

STATE OF OREGON

**DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**FARMERS INSURANCE COMPANY OF OREGON
HILLSBORO, OREGON**

AS OF

DECEMBER 31, 2017

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**FARMERS INSURANCE COMPANY OF OREGON
TIGARD, OREGON**

NAIC COMPANY CODE 21636

AS OF

DECEMBER 31, 2017

TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION	4
COMPANY HISTORY	5
CORPORATE RECORDS	6
MANAGEMENT AND CONTROL	7
<i>Board of Directors</i>	7
<i>Officers</i>	7
<i>Conflict of Interest</i>	8
<i>Insurance Company Holding System</i>	8
INTERCOMPANY AGREEMENTS	10
FIDELITY BOND AND OTHER INSURANCE	11
TERRITORY AND PLAN OF OPERATION	12
GROWTH OF THE COMPANY	12
LOSS EXPERIENCE	13
REINSURANCE	13
ACCOUNTS AND RECORDS	15
STATUTORY DEPOSIT	15
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	15
SUBSEQUENT EVENTS	15
FINANCIAL STATEMENTS	16
ASSETS	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18
STATEMENT OF INCOME	19
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION	20
NOTES TO FINANCIAL STATEMENTS	21
<i>Note 1 – Invested Assets</i>	21
<i>Note 2 – Actuarial Reserves</i>	21
SUMMARY OF COMMENTS AND RECOMMENDATIONS	22
CONCLUSION	22
ACKNOWLEDGMENT	23
AFFIDAVIT	24

SALUTATION

May 29, 2019

Honorable Cameron Smith, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

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

**FARMERS INSURANCE COMPANY OF OREGON
6600 SW Hampton St.
Tigard, Oregon 97223**

NAIC Company Code 21636

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

SCOPE OF EXAMINATION

We have performed our regular, coordinated, multi-state examination of Farmers Insurance Company of Oregon, part of the Farmers Group, Inc. holding company system, with the California Department of Insurance designated as the lead state. The last examination of this property and casualty insurance company was completed as of December 31, 2013. This examination covers the period of January 1, 2014 to December 31, 2017.

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, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items

identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was incorporated in Oregon and received a Certificate of Authority on September 15, 1970, to transact property, casualty (excluding workers' compensation), marine and transportation, and surety lines of business. An amended Certificate of Authority was issued on December 23, 1987, adding the authority to transact workers' compensation.

Farmers Insurance Exchange is an inter-insurance exchange owned by its policyholders and organized under the laws of the State of California. Through its 80% direct stock ownership interest of the Company's capital stock, Farmers Insurance Exchange is the Ultimate Controlling Person. Farmers Group, Inc. ("FGI"), a Nevada corporation and the attorney-in-fact for FIE, is a Significant Related Person. Zurich Insurance Group, the ultimate shareholder of FGI, is neither an Ultimate Controlling Person nor a Significant Related Person.

Capitalization

Article II of the Company's Restated Articles of Incorporation authorize the Company to issue 100,000 shares of common stock, with a par value of \$100 per share.

In the prior examination, the Company reported 26,000 shares issued and outstanding. Shares are owned by Farmers insurance Exchange (20,800 shares, or 80%) and Truck Insurance Exchange (5,200 shares, or 20%). During the period under examination, there were no changes in the Company's capital stock or paid in and contributed surplus accounts.

Dividends to Stockholders and Other Distributions

During the period under examination, the Company did not declare or pay any dividend to its stockholder or make any distribution.

CORPORATE RECORDS

Board Minutes

In general, the review of 2014 to 2017 Board meeting minutes of the Company indicated that the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum met at all of the meetings held during the period under review. The Board met quarterly and additional meetings were scheduled as necessary.

The Board approved the compensation of all corporate officers in compliance with the provisions of ORS 732.320(3).

