STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

NORTHWESTERN PACIFIC INDEMNITY COMPANY
PORTLAND, OREGON

AS OF

DECEMBER 31, 2011

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

NORTHWESTERN PACIFIC INDEMNITY COMPANY
PORTLAND, OREGON

NAIC COMPANY CODE 20338

AS OF

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SALUTATION

March 6, 2013

Joseph Torti, III
Deputy Director and Superintendent of Insurance
Chairman, NAIC Financial Condition (E) Committee
Rhode Island Division of Banking Regulation
Division of Insurance
1511 Pontiac Avenue
Cranston, RI 02920

Honorable Louis Savage, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Superintendent and Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

NORTHWESTERN PACIFIC INDEMNITY COMPANY
888 SW Fifth Avenue, Suite 1120
Portland, Oregon 97204

NAIC Company Code 20338

hereinafter referred to as the "Company." The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of Northwestern Pacific Indemnity Company, conducted in conjunction with examiners from the States of Connecticut, Delaware, Indiana, New Jersey, New York, Texas and Wisconsin, for the multi-state examination of insurers under Chubb & Son, a division of Federal Insurance Company. The Indiana Department of Insurance was designated as the lead state. The last examination of this property and casualty insurer was completed as of December 31, 2006. The current examination covers the five-year period of January 1, 2007, to December 31, 2011.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1), which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook.* The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, and Oregon statutes and administrative rules.

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

COMPANY HISTORY

The Company was formed by Pacific Indemnity Company and incorporated under the laws of the State of Oregon on February 14, 1963. The original Certificate of Authority was issued by the Oregon Insurance Division on March 1, 1963.

Dividends and Other Distributions

During the period under examination, the Company did not declare any dividend or make any distributions to its shareholder.

Capitalization

The Company's capitalization consists of 100,000 shares of common stock with a par value of $26 per share. Pacific Indemnity Company owns all outstanding shares. To date, the parent contributed $2,427,411 in statutory surplus, which did not change during the period under review.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Company indicated the minutes support the transactions of the Company and clearly describe the actions taken by its directors. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

The Bylaws authorize an executive committee and any other committees which shall have such powers and perform such duties as from time to time may be prescribed by the Board. The Company relies on appointed committees of the ultimate controlling entity, Chubb Corporation.

There are three committees authorized to assist in the management of Chubb Corporation, as follows:

- Audit Committee
- Governance & Nominating Committee
- Organization & Compensation Committee

The actions of the various committees are summarized and reported to the board of directors during their regular annual meetings.

The minutes indicated the officers of the Company serve without compensation. It was noted that most the officers are executives of upstream affiliates. A review of the Organization & Compensation Committee minutes of the upstream parent indicates compensation packages for executives are being monitored. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation were last amended on October 20, 1999. During the period under examination, no changes were made to the Company's Articles of Incorporation. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated and amended on December 3, 1999. The Company's Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article II – Section 9, grant the Board of Directors power to manage the business of the Company. Article II – Section 1 states the number of directors shall not be less than five nor more than eight, the exact number to be fixed and determined by the Board. As of December 31, 2011, the Company was governed by a seven member Board of Directors as follows:

Name and Address	Principal Affiliation	Member Since
Jill A. Abere Portland, Oregon	VP, Branch Manager Chubb & Son, a division of Federal Insurance Company	2001
Paul J. Krump Mendham, New Jersey	Exec. VP The Chubb Corporation	2011
Ronald J. Kutella Seattle, Washington	Retired	2001
Harold L. Morrison, Jr. Basking Ridge, New Jersey	Exec. VP The Chubb Corporation	2011
John R. Munro Salem, Oregon	Attorney/Consultant	2005
Richard P. Munson Seattle, Washington	VP Chubb & Son, a division of Federal Insurance Company	2007
Gary C. Petrosino Pacific Palisades, California	Exec. VP The Chubb Corporation	2004
Dino E. Robusto * Bridgewater, New Jersey	Exec. VP The Chubb Corporation	2011

*Chairman

Officers

Principal officers serving at December 31, 2011, were as follows:

