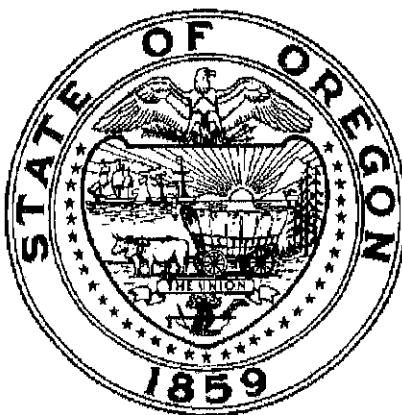


**STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

**OREGON MUTUAL INSURANCE COMPANY
MCMINNVILLE, OREGON**

AS OF

DECEMBER 31, 2014

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**OREGON MUTUAL INSURANCE COMPANY
MCMINNVILLE, OREGON**

NAIC COMPANY CODE 14907

AS OF

DECEMBER 31, 2014

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SALUTATION

March 29, 2016

Honorable Laura N. Cali, Commissioner
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear 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

**OREGON MUTUAL INSURANCE COMPANY
400 NE Baker Street
McMinnville, Oregon 97128**

NAIC Company Code 14907

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

SCOPE OF EXAMINATION

We have performed our full-scope, multi-state insurer, group examination of Oregon Mutual Insurance Company, together with its wholly owned insurance subsidiary, Western Protectors Insurance Company ("WPIC"). The last examination of this property and casualty insurer was completed as of December 31, 2011. The current examination covers the period of January 1, 2012, to December 31, 2014.

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 on December 29, 1894, as Oregon Fire Relief Association for the purpose of writing fire insurance. In 1930, the Articles of Incorporation were amended changing the Company's name to Oregon Mutual Fire Insurance Company. In 1948, the Company became licensed to write casualty insurance. On January 28, 1955, the Articles of Incorporation were amended changing the Company's name to Oregon Mutual Insurance Company.

Dividends and Other Distributions

During the period under examination, the Company did not declare or pay any cash dividends and made no distributions to its policyholders.

CORPORATE RECORDS

Board Minutes

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 Company's Bylaws authorize the Board to establish committees. There are four committees authorized to assist in the management of the Company, as follows:

Audit Committee
Executive Committee

Investment Committee
Nominating Committee

In addition to these, the Board has established a Compensation Committee and a Risk Management Committee. The actions of the various committees are summarized and reported to the Board of Directors during their regular meetings.

A review of the minutes indicated the Compensation Committee approved the compensation of all its senior officers, which in turn is ratified by the Board as a whole. This complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Articles of Incorporation were last restated on March 7, 1989. The Company made no amendments during the period under examination. The Articles of Incorporation conform to the Oregon Insurance Code.

Bylaws

The Bylaws were last restated on August 9, 2011. The Company made no amendments during the period under examination. The Company's Bylaws conform to Oregon statutes.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws, in Article II, state all corporate powers shall be exercised by or under the authority of the Board of Directors and the business and affairs shall be managed under the direction of the Board. The number of directors shall be seven, eight, nine or ten, the exact number to be fixed, increased or decreased by resolution of the Board from time to time. The composition of the Board was in compliance with ORS 732.305. As of December 31, 2014, the Company was governed by an eight member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Rosemari J. Davis McMinnville, Oregon	Former CEO Willamette Valley Medical Center	2003
Rick A. John McMinnville, Oregon	Principal and Owner Hagan Hamilton Insurance	2010
Jonathan L. Jurevic Portland, Oregon	CFO Oregon Anesthesiologist Group	2010
Michael E. Keyes McMinnville, Oregon	Chairman Oregon Mutual Insurance Company	1999
Michael J. McNamara Pullman, Washington	Professor Washington State University	2004
John W. Mitchell McMinnville, Oregon	Retired Economist US Bank	2006
Brian M. Steffel McMinnville, Oregon	President and CEO Oregon Mutual Insurance Company	2011
James P. Tate Boise, Idaho	Owner M & W Markets, Inc.	1998

