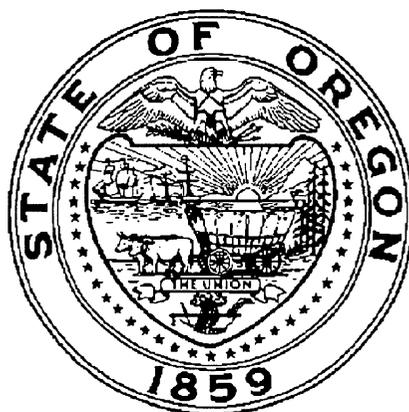


STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES
DIVISION OF FINANCIAL
REGULATION



REPORT OF FINANCIAL EXAMINATION
OF
OREGON MUTUAL INSURANCE COMPANY
MCMINNVILLE, OREGON

AS OF

DECEMBER 31, 2019

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, 2019

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SALUTATION

August 27, 2021

Honorable Andrew Stolfi, 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

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 regular, multi-state, full-scope coordinated group examination of Oregon Mutual Insurance Company. The examination was conducted in conjunction with the examination of a subsidiary property and casualty insurer, Western Protectors Insurance Company, and a separate report of examination will be prepared for that entity. The last examination of this property and casualty insurer was completed as of December 31, 2014. This examination covers the period of January 1, 2015, to December 31, 2019.

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, by amendment made to the Articles of Incorporation, the Company's name was changed to Oregon Mutual Fire Insurance Company. In 1948, the Company became licensed to write casualty insurance. Amendments made to the Articles of Incorporation on January 28, 1955, changed the Company's name to Oregon Mutual Insurance Company, the name under which the Company currently conducts its business.

Capitalization

The Company is a mutual insurer owned by its policyholders. No additional capital had been contributed to the Company during the period under examination.

Dividends and Other Distributions

The Company is a mutual insurer. During the period under examination, the Company did not declare or pay any cash dividends or distributions to its policyholders.

CORPORATE RECORDS

Board Minutes

In general, the review of 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. A quorum, as defined by the Company's Bylaws, met at all the meetings held during the period under review.

The Company's Bylaws authorize the Board to establish any committee it deems necessary. There are four committees authorized to assist in the management of the Company, as follows:

Audit Committee	Investment Committee
Executive Committee	Nominating Committee

In addition, 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 Board directly approves the compensation of all its senior officers through its Compensation Committee, which in turn is ratified by the Board as a whole. This process complies with the provisions of ORS 732.320(3).

Articles of Incorporation

The Company's Articles of Incorporation were last restated on March 7, 1989. The Articles of Incorporation conform to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated on August 9, 2011. The Company made no amendments during the period under examination. The Bylaws conformed 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. As of December 31, 2019, the Company was governed by a ten-member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Kari Ann Bodmer McMinnville, Oregon	Business Owner/Professional Recruiter	2016
Rick Allen John McMinnville, Oregon	Principal Hagan Hamilton Insurance Agency	2010
Jonathan Louis Jurevic Portland, Oregon	Retired Executive	2010
Michael Edward Keyes McMinnville, Oregon	Retired President & CEO Oregon Mutual Insurance Company	1999
Kim Wallace Ledbetter Lake Oswego, Oregon	Retired Insurance Executive	2015
Christopher Charles Mansfield Dedham, Massachusetts	Retired Insurance Executive	2015
Michael Joseph McNamara Pullman, Washington	Professor of Finance and Insurance Washington State University	2004
Steven Lee Patterson McMinnville, Oregon	President & CEO Oregon Mutual Insurance Company	2017
Brian Martin Steffel * Lexington, Virginia	Retired President & CEO Oregon Mutual Insurance Company	2011
James Patton Tate Boise, Idaho	Owner M&W Markets	1998

*Chairman

Under Oregon law, ORS 732.305, at least five (5) or one-quarter of the Directors, whichever is fewer, must be residents of Oregon and a majority of Directors must be non-salaried officers of the Company. The Company was in compliance with this statute. The Directors as a group has experience in insurance, accounting and management, in accordance with the provisions of ORS 731.386.