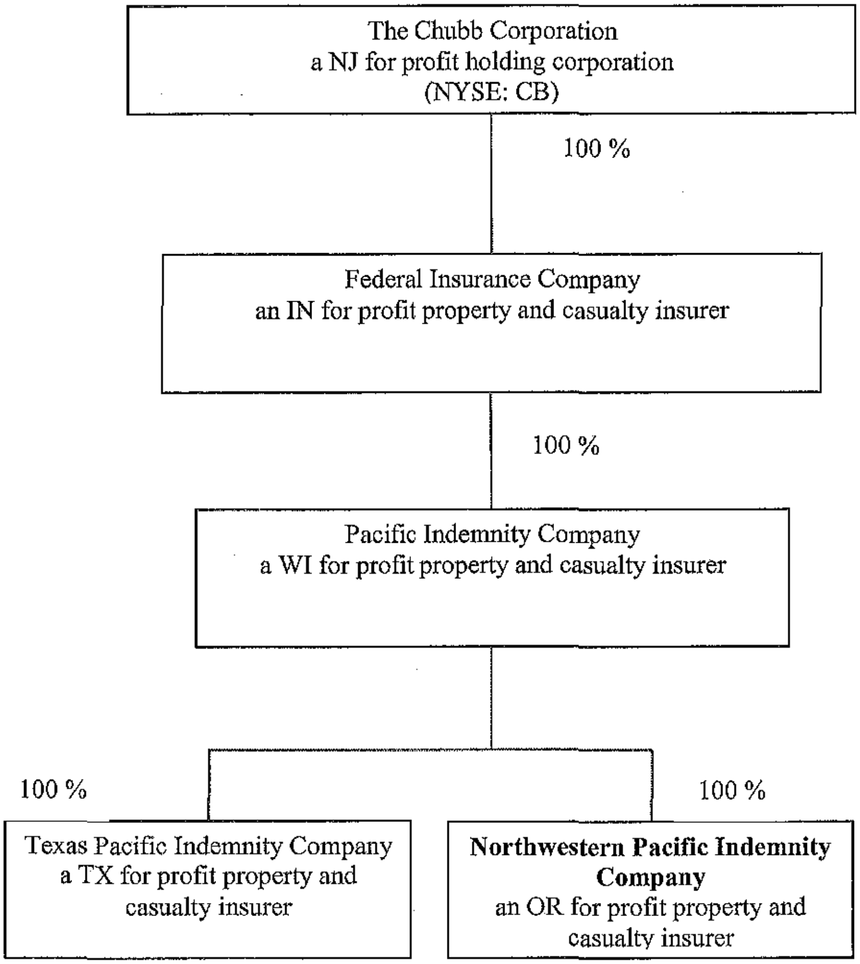
Name	**Title**
Dino E. Robusto	Chairman
Paul J. Krump	President
Richard G. Spiro	Senior VP and CFO
Douglas A. Nordstrom	VP and Treasurer
W. Andrew Macan	VP and Secretary
W. Brian Barnes	VP and Actuary
Thomas J. Ganter	VP
J. Joseph McVicar	VP

Conflict Of Interest

The Company's Board adopted a formal Code of Business Conduct, which included a procedure for reporting conflicts of interest for all Directors, officers and responsible employees. Board members, senior officers and key employees are required to annually sign a conflict of interest declaration. From a review of the completed conflict of interest questionnaires, the Company's personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

Insurance Company Holding System

The following abbreviated organizational chart shows the relationship between the Company and its affiliates:



Descriptions of the other related entities are as follows:

<u>The Chubb Corporation</u> was incorporated as a business corporation under the laws of the State of New Jersey in June 1967. The Corporation is a holding company for a family of property and casualty insurance companies known informally as the Chubb Group of Insurance Companies (the Group). In addition to the thirteen domestic property and casualty companies, the Group has a number of international affiliates, including insurers in Europe, Canada, Australia, Brazil, Argentina, Colombia, Mexico, Chile, Thailand and China. The Corporation has been listed on the NYSE since 1984, under the ticker symbol CB.

Federal Insurance Company (FIC) is an Indiana property and casualty insurer. It was originally incorporated in New Jersey as New York Marine Underwriters in 1901. It redomesticated to Indiana on March 23, 1990. In 1998 FIC replaced Chubb and Son, Inc., as the manager of the member insurers of the group. FIC manages the insurance business and provides financial advisory services to the other group members. FIC is 100% owned by The Chubb Corporation.