Officers

Principal Officers serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Title</u>
Brian M. Steffel	President and CEO
Steven L. Patterson	VP, General Counsel, Secretary and Treasurer
Charles S. Katter	VP of Claims and Corporate Services
Bryan T. Fowler	VP of Information Technology
John V. Dunlop	VP of Commercial Lines
Lori L. Burton	VP of Personal Lines
Wesley J. Thomas	Assistant VP Marketing

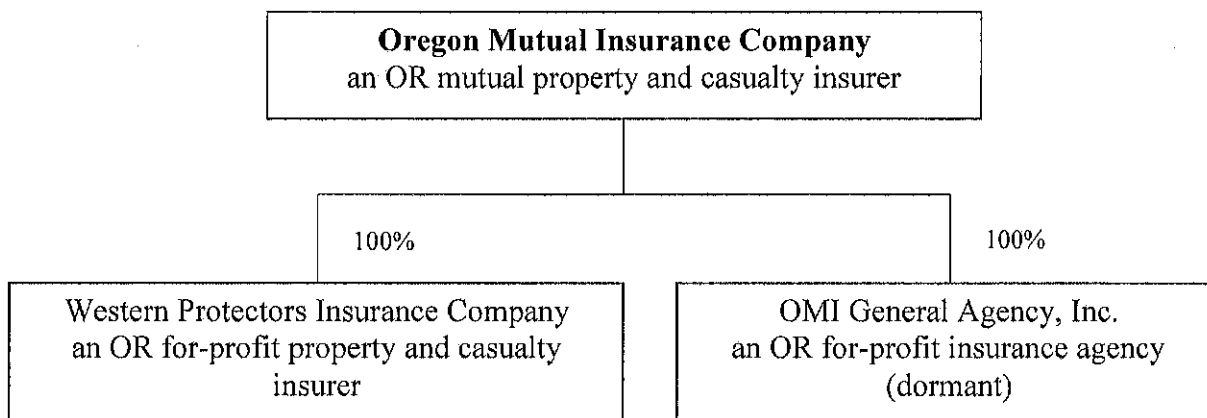
Conflict Of Interest

The Company's Board adopted an Employee Guide in July 2010 that included a formal statement of policy concerning reporting of conflicts of interest. The Company has established procedures for its officers and responsible employees 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 within the insurance holding company system:



INTERCOMPANY AGREEMENTS

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

Management Services Agreement

On May 27, 1987, the Company entered into a management agreement with its subsidiary, WPIC, whereby the Company agrees to perform certain operational services, including production, underwriting, and servicing of insurance products and handling of claims and losses, reporting functions, and personnel, facilities and equipment, in exchange for an underwriting fee. WPIC agrees to pay the Company monthly. The agreement was amended effective January 1, 2004, to change the underwriting fee to 9.5% of monthly direct written

premiums and an unallocated loss adjustment expense fee of 10.2% of gross paid loss and 5.1% of the change in direct case loss outstanding each month.

Intercompany Reinsurance Allocation Agreement

Effective January 1, 2011, the Company entered into a intercompany reinsurance allocation agreement with Western Protectors Insurance Company where all premium payable and losses recoverable from the multi-line excess of loss reinsurance treaty, multi-line clash excess of loss and catastrophe excess of loss reinsurance treaty are allocated based on a rate based formula applied for ceded premiums and on amounts recoverable based on an entity specific losses or a formula for combined entities losses.

Tax Allocation Agreement

The Company entered into a tax allocation agreement with WPIC to calculate income tax on a consolidated return basis and allocate to affiliated companies on a separate return basis. Amounts due and payable will be settled within ninety days of the filing of the tax return.

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, as a named insured. The Company was insured up to \$2,000,000 of aggregate liability, after a \$100,000 deductible, against losses from acts of dishonesty and fraud by its employees and agents. Fidelity bond coverage was found to meet the coverage limits recommended by the NAIC.

Other insurance coverages in force at December 31, 2014, were found to be adequate, and are as follows:

Business property
Business auto
Workers' compensation
Employee theft and forgery
Fiduciary liability

Management liability (D&O)
Commercial umbrella
Professional liability (E&O)
Employment practices liability

TERRITORY AND PLAN OF OPERATION

Oregon Mutual Insurance is a regional insurance company that specializes in automobile, homeowner, manufactured home and liability insurance plans. The Company offers an assortment of property and casualty coverages centered on 1) home and auto, and 2) business and farm.