Officers

Principal Officers serving at December 31, 2019, were as follows:

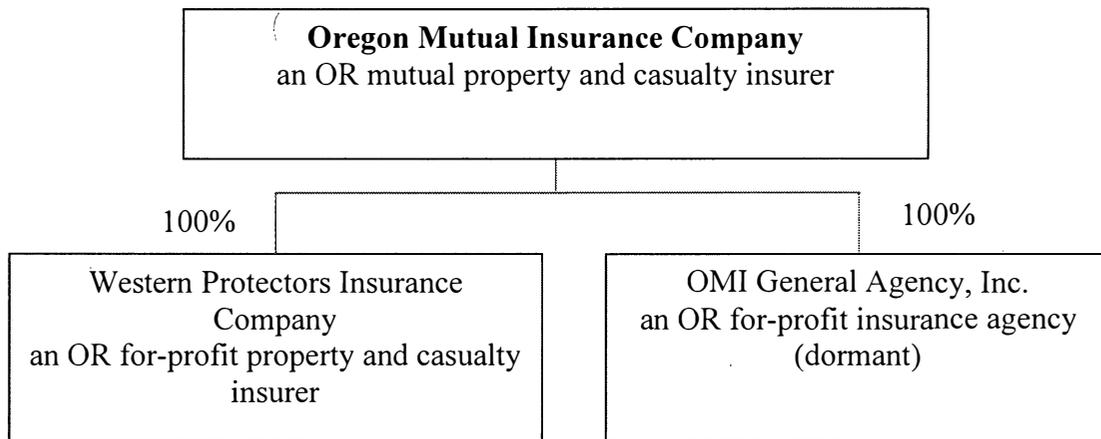
<u>Name</u>	<u>Title</u>
Steven Lee Patterson	President
Daniel Charles Brown	Vice President
Lori Lorraine Burton	Vice President
John Edward Jolliff	Vice President
Charles Stanley Katter	Vice President
Andrew Garrett Davies	Vice President and Treasurer
James Michael Workinger	Vice President and Secretary

Conflict of Interest

The Company's Board adopted a formal statement of policy concerning conflict of interest for all Directors, officers and employees, which is included in the Employee Handbook. Board members, executive officers and key employees are required to complete and periodically sign a conflict of interest declaration. 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

The Company is a member of an insurance company holding system, in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1). The following organizational chart depicts the relationships of the Company within the holding company system:



A description of each of the entities above is as follows:

Western Protectors Insurance Company is an Oregon corporation and a for-profit property and casualty insurer. Effective April 1, 2016, all of its policies were renewed with the Company. As a result, effective December 31, 2016, this insurer had no remaining policies in-force. The Company has determined to run off operations and writes all new business with OMIC, only allowing for some renewal business.

OMI General Agency, Inc. is an Oregon corporation and a for-profit insurance general agency, which is currently dormant.

INTERCOMPANY AGREEMENTS

The following agreements are in place between the Company and members of the insurance holding company system:

Management Agreement

Effective 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. Per the Agreement, OMIC provides all employees and management services to WPIC. The Agreement was most recently amended effective January 1, 2006 to replace a revised fee schedule. Underwriting fees equal 9.5% of monthly direct written premiums and the unallocated loss adjustment expense fee equal 12.5% of gross paid loss before deduction for salvage or subrogation and 6.25% of the change in direct case loss outstanding each month.

Tax Allocation Agreement

Effective August 6, 2001, 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.

Intercompany Reinsurance Allocation Agreement

Effective January 1, 2011, the Company entered into an intercompany reinsurance allocation agreement with WPIC, whereby the Company assumes 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 treaties are allocated based on a rate based formula applied for ceded premiums and on amounts recoverable based on entity specific losses or a formula for combined entities losses. This agreement is still in effect

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 insurance coverages are provided through insurance policies issued by unaffiliated carriers. Coverage protected the Company and WPIC. The Company was insured up to \$3,000,000, after a \$100,000 deductible per single loss, against losses from acts of dishonesty and fraud by its employees and agents. The aggregate limit of liability is \$6,000,000. Fidelity bond coverage was found to meet the coverage recommended by the NAIC.

