

CERTIFICATION

June 15, 2015

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, 2013

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.



STATE OF NEBRASKA
DEPARTMENT OF INSURANCE
JUN 15 2015

FILED

Bruce R. Ramage

DIRECTOR OF INSURANCE

CERTIFICATE OF ADOPTION

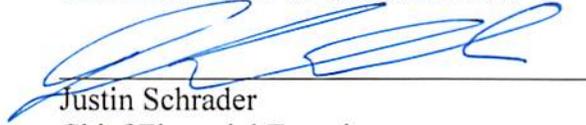
Take notice that the proposed report of the financial examination of

COLUMBIA NATIONAL INSURANCE COMPANY

dated as of December 31, 2013, verified under oath by the examiner-in-charge on June 3, 2015, and received by the company on June 12, 2015, has been adopted without modification as the final report pursuant to Neb. Rev. Stat. § 44-5906(3)(a).

Dated this 15 day of June, 2015.

STATE OF NEBRASKA
DEPARTMENT OF INSURANCE



Justin Schrader
Chief Financial Examiner

STATE OF NEBRASKA

Department of Insurance

EXAMINATION REPORT

OF

COLUMBIA NATIONAL INSURANCE COMPANY

as of

December 31, 2013



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Columbia, Missouri
May 7, 2015

Honorable Bruce R. Ramage
Director of Insurance
Nebraska Department of Insurance
941 "O" Street, Suite 400
Lincoln, Nebraska 68508

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, 2009 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, 2013, and includes such subsequent events and transactions as were considered pertinent to this report. The States of Nebraska and Missouri 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).

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 as the coordinating state and the Nebraska Department of Insurance as a participating state. 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, as were plans for employee welfare and pension. 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 KPMG LLP, the Company's external auditors, during their audit of the Company's accounts for the year ended December 31, 2013. 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 2013 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 \$4,000,000 divided into 2,000,000 shares of common stock of the par value of \$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 in 2010 in the amounts of \$2,000,000.

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.” The By-Laws note that the number of Directors 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, 2013:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Roger D Ballard* Columbia, Missouri	Senior Vice President, Chief Financial Officer, Treasurer, Columbia Insurance Group
Mark R. Dale Elkhorn, Nebraska	Vice President, Omaha Branch Manager, Columbia Insurance Group
A. Ben Galloway Columbia, Missouri	Senior Vice President, Chief Risk Officer, Columbia Insurance Group
Gina D. Boone-Gervino Columbia, Missouri	Vice President, General Counsel, Columbia Insurance Group
Gary W. Thompson Columbia, Missouri	President, Chief Executive Officer, Columbia Insurance Group

*Kelly J. Klug replaced Roger D. Ballard on the Board in 2014

Officers

The Articles of Incorporation 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, 2013:

<u>Name</u>	<u>Office</u>
Gary W. Thompson	Chairman of the Board, President, and Chief Executive Officer
Roger D. Ballard*	Senior Vice President, Treasurer, and Chief Financial Officer
Jon R. Erickson	Senior Vice President, Chief Claims Officer
A. Ben Galloway	Senior Vice President, Chief Risk Officer
Gina D. Boone-Gervino	Secretary, Vice President, and General Counsel

<u>Name and Residence</u>	<u>Office</u>
Mark R. Dale	Vice President, Omaha Branch Manager
Stephen B. Lubbering	Vice President, Human Resources
Rory Read	Vice President, Information Technology
Robert K. O'Reilly, Jr.	Vice President, Atlanta Branch Manager
Byron C. Smith	Vice President, Austin Branch Manager
Dwight P. Tully	Vice President, Salina Branch Manager

*Kelly J. Klug replaced Roger D. Ballard in 2014

TRANSACTIONS WITH AFFILIATES

Personnel and Service Agreement

Under the terms of this agreement, Columbia Insurance Group, Inc. provided or caused to be provided all facilities, equipment, personnel and administrative services necessary or appropriate to conduct and manage the business operations of the Company and its affiliates. The Company and its affiliates reimbursed Columbia Insurance Group, Inc. for its actual costs and expenses incurred to provide all such facilities and services. This agreement took effect January 1, 2007 and was terminated and replaced on January 1, 2011 with a Personnel and Services Agreement and a Facilities and Services Agreement described below.

Under the terms of the new 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 compensation a 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 was authorized to transact business in the states of Alabama, Arkansas, Georgia, Illinois, Iowa, Kansas, Kentucky, Mississippi, Missouri, Nebraska, North Carolina, Oklahoma, South Carolina, South Dakota and Tennessee at year-end 2013.

The Company writes property and casualty lines of business in all states in which it is currently licensed, with the exception of Kentucky, Mississippi, North Carolina and South Carolina. The majority of the business has been written in the states of Nebraska, Georgia and Kansas. 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. 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 533 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. All contracts contained the clauses necessary to assure reinsurance credits could be taken.