Pacific Indemnity Company (PIC) was incorporated on January 26, 1926, under the laws of the State of California. It was acquired by Chubb in 1960, which transferred ownership to FIC on December 5, 1969. PIC became a Wisconsin domiciled company effective December 31, 1997. PIC owns 100% of the Company, thus it would be considered the direct parent.

Texas Pacific Indemnity Company (TPI) was incorporated on February 14, 1961, as a property and casualty insurer under the provisions of Chapter 822 of the Texas Insurance Code. TPI is a wholly owned subsidiary of PIC.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company, its parent and its affiliates within the insurance company holding system:

Service Agreement

Effective May 22, 1995, PIC agreed to perform all operations of the Company and pay all expenses related to its operations. The agreement does not require the Company to pay any management fee to PIC for its services. The examiners noted the contract did not contain a provision for timely settlement of amounts owed, with a specific due date, and thus was not in compliance with SSAP No. 25. Any amounts recoverable should be nonadmitted for statutory accounting purposes. **I recommend the Company amend the intercompany service agreement to include a provision for timely settlement, in accordance with SSAP No. 25, paragraph 6. I further recommend the agreement be amended to include additional services being provided on behalf of the Company, including investment advice and underwriting.**

Consolidated Tax Agreement

Effective July 29, 1981, and amended July 19, 1999, the Company has been included in a consolidated income tax return with The Chubb Corporation. The Company's portion of the consolidated tax liability is determined in accordance with the Agreement to Allocate Consolidated U.S. Corporation Income Tax (Agreement). Under the terms of the agreement, each Company's income tax liability is calculated in accordance with the ratio of its taxable income to the total taxable income of group members having taxable income.

FIDELITY BOND AND OTHER INSURANCE

The examination of insurance coverages involved a review of adequacy of limits and retentions and the solvency of the insurers providing the coverages. The Company's insurance coverages are provided through insurance policies from an unaffiliated carrier. The coverage protected the Chubb Corporation and all majority-owned subsidiaries as a named insured. The group as a whole is insured up to $15,000,000 per single loss, after a $25,000,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Although the retention amount is unusually high, the fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2011, were found to be adequate, and are as follows:

Commercial property liability	Error's and omissions
Employment practices liability	Directors & officers liability
ERISA liability	Workers' compensation

TERRITORY AND PLAN OF OPERATION

The Company is authorized to conduct business as a property and casualty insurer in seven states, but wrote most of its business in Oregon, Texas and Washington. The Company cedes 100% of its business to its direct parent, PIC, and thus acts as a fronting insurer for its parent.

The Company writes business underwritten by Chubb, represented by approximately 5,000 independent agents and accepting business on a regular basis from an estimated 500 insurance brokers. On a national basis, Chubb Group is divided into three strategic business units, Chubb Personal Insurance (CPI), Chubb Commercial Insurance (CCI) and Chubb Specialty Insurance (CSI). The composition of business within these groups is approximately 34% personal, 43% commercial and 23% specialty.

CPI offers coverages of fine homes, automobiles, and other personal possessions along with options for high limits of personal liability coverage, in addition to supplemental A&H coverage in certain niche markets. CCI offers a full range of commercial insurance products, including coverage for multiple peril, casualty, workers' compensation, property, and marine. CSI offers a wide variety of specialized professional liability products for privately and publicly owned companies, financial institutions, professional firms, and healthcare organizations, as well as surety business.

At year-end 2011, the Company reported direct business in its licensed jurisdictions, as follows:

State	**Direct Premiums Written**
California	$ 0
Kentucky	0
Missouri	0
Oklahoma	0
Oregon	219,669
Texas	418,122
Washington	15,145
Total	$652,936

During 2011, the Company wrote the following lines of business:

	Direct Premium	**Percentage**
Commercial multi-peril	$ 5,631	0.9%
Other liability	228,393	35.0%
Private passenger auto	215,722	33.0%
Auto physical damage	177,245	27.1%
Fidelity	1,128	0.2%
Boiler and machinery	24,922	3.8%
All other lines	(105)	0.0%
Total	$652,936	100.0%

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following table. Amounts were obtained from Company's filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

Year	**Assets**	**Liabilities**	**Capital and Surplus**	**Net Income (Loss)**
2007	$18,645,475	$4,837,419	$13,808,056	$407,468
2008	16,451,911	2,275,413	14,176,498	377,626
2009	15,465,514	993,316	14,472,198	257,777
2010	15,101,567	256,203	14,845,364	284,444
2011*	15,472,149	178,152	15,293,997	447,589

*Per examination

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company over the last five years. The amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the previous examination reports.