The Company was also included in the following insurance coverages in force at December 31, 2019, which were found to be adequate:

Fiduciary Liability	Employment Practices Liability
Electronic Business Liability	Directors & Officers Liability
Electronic Publishing Liability	Professional Liability
Security Breach – Privacy Liability	Commercial Umbrella Liability
General Liability	Commercial Auto
Employee Benefits Liability	Stop Gap Liability

TERRITORY AND PLAN OF OPERATION

The Company has Certificates of Authority in the States of Oregon, California, Washington and Idaho. Currently, the Company writes fire, allied lines, homeowners' multi-peril, farm-owners multi-peril, commercial multi-peril, inland marine, auto physical damage, private passenger auto liabilities, commercial auto liabilities, boiler and machinery and fidelity lines. Business coverages include Cyber-crime and data loss, property damage, business auto accidents, liability, fraud, embezzlement and extortion and equipment breakdown. Farm coverages include row crops, grain, field crops, horticulture, berry farms, orchards, vineyards, cattle and other livestock exposures, hoppy farms, and equestrian accounts. Homeowner's coverages include dwelling, personal property, personal liability, and additional living expenses. Personal auto protection includes accident forgiveness, diminishing deductible for safe driving, roadside assistance and towing, vehicle upgrade for total losses, liability, personal injury protection, pet injury, comprehensive, collision, under-insured and uninsured motorist, property damage, and child safety seat replacement, with several discount options. The Company also offers three levels of protection (bronze, silver and gold) for winery coverage. All policies are non-assessable and non-participating. The Company primarily writes business through approximately 500 independent agents.

<u>State</u>	<u>Direct Premiums Written</u>	<u>Percentage</u>
Oregon	53,849,180	33.7%
California	45,748,505	28.6%
Washington	38,684,330	24.2%
Idaho	<u>21,662,945</u>	<u>13.5%</u>
Total	<u>\$ 159,944,960</u>	<u>100.0%</u>

The following is a breakdown of the direct premiums written in 2019:

<u>Lines of Business</u>	<u>Premium</u>	<u>Percentage</u>
Fire	\$ 2,962,380	1.8%
Allied lines	2,438,815	1.5%
Farmowners multiple peril	9,401,525	5.9%
Homeowners multiple peril	24,808,600	15.5%
Commercial multiple peril	33,444,762	20.9%
Earthquake	2,014,813	1.3%
Other liability - occurrence	7,011,265	4.4%
Other liability - claims-made	1,403,593	0.9%
Private passenger auto liability	28,539,345	17.8%
Commercial auto liability	15,523,839	9.8%
Auto physical damage	28,390,995	17.7%
Other	4,005,028	2.5%
Totals	<u>\$ 159,944,960</u>	<u>100.0%</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>
2015	\$ 236,248,996	\$ 167,988,603	\$ 68,260,393	\$ (17,753,293)
2016	212,981,531	144,341,432	68,640,099	1,544,434
2017	214,620,001	142,574,539	72,045,462	(4,348,694)
2018	214,348,302	142,865,584	71,482,718	1,191,784
2019 *	224,932,050	149,358,282	75,573,768	183,459

*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.

	(1)	(2)	(2)/(1)	(3)	(2)+(3)/(1)
	Net Premiums	Total Losses	Pure Loss	LAE & Other	Combined
<u>Year</u>	<u>Earned</u>	<u>Incurred</u>	<u>Ratio</u>	<u>Expenses</u> <u>Incurred</u>	<u>Ratio</u>
2015	\$ 133,687,716	\$ 99,651,067	74.5%	\$ 60,567,608	119.8%
2016	123,402,288	69,389,347	56.2%	59,922,820	104.8%
2017	124,108,492	72,312,671	58.3%	61,115,022	107.5%
2018	130,992,756	74,171,042	56.6%	63,120,457	104.8%
2019 *	135,848,760	72,228,198	53.2%	70,118,154	104.8%

*Per examination

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

REINSURANCE

Assumed

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

Ceded

The Company is a named 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. The following is a summary of those coverages at December 31, 2019