Articles of Incorporation

The Company's restated Articles of Incorporation were most recently amended on June 23, 1995, and were not amended during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated on August 21, 1986, and were not amended during the period under examination. The Bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

Management and control of the Company was vested in a Board of Directors. The Company's Bylaws, in Section 11, stated that the Board shall be comprised of seven (7) members. Section 14 described a quorum as a majority of the number of directors. As of December 31, 2017, the Company was governed by a seven member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Gisselle M. Acevedo New Canaan, Connecticut	Child Therapist The Child and Family Guidance Center	2016
Thomas G. Allen Denver, Colorado	President Intermountain Electric, Inc.	2016
Keith G. Daly Westlake Village, California	Head of Property Claims Farmers Insurance Exchange	2014
Barbara L. Dawes Canby, Oregon	Head of Business Insurance Farmers Group, Inc.	2017
Ronald L. Marrone Pittsburg, Kansas	Co-Owner, Secretary and Treasurer Marrone's, Inc.	2015
Craig R. Mills Sherwood, Oregon	Territory Agency Manager Farmers Insurance Group	2017
Donald E Rodriguez Long Beach, California	Executive Director Boys and Girls Club	2011

The Company's Board met all of the requirements of ORS 732.305.

Officers

Principal officers serving at December 31, 2017, were as follows:

Name

Office

Richard M. Shriver
Doren E. Hohl
Ronald G. Myhan
Keith G. Daly
James L. Nutting

President
Secretary
VP and Treasurer
VP
VP and Actuary

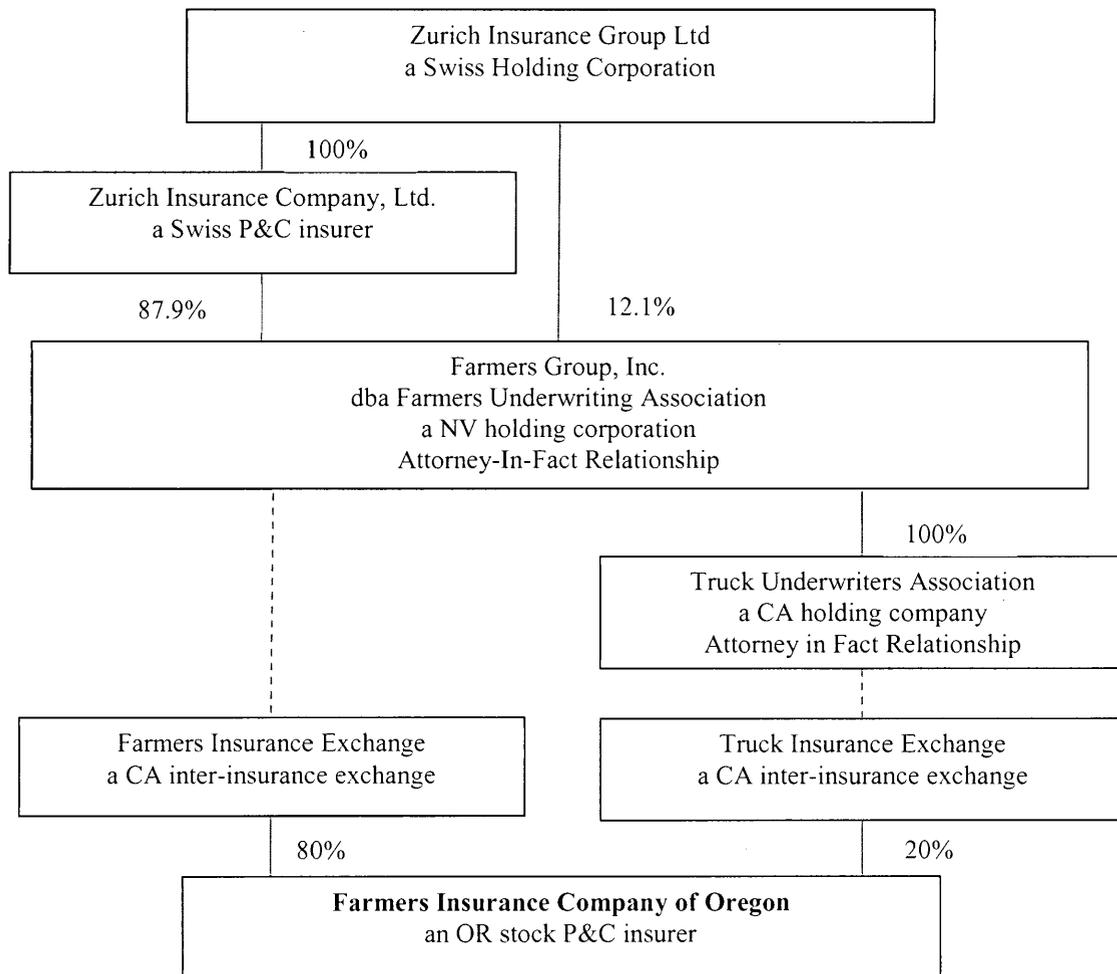
Conflict of Interest

The Company requires officers and directors to annually report any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