Personal lines are comprised of auto coverage, including liability, PIP, comprehensive, collision, under/uninsured motorist, and property damage. Optional coverages include emergency assistance package, extended non-owned auto, and loan/lease coverage. Homeowners program offers broad coverage for home, other structures, personal property, additional living expense, increased cost due to change in building codes, and personal liability. The program extends to condominium unit owners, renters or tenants and rental dwellings.

Commercial lines are comprised of comprehensive insurance programs for businesses including buildings, business personal property, actual loss sustained business income, employee dishonesty, employment practices liability, and general liability. Additional coverages include equipment breakdown protection, business vehicle coverage, umbrella protection and additional special coverages and optional coverages.

Farm, agribusiness and ranch coverages include farm/ranch dwellings, appurtenant structures, household personal property, barns and outbuildings, and other farm structures and farm/ranch liability. Special coverages extend to farm/ranch personal property,

commercial, wineries and dairies. Optional coverages include farm vehicle coverage and umbrella liability.

In addition to the headquarters building in McMinnville, Oregon, the Company has satellite offices in Concord, California, Boise, Idaho, Medford and Eugene, Oregon, and Lynnwood, Washington.

The Company has no captive agents; all lines are sold by a network of over 850 independent agents throughout the service area.

The Company reported direct written premiums over the past three years in the following lines of business:

<u>Line of Business</u>	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>	<u>2012</u>	<u>%</u>
Commercial multiperil	\$ 32,757,196	22.1	\$ 33,568,728	22.0	\$ 32,014,049	21.8
Private passenger auto	28,687,224	19.3	28,266,493	18.5	27,614,860	18.8
Homeowners multiperil	24,194,976	16.3	24,950,873	16.4	25,445,508	17.3
Auto physical damage	21,317,112	14.3	20,797,347	13.7	19,647,704	13.3
Commercial auto	12,880,970	8.7	13,756,578	9.0	11,783,662	8.0
All other lines	<u>30,367,281</u>	<u>19.3</u>	<u>31,076,109</u>	<u>20.4</u>	<u>30,578,533</u>	<u>20.8</u>
Total direct premium	<u>\$148,500,785</u>	<u>100.0</u>	<u>\$152,416,128</u>	<u>100.0</u>	<u>\$147,149,153</u>	<u>100.0</u>

At year-end 2014, the Company reported direct business, as follows:

<u>State</u>	<u>Direct Premiums Written</u>
California	\$ 37,281,910
Idaho	17,259,744
Nevada	11,986,721
Oregon	48,970,693
Washington	<u>33,001,717</u>
Total	<u>\$148,500,785</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following table. Amounts were derived from Company's filed 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>
2010	\$211,651,523	\$125,069,093	\$86,582,430	\$5,978,049
2011*	217,995,367	128,834,288	89,161,079	2,220,879
2012	230,798,522	140,357,420	90,441,102	1,391,012
2013	249,092,301	157,142,196	91,950,105	(3,326,102)
2014*	245,706,476	153,592,795	92,113,681	3,390,321

*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 examination reports.

<u>Year</u>	(1) <u>Net Premiums Earned</u>	(2) <u>Total Losses Incurred</u>	(2)/(1) <u>Pure Loss Ratio</u>	(3) <u>LAE and Other Expenses Incurred</u>	(2)+(3)/(1) <u>Combined Ratio</u>
2010	\$101,035,315	\$56,928,615	56.3%	\$46,135,506	102.0%
2011	99,372,963	56,873,995	57.2%	43,805,186	101.3%
2012	110,829,203	65,611,126	59.2%	50,478,898	104.7%
2013	140,807,531	83,227,922	59.1%	67,972,564	107.0%
2014*	141,841,376	80,036,932	56.4%	66,839,208	103.6%

*Per examination

A combined loss ratio of more than 100% would indicate an underwriting loss. The Company reported net underwriting losses in the last five years.

REINSURANCE

Assumed

Effective January 1, 2011, the Company has a quota share reinsurance agreement with its wholly owned subsidiary, WPIC, whereby 100% of the WPIC premiums, losses and loss adjustment expenses for all accident years, net of other reinsurance, are assumed. The Company paid a 21.5% ceding commission to WPIC for all years under examination.