Type	Retention	Occurrence Limit	Aggregate Limit
Equipment Breakdown Policies Covered By	None	\$50 million per risk	

Accidents and Electronic
Circuitry Impairments

Home System Protection None \$50,000 for any one
home system
breakdown per policy

Multi-Line (ML)	Retention	Per Risk Limit	Aggregate Limit
Underlying ML-XOL Coverage A Property	\$500,000	\$500,000 with an 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 for any one risk, each loss and for all risks in any one loss occurrence	
ML-XOL Coverage B Casualty	\$1,000,000	\$6,000,000 for any one occurrence	
Property Per Risk XOL	\$7,500,000	\$15,000,000 any one risk, each loss and for all risks, any one loss occurrence	\$30,000,000
Casualty Clash XOL	\$7,000,000	\$5,000,000 any one loss occurrence	\$10,000,000
Property Catastrophe XOL (including Earthquake)	Retention	Occurrence Limit	Aggregate Limit
First Excess	\$2,000,000	\$8,000,000	\$16,000,000
Second Excess	\$10,000,000	\$35,000,000	\$70,000,000

Earthquake Quota Share – Shake Only	Retention	Occurrence Limit	Aggregate Limit
100% quota share of Company's liability for each insured loss	None	None	None
Inland Flood Property Quota Share	Retention	Occurrence Limit	Aggregate Limit
100% of inland flood coverage liability	\$500	\$25,000	\$50,000 - \$75,000 for extra contractual obligations and excess judgements

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, 2019, 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

As of the examination date, the Company maintained two U.S. Treasury Notes with par values of \$500,000 and \$125,000, and one Federal Home Loan Bank Debenture with a par value of \$510,000, each on file with the Oregon Division of Financial Regulation. The Oregon deposit was verified from the records of the Division of Financial Regulation. The deposits were properly disclosed on Schedule E – Part 3 of the 2019 Annual Statement.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no comments or recommendations, nor any changes to surplus from the prior examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on the Company cannot be fully addressed within this examination report.

In April 2020, the Company was named as one of six insurers against which federal class-action lawsuits were filed for alleged denial of business interruption claims related to government-ordered business closures following onset of the COVID-19 pandemic. The suits claim that the policies either included or did not expressly or effectively exclude losses following the COVID-19 pandemic. The lawsuits are ongoing.

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, 2019. 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

OREGON MUTUAL INSURANCE COMPANY
ASSETS
As of December 31, 2019

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 127,030,512	\$ -	\$ 127,030,512	1
Preferred stocks	2,900,820	-	2,900,820	1
Common stocks	22,631,181	-	22,631,181	1
Properties occupied by the company	8,394,870	-	8,394,870	2
Cash, cash equivalents and short-term investments	10,499,370	-	10,499,370	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>171,456,753</u>	<u>\$ -</u>	<u>171,456,753</u>	
Investment income due and accrued	986,797	-	986,797	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	1,327,716	-	1,327,716	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	34,691,058	-	34,691,058	
Reinsurance				
Amounts recoverable from reinsurers	631,988	-	631,988	
Funds held by or deposited with reinsurance companies	(205)	-	(205)	
Current FIT recoverable	454,953	-	454,953	
Net deferred tax assets	8,563,465	-	8,563,465	
EDP equipment and software	335,903	-	335,903	
Aggregate write-ins for other than invested assets	<u>6,483,622</u>	<u>-</u>	<u>6,483,622</u>	
Total Assets	<u>\$ 224,932,050</u>	<u>\$ -</u>	<u>\$ 224,932,050</u>	