Insurance Company Holding System

An insurance holding company registration statement was filed by the Company in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

In the Farmers Insurance Holding Company structure, its policyholders elect an independent Board of Governors to supervise and govern the relationship between FIE and FGI. The Board of Governors has an obligation to supervise the finances of the Exchange and to supervise FGI's operations to such extent as to assure conformity with the subscriber's agreement and power of attorney. The following abbreviated organizational chart depicts the relationships of the Company within the holding company system:



Both the Farmers Insurance Exchange and the Truck Insurance Exchange are inter-insurance exchanges, with Farmers Group, Inc., acting as the attorney-in-fact. A description of each of the entities above is as follows:

Zurich Insurance Group Ltd (Zurich), formerly Zurich Financial Services Ltd, is a Swiss financial corporation serving as a holding company for global insurance risk management operations.

Zurich Insurance Company Ltd (ZIC) is a Swiss property and casualty insurer owned 100% by Zurich.

Farmers Group, Inc. (FGI), dba Farmers Underwriters Association, is a holding company providing insurance management services. Together with its wholly owned subsidiaries, Truck Underwriters Association and Fire Underwriters Association, it acts as the attorneys-in-fact for three reciprocal inter-insurance exchanges; Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange. Neither Fire Underwriters Association nor Fire Insurance Exchange are direct or indirect owners of the Company, and were not included in the organizational chart above. In this structure, the exchanges hold the insurance risk, while FGI earns management fees by running the exchanges' affairs.

Farmers Insurance Exchange (FIE) and Truck Insurance Exchange (TIE) are two of the three reciprocal inter-insurance exchanges that own and operate subsidiary insurance companies. Together, they own the outstanding common shares of the Company, and would be considered the direct parent.

Intercompany Agreements

Service Agreement

Effective July 1, 2015, FIE entered into a new service agreement (superseding a prior agreement between the two parties dated March 1, 2010) whereby FIE agrees to provide various services including claims adjustment services, accounting and financial reporting services, investment management services, preparation of insurance policies, billing and collections, and other administrative services to the Company. The terms of settlement require that the amounts be settled within 45 days.

Tax Sharing Agreement

Effective September 1, 2013, FIE entered into an agreement among the affiliated companies, including the Company. Under the terms of the agreement, FIE will make all payments due for the group's federal tax liability and each member of the group shall reimburse FIE subsequent to the payment. Each party shall then compute its separate tax liability, including any tax credit available for that period, using a separate return basis, as if each member filed their return separately. Final settlement will be made within 30 days after the filing date of the consolidated return.

Revolving Credit Facility Framework Agreement (Framework agreement)

Effective March 9, 2017, the Company became a signatory to the framework agreement. The Framework agreement provides for short-term loans to be executed on an as-needed basis between signatories to the Agreement, all of who are affiliate insurers within the Farmers Insurance Holding Company system.

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. At December 31, 2017, Farmers Group, Inc., was covered for up to \$10,000,000 per occurrence, \$20,000,000 aggregate, after a \$1,000,000 deductible, against losses from acts of dishonesty and fraud by its employees. This fidelity bond coverage met the coverage recommended by the NAIC. Other insurance coverages protect the Company from fiduciary liability and director and officer liability in amounts that were determined to be sufficient.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was authorized to write property, casualty including workers' compensation, marine and transportation, and surety business in Oregon. The Company was also authorized to write business in California and Michigan. Direct premiums written in 2017 were:

California	\$	-
Michigan		-
Oregon		<u>312,790,232</u>
Total Direct Premium		<u>\$ 312,790,232</u>

The following is a breakdown of the direct premiums written in 2017:

<u>Line</u>	<u>Direct Premium</u>	<u>Percentage</u>
Private passenger auto liability	\$ 184,714,774	59.05%
Auto physical damage	70,263,071	22.46%
Homeowners multiple peril	37,934,795	12.13%
Commercial multiple peril	12,349,344	3.95%
Other	<u>7,528,249</u>	<u>2.41%</u>
Total	<u>\$ 312,790,249</u>	<u>100.00%</u>

GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2013*	\$ 1,614,930,075	\$ 1,124,642,292	\$ 490,287,784	\$ 21,887,451
2014	1,627,934,799	1,113,299,589	514,635,209	21,285,816
2015	1,681,526,290	1,151,714,375	529,811,915	17,960,978
2016	1,691,334,413	1,158,280,829	533,053,583	7,654,397
2017*	1,634,593,020	1,104,992,102	529,600,917	15,490,527

*Per examination

LOSS EXPERIENCE

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

<u>Year</u>	<u>(1) Premium Earned</u>	<u>(2) Losses and LAE Incurred</u>	<u>(3) Other Underwriting Expenses Incurred</u>	<u>(2)+(3)/(1) Combined Ratio</u>
2013*	\$ 960,710,130	\$ 641,659,771	\$ 331,618,974	101.3%
2014	950,784,414	624,291,519	342,258,904	101.7%
2015	1,062,837,632	729,979,561	358,949,449	102.5%
2016	1,059,274,242	760,224,282	344,205,533	104.3%
2017*	1,016,464,921	708,411,851	334,934,837	102.6%

*Per examination

The Company had net underwriting losses in each of the past five years but were offset by investment gains that resulted in positive net income for each year under examination.

REINSURANCE

Assumption Agreement

Effective October 1, 1970, FIE and the Company entered into a reinsurance assumption agreement. Under the agreement, FIE reinsures the net retained liability of the Company. FIE is also responsible for the costs associated with the issuance and administration of the policies reinsured, including claims adjustment services.

Intercompany Reinsurance and Pooling Agreement

All of the Company's retained business is transacted through a pooling agreement with FIE, which was last amended effective January 1, 1999. FIE is the lead insurer in an intercompany reinsurance and pooling agreement under which the insurers listed below pool their risks and obtain a proportional share of profits and/or losses of the pooled business.

<u>Participant</u>	<u>Percentage</u>
Farmers Insurance Exchange	51.75
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Mid-Century Insurance Company	16.00
Texas Farmers Insurance Company	1.00
Farmers Insurance of Columbus, Inc.	1.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Farmers Insurance Company, Inc. (Kansas)	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	<u>0.75</u>
Total	<u>100.00</u>

The risk assumed is net of external reinsurance acquired by the pool leader and includes treaties ceding risks to non-affiliated reinsurers that were written through FIE and all of its subsidiaries and affiliates.

Risk Retention

The Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

Insolvency Clause

The reinsurance agreements each contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2017, 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 and the Company has filed the reports on abandoned property pursuant to the provisions of ORS 98.352.

STATUTORY DEPOSIT

At year-end 2017, the Company maintained deposits with the Oregon Division of Financial Regulation in three municipal bonds the amount of \$2,770,000 (par value) for the purposes of complying with workers' compensation deposit requirements pursuant to ORS 731.628.

In addition, the Company maintained deposits with the State of Michigan in two US Treasury Bonds totaling \$2,172,000 (par value). These deposits were verified from the records of the Michigan Office of Finance and Insurance Regulation.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations or comments made as a result of the prior examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date that would have a material impact on the Company's solvency.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2017. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

- Statement of Assets
- Statement of Liabilities, Surplus, and Other Funds
- Statement of Income
- Reconciliation of Capital and Surplus Since the last Examination

**FARMERS INSURANCE COMPANY OF OREGON
ASSETS**

As of December 31, 2017

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 1,378,997,231	\$ -	\$ 1,378,997,231	1
Cash, cash equivalents and short-term investments	24,130,318	-	24,130,318	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>1,403,127,548</u>	<u>\$ -</u>	<u>1,403,127,548</u>	
Investment income due and accrued	11,060,588	-	11,060,588	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	11,887,537	-	11,887,537	
Deferred premiums, agents' balances and installments not yet due	163,186,651	-	163,186,651	
Accrued retrospective premiums and contracts subject to redetermination	76,999	-	76,999	
Reinsurance				
Amounts recoverable from reinsurers	16,413,471	-	16,413,471	
Net deferred tax assets	26,192,773	-	26,192,773	
Aggregate write-ins for other than invested assets	<u>2,647,451</u>	<u>-</u>	<u>2,647,451</u>	
Total Assets	<u>\$ 1,634,593,020</u>	<u>\$ -</u>	<u>\$ 1,634,593,020</u>	