Year	(1) Premium Earned	(2) Losses and LAE Incurred	(3) Other Underwriting Expenses Incurred	(2)+(3)/(1) Combined Ratio
2007	$0	$0	$0	n/a
2008	0	0	0	n/a
2009	0	0	0	n/a
2010	0	0	0	n/a
2011*	0	0	0	n/a

*Per examination

All direct business was ceded to the direct parent under a reinsurance agreement that transferred 100% of the Company's ultimate net loss for all policies.

REINSURANCE

Assumed

During 2011, the Company assumed a very small book of business through its participation in a mandatory pool of the California Commercial Automobile Insurance Procedure.

Ceded

The Company cedes 100% of its direct written and assumed business to PIC under a reinsurance agreement effective January 1, 1995. PIC in turn combines the business assumed from the Company with its direct written business and cedes to an intercompany reinsurance pool managed by FIC.

The Chubb pool operates differently from traditional U.S. pooling arrangements in that each participating insurer retains a designated percentage of its own business and cedes the remainder directly to each of the other pool companies at each company's pool percentage, for each risk. The pooling agreement became effective on January 1, 1994, and last amended October 1, 2006. It covers all lines except foreign business and aircraft (all perils) produced through voluntary pools, and includes gross written premium, ultimate net loss and all related expenses. The participation is as follows:

Company Name	Domicile	Participation
Federal Insurance Company	IN	68.5%
Pacific Indemnity Company	WI	17.0%
Executive Risk Indemnity, Inc.	DE	8.0%
Great Northern Insurance Company	IN	4.0%
Executive Risk Specialty Insurance Company	CT	0.5%
Chubb Custom Insurance Company	DE	0.5%
Chubb National Insurance Company	IN	0.5%
Chubb Indemnity Insurance Company	NY	0.5%
Vigilant Insurance Company	NY	0.5%
Chubb Insurance Company of New Jersey	NJ	N/A
Chubb Lloyds Insurance Company of Texas	TX	N/A
Northwestern Pacific Indemnity Company	OR	N/A
Texas Pacific Indemnity Company	TX	N/A

The reinsurance agreement contained a proper insolvency clause in accordance with ORS 731.508(3) as required to take reserve credits for reinsurance ceded.

In view of the Company's reported surplus of $15,293,997 at December 31, 2011, it does not maintain risk on any one subject in excess of 10% of its surplus to policyholders, in compliance with ORS 731.504.

ACCOUNTS AND RECORDS

All work papers and documents, other than corporate records specific to the Company, are maintained at the Chubb corporate offices in Warren, New Jersey. In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2011, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170. The Company has a system in place to account for unclaimed funds. The Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

STATUTORY DEPOSITS

As of the examination date, the Company maintained $215,000 (par value) for the benefit of Oregon policyholders and an additional $1,415,000 (par value) for the benefit of all policyholders in two US Treasury Notes on deposit at the Oregon Insurance Division. This meets the requirements of ORS 731.604 and 731.628. The deposits were verified from the records of the Oregon Insurance Division and were listed in the 2011 annual statement on Schedule E – Part 3. In addition, the Company reported $235,000 (par value) in two US Treasury Notes as a deposit held with the California Department of Insurance, and $330,000 (par value) in a US Treasury Note as a deposit held with the Texas Department of Insurance.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations made in the 2006 report of examination and no adjustments were made to surplus as a result of the examination findings.