OREGON MUTUAL INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2019

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 50,228,471	\$ -	\$ 50,228,471	3
Reinsurance payable on paid losses and lae	6,868	-	6,868	3
Loss adjustment expenses	11,399,024	-	11,399,024	3
Commissions payable, contingent commissions and other similar charges	4,088,627	-	4,088,627	
Other expenses	2,603,277	-	2,603,277	
Taxes, licenses and fees	267,253	-	267,253	
Unearned premiums	73,083,529	-	73,083,529	
Advance premium	1,272,933	-	1,272,933	
Ceded reinsurance premiums payable	342,570	-	342,570	
Funds held by company under reinsurance treaties	280,635	-	280,635	
Amounts Withheld or retained by company for account of others	942,069	-	942,069	
Provision for reinsurance	247	-	247	
Payable to parent, subsidiaries or affiliates	40,120	-	40,120	
Aggregate write-ins for liabilities	<u>4,802,659</u>	-	<u>4,802,659</u>	
Total Liabilities	<u>\$ 149,358,282</u>	<u>\$ -</u>	<u>\$ 149,358,282</u>	
Common capital stock	\$ -	\$ -	\$ -	
Gross paid-in and contributed capital	-	-	-	
Unassigned funds (surplus)	<u>75,573,768</u>	-	<u>75,573,768</u>	
Surplus as regards policyholders	<u>75,573,768</u>	-	<u>75,573,768</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 224,932,050</u>	<u>\$ -</u>	<u>\$ 224,932,050</u>	

OREGON MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2019

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ 135,848,760	\$ -	\$ 135,848,760	
Deductions				
Losses incurred	72,228,198	-	72,228,198	
Loss adjustment expenses incurred	16,927,235	-	16,927,235	
Other underwriting expenses	53,190,919	-	53,190,919	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>142,346,352</u>	<u>-</u>	<u>142,346,352</u>	
Net underwriting gain or (loss)	(6,497,592)	-	(6,497,592)	
Investment income				
Net investment income earned	5,548,448	-	5,548,448	
Net realized gains or (losses)	<u>216,380</u>	<u>-</u>	<u>216,380</u>	
Net investment gain or (loss)	5,764,828	-	5,764,828	
Other income				
Net gain or (loss) from agents' or premium balances charges off	(98,375)	-	(98,375)	
Finance and service charges not included in premiums	867,187	-	867,187	
Aggregate write-ins for miscellaneous income	<u>104,865</u>	<u>-</u>	<u>104,865</u>	
Total other income	<u>873,677</u>	<u>-</u>	<u>873,677</u>	
Net income before dividends to policyholders and income taxes	140,913	-	140,913	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>(42,546)</u>	<u>-</u>	<u>(42,546)</u>	
Net income	<u>\$ 183,459</u>	<u>\$ -</u>	<u>\$ 183,459</u>	

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

	2019	2018	2017	2016	2015
Surplus as regards policyholders, December 31, previous year	<u>\$ 71,482,718</u>	<u>\$ 72,045,462</u>	<u>\$ 68,640,099</u>	<u>\$ 68,260,393</u>	<u>\$ 92,113,681</u>
Net income (loss)	183,459	1,191,784	(4,348,694)	1,544,434	(17,753,293)
Change in net unrealized capital gains or (losses)	1,968,007	(1,306,457)	690,604	445,201	(1,910,021)
Change in net deferred income tax	(85,911)	(78,557)	(1,065,743)	(111,176)	5,116,361
Change in non-admitted assets	2,425,079	(332,391)	7,953,443	(1,626,181)	(9,341,191)
Change in provision for reinsurance	33,986	(33,673)	174,370	(14,245)	(10,665)
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	-	-	-	-	-
Distributions to parent (cash)	-	-	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustment	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>(433,579)</u>	<u>(3,450)</u>	<u>1,383</u>	<u>141,673</u>	<u>45,541</u>
Change in surplus as regards policyholders for the year	<u>4,091,050</u>	<u>(562,744)</u>	<u>3,045,462</u>	<u>379,706</u>	<u>(23,853,288)</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 75,573,768</u>	<u>\$ 71,482,718</u>	<u>\$ 72,045,462</u>	<u>\$ 68,640,099</u>	<u>\$ 68,260,393</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2019, the Company's long-term bond investments were diversified in US obligations, US agency, US special revenue bonds and corporate issues. The Company had a moderate exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated, with a carrying book value of \$41.2 million, which comprised 32% of the total long-term bond portfolio and 18% of all invested assets.

Preferred stocks were comprised of one corporate issue. Common stocks included five mutual funds and the book equity value of two wholly owned subsidiaries.

Cash and short-term deposits consisted of a cash sweep account at US Bank and two money market mutual funds held in the custodial account at US Bank.