FARMERS INSURANCE COMPANY OF OREGON
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2017

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 476,172,765	\$ -	\$ 476,172,765	2
Reinsurance payable on paid losses and lae	64,207,784		64,207,784	
Loss adjustment expenses	133,707,525	-	133,707,525	2
Other expenses	1,219,051	-	1,219,051	
Taxes, licenses and fees (excl. FIT)	499,525	-	499,525	
Unearned premiums	386,212,320	-	386,212,320	
Advance premium	9,973,728	-	9,973,728	
Ceded reinsurance premium payable	17,682,340	-	17,682,340	
Payable to parent, subsidiaries and affiliates	6,436,731	-	6,436,731	
Payable for securities	1,613,869	-	1,613,869	
Aggregate write-ins for liabilities	<u>7,266,464</u>	<u>-</u>	<u>7,266,464</u>	
Total Liabilities	<u>\$ 1 104,992,102</u>	<u>\$ -</u>	<u>\$ 1 104,992,102</u>	
Common capital stock	\$ 2,600,000	\$ -	\$ 2,600,000	
Gross paid-in and contributed capital	266,550,000	-	266,550,000	
Unassigned funds (surplus)	<u>260,450,917</u>	<u>-</u>	<u>260,450,917</u>	
Surplus as regards policyholders	<u>\$ 529,600,917</u>	<u>-</u>	<u>\$ 529,600,917</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 1,634,593,020</u>	<u>\$ -</u>	<u>\$ 1,634,593,020</u>	

FARMERS INSURANCE COMPANY OF OREGON
STATEMENT OF INCOME
For the Year Ended December 31, 2017

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ 1,016,464,921	\$ -	\$ 1,016,464,921	
Deductions				
Losses incurred	605,186,910	-	605,186,910	
Loss adjustment expenses incurred	108,224,941	-	108,224,941	
Other underwriting expenses	335,070,571	-	335,070,571	
Aggregate write-ins for underwriting deductions	<u>(135,734)</u>	<u>-</u>	<u>(135,734)</u>	
Total underwriting deductions	<u>1,043,346,688</u>	<u>-</u>	<u>1,043,346,688</u>	
Net underwriting gain or (loss)	(26,881,767)	-	(26,881,767)	
Investment income				
Net investment income earned	35,415,893	-	35,415,893	
Net realized gains or (losses)	<u>510,538</u>	<u>-</u>	<u>510,538</u>	
Net investment gain or (loss)	35,926,431	-	35,926,431	
Other income				
Net gain or (loss) from agents' or premium balances charges off	(6,073,197)	-	(6,073,197)	
Finance and service charges not included in premiums	14,614,351	-	14,614,351	
Aggregate write-ins for miscellaneous income	<u>(710,173)</u>	<u>-</u>	<u>(710,173)</u>	
Total other income	<u>7,830,981</u>	<u>-</u>	<u>7,830,981</u>	
Net income before dividends to policyholders and income taxes	16,875,645	-	16,875,645	
Dividends to policyholders	47,072	-	47,072	
Federal income taxes incurred	<u>1,338,046</u>	<u>-</u>	<u>1,338,046</u>	
Net income	<u>\$ 15,490,527</u>	<u>\$ -</u>	<u>\$ 15,490,527</u>	