Ceded

The Company is a party to various reinsurance agreements for coverages written above its risk retention levels. The multi-line excess of loss, property and casualty, clash casualty, property per risk, property/casualty catastrophe and the 100% quota share earthquake coverage agreement are shared agreements with Western Protectors Insurance Company. Following is a summary of those coverages at December 31, 2014, in order of their applications:

Type:	Retention:	Occurrence Limit:	Aggregate Limit:
Equipment Breakdown	None	\$50,000,000 per risk	None

Multi-Line (ML)	Retention:	Per Risk Limit:	Aggregate Limit:
Underlying ML-XOL Coverage A Property	\$500,000	\$500,000 with aggregate of \$1,500,000 for each loss occurrence.	
Underlying ML-XOL Coverage B Casualty	\$500,000	\$500,000 for each loss occurrence.	
Coverage C Property and Casualty	\$500,000	\$500,000 for each loss occurrence.	
ML-XOL Coverage A Property	\$1,000,000	\$6,500,000 any one occurrence	
ML-XOL Coverage B Casualty	\$1,000,000	\$6,000,000 any one occurrence	
Property Per Risk XOL	\$7,500,000	\$7,500,000 any one risk or loss occurrence.	\$30,000,000
Casualty Clash XOL	\$7,000,000	\$5,000,000 any one loss occurrence	\$10,000,000

Property Catastrophe-Excluding Earthquake	Retention:	Occurrence Limit:	Aggregate Limit:
Layer 1 (50% Placed through 9.30.14) (100% placed 10.1.14)	\$ 4,000,000. Actual retention was \$7,000,000 based on 50% placement of coverage through 9.30.14.	\$6,000,000. Company retained \$3,000,000 of this risk as only 50% was placed through 9.30.14.	\$12,000,000
Layer 2	\$10,000,000	\$35,000,000	\$70,000,000

Earthquake-Shake Only	Retention:	Occurrence Limit:	Aggregate Limit:
100% QS of each net loss under each policy.	None	None	None

The reinsurance agreements 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 \$92,113,681 at December 31, 2014, 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

The Company's records and source documentation supported the amounts presented in the Company's December 31, 2014, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations made in the 2011 report of examination and no adjustments were made to surplus as a result of the examination findings. No follow-up report was prepared.

SUBSEQUENT EVENTS

The examiners noted a significant reserve deficiency attributable to the 2014 and 2013 accident years of approximately \$10 million. See Note 2 to the financials regarding our actuary's review. It was considered that the Company had no other events subsequent to the examination date that would have a material impact on the financial statements as presented in the 2014 annual statement.

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, 2014. 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 Surplus Since the Last Examination

OREGON MUTUAL INSURANCE COMPANY
ASSETS
As of December 31, 2014

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$152,924,373	\$ -	\$152,924,373	1
Common stock	28,250,051	-	28,250,051	1
Properties occupied by the company	10,038,054	-	10,038,054	
Cash, cash equivalents and short-term investments	5,904,674	-	5,904,674	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$197,117,152</u>	<u>\$ -</u>	<u>\$197,117,152</u>	
Investment income due and accrued	1,376,835	-	1,376,835	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	24,544,472	-	24,544,472	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,869,361	-	4,869,361	
Reinsurance				
Amounts recoverable	2,747,287	-	2,747,287	
Funds held or deposited	(205)	-	(205)	
Current FIT recoverable	2,374,559	-	2,374,559	
Net deferred tax asset	5,449,801	-	5,449,801	
EDP equipment and software	268,428	-	268,428	
Aggregate write-ins for other than invested assets	<u>6,958,786</u>	<u>-</u>	<u>6,958,786</u>	
Total Assets	<u>\$245,706,476</u>	<u>\$ -</u>	<u>\$245,706,476</u>	