SUBSEQUENT EVENTS

The examiners noted no events subsequent to the examination date that would have a material impact on the financial statements as presented in the 2011 annual statement.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of Northwestern Pacific Indemnity Company as of December 31, 2011:

Statement of Assets
Statement of Liabilities, Surplus and Other funds
Statement of Income
Reconciliation of Surplus Since the Last Examination

NORTHWESTERN PACIFIC INDEMNITY COMPANY
ASSETS
As of December 31, 2011

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	$13,121,654	$ -	$13,121,654	1
Cash, cash equivalents and short-term investments	2,141,218	-	2,141,218	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	$15,262,872	$ -	$15,262,872	
Investment income due and accrued	116,602	-	116,602	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	-	-	-	
Deferred premiums, agents balances and installments booked but deferred and not yet due	91,761	-	91,761	
Accrued retrospective premiums	-	-	-	
Aggregate write-ins for other than invested assets	914	-	914	
Total Assets	$15,472,149	$ -	$15,472,149	

NORTHWESTERN PACIFIC INDEMNITY COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2011

Liabilities	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	$ -	$ -	$ -	2
Loss adjustment expense	-	-	-	2
Other expenses	-	-	-	
Taxes, licenses and fees	-	-	-	
Current federal and foreign income taxes	82,577		82,577	
Net deferred tax liability	1,413		1,413	
Ceded reinsurance premiums payable	91,761	-	91,761	
Amounts withheld or retained by company for account of others	209		209	
Payable to parent, subs and affiliates	2,192	-	2,192	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	$ 178,152	$ -	$ 178,152	
Surplus				
Common capital stock	$ 2,600,000	$ -	$ 2,600,000	
Gross paid in and contributed surplus	2,427,411	-	2,427,411	
Unassigned funds (surplus)	10,266,586	-	10,266,586	
Surplus as regards policyholders	$15,293,997	$ -	$15,293,997	
Total liabilities, surplus and other funds	$15,472,149	$ -	$15,472,149	

NORTHWESTERN PACIFIC INDEMNITY COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2011

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Premiums earned	$ -	$ -	$ -	
Deductions				
Losses incurred	-	-	-	
Loss adjustment expenses incurred	-	-	-	
Other underwriting deductions	-	-	-	
Aggregate write-ins underwriting deductions	-	-	-	
Net underwriting gain (loss)	-	-	-	
Net investment income earned	529,504	-	529,504	
Net realized capital gains	174	-	174	
Net investment gain (loss)	529,678	-	529,678	
Net gain (loss) from agents or premium balances charged off	-		-	
Finance and service charges	-		-	
Aggregate write-ins for miscellaneous income	214	-	214	
Net other income (loss)	214	-	214	
Net income before federal and foreign income taxes incurred	529,892	-	529,892	
Less dividends to policyholders	-	-	-	
Less federal and foreign income taxes incurred	82,303	-	82,303	
Net income	$447,589	$ -	$447,589	

NORTHWESTERN PACIFIC INDEMNITY COMPANY
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2011	2010	2009	2008	2007
Surplus as regards policyholders, December 31, previous year	$14,845,364	$14,472,198	$14,176,498	$13,808,056	$13,405,929
Net income	447,589	284,444	257,777	377,626	407,468
Change in net unrealized capital gains or (losses)	-	-	-	-	-
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-	-	-
Change in net deferred income tax	1,044	88,722	37,923	(9,184)	(5,341)
Change in non-admitted assets	-	-	-	-	-
Change in provision for reinsurance	-	-	-	-	-
Change in surplus notes	-	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-	-
Capital changes:					
Paid in	-	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Dividends to stockholders	-	-	-	-	-
Change in treasury stock	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-	-
Change in surplus as regards policyholders, for the year	448,633	373,166	295,700	368,442	402,127
Surplus as regards policyholders, December 31, current year	$15,293,997	$14,845,364	$14,472,198	$14,176,498	$13,808,056

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2011, the Company's long-term bond investments were in a diversified portfolio of US obligations and corporate issues. The Company did report a large exposure in mortgaged-backed and asset-backed securities. These securities were investment rated at year-end 2011, and the carrying book value of $2,461,848 million comprised 18.8% of the total long-term bond portfolio, and 16.1% of all invested assets.

Cash and short-term deposits consisted of a custody cash account and five commercial paper issues held in the custodial account at US Bank, NA.

