<u>\$38,009,141</u>	<u>\$38,725,653</u>	<u>\$36,932,565</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of \$21,226,284, as reported in the Company's 2017 Annual Statement, has been accepted for examination purposes. Examination findings, in the aggregate, were considered to have no material effect on the Company's financial condition.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

No recommendations were made as a result of the previous examination.

COMMENTARY ON CURRENT EXAMINATION FINDINGS

There are no comments or recommendations that have been made as a result of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

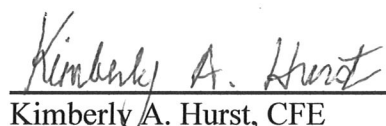
There are no comments or recommendations that have been made as a result of this examination.

ACKNOWLEDGMENT

The courteous cooperation extended by the Officers and employees of the Company during this examination is hereby acknowledged.

In addition to the undersigned, Anna Duncan, Brian Hammann, CPA, Joshua Nash, CPA, Kim Dobbs, CFE, AES, Marc Peterson, CFE, and Tim Tunks, CPA, CFE, Financial Examiners for the Missouri Department of Insurance, Financial Institutions and Professional Registration, assisted in the preparation of this report. Kristine M. Fitzgerald, ACAS, MAAA, FCA, of Actuarial & Technical Solutions, Inc., also participated as consulting actuary.

Respectfully submitted,



Kimberly A. Hurst, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Kimberly A. Hurst, being duly sworn, states as follows:

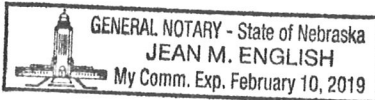
1. I have authority to represent the Department of Insurance of the State of Nebraska in the examination of Columbia National Insurance Company.
2. The Department of Insurance of the State of Nebraska is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Columbia National Insurance Company was performed in a manner consistent with the standards and procedures required by the Department of Insurance of the State of Nebraska.

The affiant says nothing further.

Kimberly A. Hurst
Examiner-in-Charge's Signature

Subscribed and sworn before me by Kimberly Hurst on this 30th day of November, 2018.

(SEAL)



Jean M. English
Notary Public

My commission expires 2/10/2019 [date].