OREGON MUTUAL INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2014

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 58,201,299	\$ -	\$ 58,201,299	2
Reinsurance payable on losses and lae	987,721	-	987,721	
Loss adjustment expenses	13,780,516	-	13,780,516	2
Commissions payable	4,152,201	-	4,152,201	
Other expenses	2,465,904	-	2,465,904	
Taxes, licenses and fees	108,859	-	108,859	
Unearned premiums	65,189,378	-	65,189,378	
Advance premium	1,521,006	-	1,521,006	
Ceded reinsurance premium payable	(264,212)	-	(264,212)	
Funds held by company under reinsurance treaties	226,309	-	226,309	
Amounts withheld or retained by company for account of others	557,290	-	557,290	
Provision for reinsurance	150,000	-	150,000	
Payable to parent, subsidiaries and affiliates	242,591	-	242,591	
Aggregate write-ins for liabilities	<u>6,273,933</u>	<u>-</u>	<u>6,273,933</u>	
Total liabilities	<u>\$153,592,795</u>	<u>\$ -</u>	<u>\$153,592,795</u>	
Aggregate write-in for special surplus funds	\$ -	\$ -	\$ -	
Common capital stock	-	-	-	
Gross paid in and contributed surplus	-	-	-	
Unassigned funds (surplus)	<u>92,113,681</u>	<u>-</u>	<u>92,113,681</u>	
Surplus as regards policyholders	<u>92,113,681</u>	<u>-</u>	<u>92,113,681</u>	
Total Liabilities, Surplus and other Funds	<u>\$245,706,476</u>	<u>\$ -</u>	<u>\$245,706,476</u>	

OREGON MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2014

Underwriting Income	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Premium earned	\$ <u>141,841,376</u>	\$ -	\$ <u>141,841,376</u>	
Deductions				
Losses incurred	80,036,932	-	80,036,932	
Loss adjustment expenses incurred	17,863,797	-	17,863,797	
Other underwriting expenses incurred	48,975,411	-	48,975,411	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>146,876,140</u>	<u>-</u>	<u>146,876,140</u>	
Net underwriting gain (loss)	<u>(5,034,764)</u>	<u>-</u>	<u>(5,034,764)</u>	
Investment income				
Net investment income earned	5,323,814	-	5,323,814	
Net realized capital gains (losses)	<u>1,484,765</u>	<u>-</u>	<u>1,484,765</u>	
Net investment gain (loss)	<u>6,808,579</u>	<u>-</u>	<u>6,808,579</u>	
Other income				
Net gain (loss) from agents' or premium balances charged off	(196,309)	-	(196,309)	
Finance and service charges not included in premiums	1,049,623	-	1,049,623	
Aggregate write-ins for miscellaneous income	<u>137,818</u>	<u>-</u>	<u>137,818</u>	
Total other income	<u>991,132</u>	<u>-</u>	<u>991,132</u>	
Net income before dividends to policyholders and FIT incurred	<u>2,764,947</u>	<u>-</u>	<u>2,764,947</u>	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>(625,374)</u>	<u>-</u>	<u>(625,374)</u>	
Net income	<u>\$ 3,390,321</u>	<u>\$ -</u>	<u>\$ 3,390,321</u>	

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

	2014	2013	2012
Surplus as regards policyholders, December 31, previous year	<u>\$91,950,105</u>	<u>\$ 90,441,102</u>	<u>\$ 89,161,079</u>
Net income	3,390,321	(3,326,102)	1,391,012
Change in net unrealized capital gains or (losses)	(49,874)	2,695,069	683,354
Change in net unrealized foreign exchange capital gain or (loss)	-	-	-
Change in net deferred income tax	(384,388)	879,646	39,942
Change in non-admitted assets	(2,692,482)	822,857	188,072
Change in provision for reinsurance	(69,000)	278,673	(359,381)
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 parent (cash)	-	-	-
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>(31,001)</u>	<u>158,860</u>	<u>(662,976)</u>
Change in surplus as regards policyholders for the year	<u>163,576</u>	<u>1,509,003</u>	<u>1,280,023</u>
Surplus as regards policyholders, December 31, current year	<u>\$92,113,681</u>	<u>\$91,950,105</u>	<u>\$90,441,102</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2014, the Company's long-term publicly traded bond investments were in a diversified portfolio of US obligations, US federal agency bonds, municipal obligations, and corporate issues. The Company did report an exposure in mortgaged-backed and asset-backed securities. All of the MBS/ABS issues were investment rated at year-end 2014, and the carrying book value of \$33.4 million comprised 21.8% of the total long-term bond portfolio and 16.9% of all invested assets.