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>
2015	145,000,596	26,125,601	11,614,691	61.4%	11.1%	4.9%
2016	130,594,358	23,611,968	795,254	61.3%	11.1%	0.4%
2017	129,819,687	22,314,101	4,785,076	60.5%	10.4%	2.2%
2018	122,596,311	20,658,706	7,120,013	57.2%	9.6%	3.3%
2019 *	127,030,512	22,631,181	10,499,370	56.5%	10.1%	4.6%

* Balance per examination

As of December 31, 2018, sufficient invested 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. The Board of Directors approved all investment transactions in each of the years under review, and the Company was in compliance with ORS 733.730.

Effective August 26, 2005 the Company entered into a custodial agreement with US Bank, N.A. The agreement contained all the relevant protections described in OAR 836-027-0200(4)(a) through (l).

Note 2 – Properties Occupied by the Company

Represents the book value of the Company's home office in McMinnville, Oregon, which includes both the remaining amortized cost of the building and the actual cost of the land.

Note 3 – Actuarial Reserves

A review of the unpaid loss and LAE reserves for the Company was performed by David Dahl, FCAS, MAAA, and Ying Liu, ASA, MAAA, Property & Casualty actuaries for the Oregon Division of Financial Regulation. The review included immaterial amounts of loss and LAE reserves for Western Protectors Insurance Company, which is 100% assumed by the Company, and in run-off status. As part of the review, the actuaries examined the supporting statements prepared by the Company’s appointed actuary, Kevin L. Wick, FCAS, MAAA, Managing Director for PricewaterhouseCoopers.

The actuaries review was based on the data, methods and assumptions supporting the unpaid loss and LAE amounts reported in the Actuarial Opinion as of December 31, 2019; a reconciliation of the data used in the Company’s actuarial report to the data in the actuarial work-papers, and the Company’s reserve position as measured by the appointed actuary’s range estimate. They also reviewed the 2020 subsequent loss reserve development and prepared their own independent reserve calculations. Finally, they relied on work performed by the examiners who reviewed the underlying claims data used to create the annual statement filing. The Company reported the following reserves net of ceded reinsurance:

	Exam Estimate	Annual Statement
Claims Unpaid	\$ 50,228,471	\$ 50,228,471
Unpaid Claim Adjustment Expenses (CAE)	11,399,024	11,399,024
Premium Deficiency Reserves	-	-
Total Actuarial Liabilities	<u>\$ 61,627,495</u>	<u>\$ 61,627,495</u>

The appointed actuary opined that the reserves for unpaid losses and LAE carried by the Company as of December 31, 2019, were reasonable. Mr. Dahl and Ms. Liu’s total estimate agreed with the appointed actuary’s estimate. They concurred that the reserves of the Company were reasonably stated as of December 31, 2019.

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 five-year period covered by this examination, the surplus of the Company has decreased from \$92,113,681, as presented in the December 31, 2014, report of examination, to \$75,573,768, as shown in this report. The comparative assets and liabilities are:

	December 31,		
	<u>2019</u>	<u>2014</u>	<u>Change</u>
Assets	\$ 224,932,050	\$ 245,706,476	\$ (20,774,426)
Liabilities	<u>149,358,282</u>	<u>153,592,795</u>	<u>4,234,513</u>
Surplus	<u>\$ 75,573,768</u>	<u>\$ 92,113,681</u>	<u>\$ (16,539,913)</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, CFE, APIR insurance examiner, David Dahl, FCAS, MAAA, and Ying Liu, ASA, MAAA, Property & Casualty Actuaries for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, and Alea P. Talbert-Pence, CFE, CIA, Senior Manager, and Clarissa Crisp, CFE, Manager from Risk & Regulatory Consulting, LLC all participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Mark A. Giffin, CFE, 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.

/s/ Mark A. Giffin

Mark A. Giffin, CFE
Senior Insurance Examiner
Division of Financial Regulation
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to before me this 25th day of October, 2021.

/s/ Lauren Nicole Bodine

Notary Public in and for the State of Oregon

My Commission Expires: 1/22/2022