FARMERS INSURANCE COMPANY OF OREGON
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	<u>\$533,053,583</u>	<u>\$529,811,915</u>	<u>\$514,635,209</u>	<u>\$490,287,784</u>
Net income (loss)	15,490,527	7,654,397	17,960,978	21,285,816
Change in net unrealized capital gains or (losses)	32,618	(861,329)	(1,682,782)	454,879
Change in net deferred income tax	(20,087,961)	(2,395,473)	(1,120,005)	(2,386,102)
Change in non-admitted assets	1,095,360	(784,182)	57,040	4,694,554
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Cumulative effects of changes in accounting principles	-	(556,635)	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Distributions to parent (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Examination adjustment	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>16,790</u>	<u>184,891</u>	<u>(38,555)</u>	<u>,298,280</u>
Change in surplus as regards policyholders for the year	<u>(3,452,666)</u>	<u>3,241,668</u>	<u>15,176,706</u>	<u>24,347,426</u>
Surplus as regards policyholders, December 31, current year	<u>\$529,600,917</u>	<u>\$533,053,583</u>	<u>\$529,811,915</u>	<u>\$514,635,209</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2017, the Company's long-term bond investments were diversified in US obligations, US federal agency bonds, municipal obligations, and industrial and miscellaneous. The Company had an exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2017, and the carrying book value comprised 15.4% of the total long-term bond portfolio, or 15.1% of all invested assets.

Cash and short-term deposits consisted of cash on deposit.

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

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>
2013*	\$1,323,832,744	\$ 3,873,755	82.0%	0.2%
2014	1,338,859,082	11,279,824	82.2%	0.7%
2015	1,403,253,819	23,498,893	83.5%	1.4%
2016	1,410,891,400	16,103,440	83.4%	1.0%
2017*	1,378,997,231	24,130,318	84.4%	1.5%

* Balance per examination

The Board of Directors ratified the investment transactions in each of the years under review, in compliance with ORS 733.740. As of December 31, 2017, sufficient assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

Effective June 4, 2009, the Company entered into a custodial agreement with JP Morgan Chase Bank NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (1).

Note 2 – Actuarial Reserves

A review of the actuarial liabilities was performed by Giovanni Muzzarelli, FCAS, CERA, MAAA, Actuary for the California Department of Insurance. As part of his review, he examined the Actuarial Report and supporting statements as of December 31, 2017, prepared by James L. Nutting, FCAS, MAAA, Senior VP and Chief Actuary, who prepared the Company's actuarial report and opinion. The Company's Board of Directors appointed Mr. Nutting on December 31, 2000.

David Dahl, FCAS, MAAA, Property/Casualty actuary for the Oregon Division of Financial Regulation, peer reviewed the actuarial review performed by Mr. Muzzarelli and his assessment of the liabilities established as of the December 31, 2017. Mr. Dahl's review noted that the assessment of the Company's pricing and reserving risk were reasonable and the assumptions and methodologies used were reasonable. Therefore, the Company's liability for Losses and Loss Adjustment Expenses was found to be reasonably stated as of December 31, 2017.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the Company's surplus as a result of this examination and no recommendations were made.

CONCLUSION

During the four year period covered by this examination, the surplus of the Company has decreased from \$490,287,784, as presented in the December 31, 2013, report of examination, to \$529,600,917, as shown in this report of examination. The comparative assets and liabilities are:

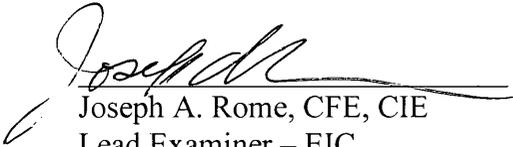
	December 31,		
	<u>2017</u>	<u>2013</u>	<u>Change</u>
Assets	\$ 1,634,593,020	\$ 1,614,930,075	\$ 19,662,944
Liabilities	<u>1,104,992,102</u>	<u>1,124,642,292</u>	<u>(19,650,192)</u>
Surplus	<u>\$ 529,600,917</u>	<u>\$ 490,287,784</u>	<u>\$ 39,313,133</u>

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, Tho Le, AFE, staff examiner, and David Dahl, FCAS, MAAA, actuary, for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in the examination. In addition, examiners and contractors representing the California Department of Insurance participated and their cooperation during this coordinated examination is greatly appreciated.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Joseph A. Rome", with a long horizontal flourish extending to the right.

Joseph A. Rome, CFE, CIE
Lead Examiner – EIC
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Joseph A. Rome, CFE, CIE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Farmers Insurance Company of Oregon, Tigard, Oregon.
2. The Division of Financial Regulation 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 Farmers Insurance Company of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.



Joseph A. Rome, CFE, CIE

Lead Examiner – EIC
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 1st day of July, 2019.

Lauren N. Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