Common stocks were comprised of two wholly owned subsidiaries, one index fund and three mutual funds.

Short-term deposits consisted of money market funds held in the custodial account at US National Bank, NA.

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>Common</u> <u>Stocks</u>	<u>C</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>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2010	\$121,252,766	\$18,738,851	\$8,542,686	57.3%	8.8%	4.0%
2011*	130,661,397	18,905,752	7,224,583	59.9%	8.7%	3.3%
2012	135,317,863	26,809,882	6,557,616	58.6%	11.6%	2.8%
2013	121,252,766	18,738,851	8,542,686	60.9%	12.9%	1.9%
2011*	130,661,397	18,905,752	7,224,583	62.2%	11.5%	2.4%

The Board approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2014, 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 August 26, 2005, the Company entered into a custodial agreement with US Bank, NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Actuarial Reserves

Kevin L. Wick, FCAS, MAAA, of PricewaterhouseCoopers LLP, was appointed the consulting actuary for the Company by the Board of Directors. His actuarial opinion included actuarial assumptions and methods utilized by the Company and discussed other topics affecting the reserves.

David Dahl, FCAS, MAAA, property/casualty actuary for the Oregon Division of Financial Regulation, reviewed the reconciliation of the data used in the Company's actuarial report to the data in the actuarial work papers and found them to be consistent. He also reviewed the 2015 subsequent loss reserve development through September 30, 2015. He relied on work performed by the examiners who reviewed the underlying data used to create the annual statement filing, as well as prepared his own independent calculations. The Company reported the following:

	Annual Statement
Reserve for Unpaid Losses	\$58,201,299
Reserve for Unpaid LAE	13,780,516
Other Reserves	<u>-</u>
Total Actuarial Liabilities	<u>\$71,981,815</u>

The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2014, were reasonable. Mr. Dahl's total estimate agreed with the appointed actuary's estimate and he concurred that the reserves of the Company were reasonably stated as of December 31, 2014. He found the 2015 adverse development to be an aberration, but noted a number of risk factors going forward. He recommended that his 2015 reserve review include acquiring the opining actuary's work papers to better understand the 2014 reserve deficiency issues and to identify any additional issues.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination and there were no recommendations.

CONCLUSION

During the three year period covered by this examination, the surplus of the Company has increased from \$89,161,079, as presented in the December 31, 2011, report of examination to \$92,113,681, as shown in this report. The comparative assets and liabilities are:

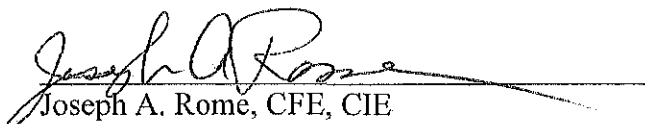
	<u>2014</u>	<u>December 31,</u>	<u>2011</u>	<u>Change</u>
Assets	\$245,706,476		\$217,995,367	\$27,711,109
Liabilities	<u>153,592,795</u>		<u>128,834,288</u>	<u>24,758,507</u>
Surplus	<u>\$ 92,113,681</u>		<u>\$ 89,161,079</u>	<u>\$ 2,952,602</u>

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, Mark A. Giffin, CFE, and Michael P. Phillips, CFE, CPA, AES, insurance examiners, and David Dahl, FCAS, MAAA, Property/ Casualty Actuary, for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in this examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Joseph A. Rome", written over a horizontal line.

Joseph A. Rome, CFE, CIE

Lead Examiner

Department of Consumer and Business Services

State of Oregon

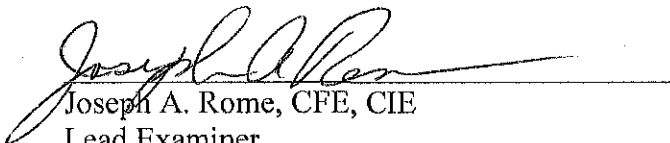
AFFIDAVIT

STATE OF OREGON)
) ss
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 Oregon Mutual Insurance Company, McMinnville, 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 Oregon Mutual Insurance Company 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
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this 21 day of April, 2016.



NOTARY PUBLIC for the State of Oregon

My Commission Expires: 3/22/2017