BODY OF REPORT

GROWTH

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Bonds	\$56,056,721	\$51,252,146	\$62,566,299	\$65,614,084
Admitted assets	88,440,463	87,020,002	91,895,226	94,597,136
Loss reserves	20,062,625	21,580,363	26,282,827	26,799,099
Total liabilities	50,356,721	52,794,397	59,781,144	58,789,359
Capital and surplus	38,083,742	34,225,605	32,114,082	35,807,777
Premiums earned	38,662,453	40,111,358	42,896,911	44,033,409
Losses incurred	23,837,510	33,283,749	33,389,502	28,064,684
Net investment income	1,884,304	1,671,598	1,607,704	1,565,339
Net income	2,595,325	(5,684,402)	(2,043,727)	3,039,040

FINANCIAL STATEMENTS

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflects the financial condition of the Company at December 31, 2013 and its transactions during the year 2014 as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

FINANCIAL STATEMENT
December 31, 2013

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$65,614,084		\$65,614,084
Common stocks	8,864,123		8,864,123
Mortgage loans on real estate	1,060,886		1,060,886
Cash and short-term investments	3,206,635		3,206,635
Other invested assets	<u>96,104</u>		<u>96,104</u>
Subtotal, cash and invested assets	\$78,841,832		\$78,841,832
Investment income due and accrued	392,646		392,646
Uncollected premiums and agents' balances in course of collection	4,633,959	\$ 61,612	4,572,347
Deferred premiums and agents' balances	7,023,082	38,450	6,984,632
Amounts recoverable from reinsurers	247,174		247,174
Funds held by or deposited with reinsurers	1,928		1,928
Other reinsurance amounts receivable	279,121		279,121
Net deferred tax asset	3,263,499		3,263,499
Guaranty funds receivable or on deposit	6,142		6,142
Receivables from affiliates	<u>7,815</u>		<u>7,815</u>
Totals	<u>\$94,697,198</u>	<u>\$100,062</u>	<u>\$94,597,136</u>

Liabilities, Surplus, and Other Funds

Losses	\$26,799,099
Reinsurance payable on paid losses	104,927
Loss adjustment expenses	7,209,909
Commissions payable	1,603,623
Other expenses	6,744
Taxes, licenses and fees	515,116
Unearned premiums	15,514,738
Advanced premiums	497,657
Ceded reinsurance premiums payable	3,179,619
Funds held by company under reinsurance treaties	2,614,972
Remittances and items not allocated	9,357
Payable to affiliates	186,241
Uncashed checks that are pending escheatment	<u>547,357</u>
Total liabilities	<u>\$58,789,359</u>
Common capital stock	\$ 2,900,000
Gross paid in and contributed surplus	12,806,281
Unassigned funds	<u>20,101,496</u>
Total capital and surplus	<u>\$35,807,777</u>
Totals	<u>\$94,597,136</u>

STATEMENT OF INCOME – 2013

Underwriting Income

Premiums earned	\$44,033,409
Losses incurred	\$28,064,684
Loss adjustment expenses incurred	4,620,584
Other underwriting expenses incurred	10,851,752
Miscellaneous (income) expense	<u>(2,023)</u>
Total underwriting deductions	<u>\$43,534,997</u>
Net underwriting gain	<u>\$ 498,412</u>

Investment Income

Net investment income earned	\$ 1,565,339
Net realized capital gain	<u>411,556</u>
Net investment gain	<u>\$ 1,976,895</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (38,875)
Finance and service charges not included in premiums	402,944
Miscellaneous income	<u>19,950</u>
Total other income	<u>\$ 384,019</u>
Net income before dividends to policyholders and federal income taxes	\$ 2,859,326
Dividends to policyholders	32,300
Federal income taxes incurred	<u>(212,014)</u>
Net income	<u>\$ 3,039,040</u>

CAPITAL AND SURPLUS ACCOUNT

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Capital and surplus, beginning	\$35,364,124	\$38,083,742	\$34,225,605	\$32,114,082
Net income	\$ 2,595,325	\$ (5,684,402)	\$ (2,043,727)	\$ 3,039,040
Change in net unrealized capital gains	937,808	232,481	(162,907)	1,018,217
Change in net deferred income tax	(767,985)	1,180,312	2,053,315	(1,065,211)
Change in nonadmitted assets	1,305,691	(11,034)	(676,156)	701,649
Dividends to Stockholder	(2,000,000)			
Additional deferred income tax				
Assets recorded under SSAP 10R	<u>648,780</u>	<u>424,506</u>	<u>(1,282,048)</u>	<u> </u>
Net change for the year	\$ <u>2,719,619</u>	\$ <u>(3,858,137)</u>	\$ <u>(2,111,523)</u>	\$ <u>3,693,695</u>
Capital and surplus, ending	<u>\$38,083,742</u>	<u>\$34,225,605</u>	<u>\$32,114,082</u>	<u>\$35,807,777</u>

EXAMINATION CHANGES IN FINANCIAL STATEMENTS

Unassigned funds (surplus) in the amount of 20,101,496, as reported in the Company's 2013 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 comments or 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.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Steve Koonse, CFE, Emily Pennington, Marc Peterson, CFE, Financial Examiners, Kim Dobbs, CFE, AES, IT Examiner, and Tim Tunks, CFE Examiner in Charge, all from the Missouri Department of Insurance assisted in the preparation of this report. Glenn Tobleman, FCAS, MAAA, of Lewis & Ellis, Inc., also participated as consulting actuary.

Respectfully submitted,



Linda K. Scholl, CISA, CFE
Examiner-in-Charge
Department of Insurance
State of Nebraska

State of Nebraska,

County of Lancaster,

Linda K. Scholl, 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 Company Name 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.

Linda K Scholl
Examiner-in-Charge's Signature

Subscribed and sworn before me by Linda K Scholl on this 3rd day of June, 20 15.

(SEAL)



Julie M Godkin
Notary Public

My commission expires May 26, 2018 [date].