A comparison of the major investments over the past five years shows the following:

	A	B	Ratio	Ratio
Year	Bonds	Cash and Short-term	A/ Total Assets	B/ Total Assets
2007	$10,620,702	$3,334,755	57.0%	17.9%
2008	10,097,704	4,200,350	61.4%	25.5%
2009	10,079,119	4,498,865	65.2%	29.1%
2010	11,316,152	3,420,439	74.9%	22.6%
2011*	13,121,654	2,141,218	84.8%	13.8%

The Board of Directors approved the investment transactions at each at each annual meeting, pursuant to ORS 733.740. As of December 31, 2011, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits. The Company was, therefore, in compliance with ORS 733.580.

The Company entered into a custodial agreement with US Bank, NA. There was no effective date and the agreement did not contain a signature date. It was amended August 2006. The agreement did not contain all of the relevant protections described in OAR 836-027-0200(4)(a) through (l). Specifically, the agreement lacked the following protections:

> (b) The custodian must agree that, in the event of a loss of the insurer's securities for which the custodian is obligated to indemnify the insurer, the custodian shall promptly replace the securities or the value of any loss of rights or privileges resulting from the loss of the securities;
>
> (e) In the event that the custodian gains entry in a clearing corporation through an agent, there shall be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from laws regulating the custodian, the director may accept a standard of liability applicable to the agent that is different from the standard liability;

(h) The custodian and its agents, upon reasonable request, must agree to send all reports that they receive from a clearing corporation or the Federal Reserve book-entry system that the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurer on the custodian's or agent's respective systems of internal control;

(k) The custodian must agree to secure and maintain insurance protection in an adequate amount.

I recommend the Company amend its custodial agreement with US Bank, NA, to include all the protections described in OAR 836-027-0200(4).

Note 2 – Actuarial Reserves

As described above under the Reinsurance section, the Company ceded 100% of its direct business to PIC, with no retrocession coming back to the Company. As a result, all loss reserves, Loss Adjustment Expenses (LAE) reserves, unearned premium reserves, and any other amount to be actuarially determined were booked by PIC.

David M. Shepherd, FCAS, MAAA, of Merlinos and Associates, Inc., was appointed by the Indiana Department of Insurance to conduct a review of the Group's statutory reserves as of December 31, 2011. He conducted a review of the losses and loss adjustment expense reserves for the Chubb Group, as prepared by W. Brian Barnes, FCAS, MAAA, vice president and actuary, who opined that the reserves for losses and LAE carried by the Company as of December 31, 2011, were reasonable.

Mr. Shepherd's determined that both the Company's and the appointed actuary's analyses and conclusions were reasonable. He also noted that carried net reserves and carried direct and assumed reserves for the Group were approximately 3% to 4% higher than Mr. Barnes' central estimates and were supported by an adequate discussion of the differences. As such, Mr. Shepherd did not consider an adjustment of reserves to be merited. He further noted no material issues with the appointed actuary's report and analysis or with the Group's controls.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination, however, the following recommendations are made:

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11 I recommend the Company amend the intercompany service agreement to include a provision for timely settlement, in accordance with SSAP No. 25, paragraph 6. I further recommend the agreement be amended to include additional services being provided on behalf of the Company, including investment advice and underwriting.

23 I recommend the Company amend its custodial agreement with US Bank, NA, to include all the protections described in OAR 836-027-0200(4).

CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from $13,405,929, as presented in the December 31, 2006, report of examination to $15,293,997, as shown in this report. The comparative assets and liabilities are:

	December 31,		
	2011	**2006**	**Change**
Assets	$15,472,149	$18,639,188	$(3,167,039)
Liabilities	178,152	5,233,259	5,055,107
Surplus	$15,293,997	$13,405,929	$ 1,999,068

ACKNOWLEDGMENT

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, Raymond W. Anderson, CFE, and Joseph A. Rome, CFE, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in this examination. We would also like to thank Nadine Treon, CFE, of Noble Consulting Services, Inc., for her participation in the examination.

Respectfully submitted,

Greg A. Lathrop, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Northwestern Pacific Indemnity Company, Portland, Oregon.

2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon 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. The examination of Northwestern Pacific Indemnity Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Greg A. Lathrop
Greg A. Lathrop, CFE
Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 17 day of May, 2013.

Linda J. Rothenberger
Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

OFFICIAL SEAL
LINDA J ROTHENBERGER
NOTARY PUBLIC-OREGON
COMMISSION NO. 476327
MY COMMISSION EXPIRES MARCH 22, 2017