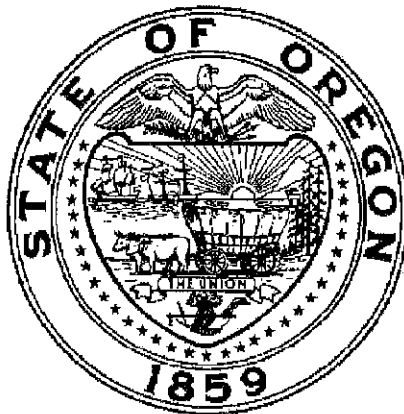


**STATE OF OREGON  
DEPARTMENT OF  
CONSUMER & BUSINESS SERVICES  
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**SAFECO INSURANCE COMPANY OF OREGON  
PORTLAND, OREGON**

AS OF

DECEMBER 31, 2013

STATE OF OREGON

---

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**SAFECO INSURANCE COMPANY OF OREGON  
PORTLAND, OREGON**

**NAIC COMPANY CODE 11071**

AS OF

DECEMBER 31, 2013

## TABLE OF CONTENTS

<b>SALUTATION</b> .....	3
<b>SCOPE OF EXAMINATION</b> .....	4
<b>COMPANY HISTORY</b> .....	5
<i>Capitalization</i> .....	5
<i>Dividends to Stockholders and Other Distributions</i> .....	5
<b>CORPORATE RECORDS</b> .....	6
<i>Board of Director Minutes</i> .....	6
<i>Articles of Incorporation</i> .....	6
<i>Bylaws</i> .....	6
<b>MANAGEMENT AND CONTROL</b> .....	6
<i>Board of Directors</i> .....	6
<i>Officers</i> .....	7
<i>Conflict of Interest</i> .....	8
<i>Insurance Company Holding System</i> .....	8
<b>INTERCOMPANY AGREEMENTS</b> .....	11
<i>Management Services Agreement</i> .....	11
<i>Investment Management Agreement</i> .....	11
<i>Cash Management Agreement</i> .....	12
<i>Federal Tax Sharing Agreement</i> .....	12
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	13
<b>TERRITORY AND PLAN OF OPERATION</b> .....	13
<b>GROWTH OF THE COMPANY</b> .....	14
<b>REINSURANCE</b> .....	15
<i>Risk Retention and Transfer</i> .....	16
<i>Insolvency Clause</i> .....	16
<b>ACCOUNTS AND RECORDS</b> .....	16
<b>STATUTORY DEPOSITS</b> .....	16
<b>COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS</b> .....	17
<b>SUBSEQUENT EVENTS</b> .....	17
<b>FINANCIAL STATEMENTS</b> .....	18
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	23
<i>Note 1 – Invested Assets</i> .....	23
<i>Note 2 – Actuarial Reserves</i> .....	23
<b>SUMMARY OF COMMENTS AND RECOMMENDATIONS</b> .....	24
<b>CONCLUSION</b> .....	24
<b>ACKNOWLEDGMENT</b> .....	25
<b>AFFIDAVIT</b> .....	26

**SALUTATION**

April 6, 2015

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

**SAFECO INSURANCE COMPANY OF OREGON**  
**650 NE Holladay Street**  
**Portland, Oregon**

**NAIC Company Code 11071**

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

## SCOPE OF EXAMINATION

We have performed a multi-state full-scope coordinated group examination of Safeco Insurance Company of Oregon, together with its affiliate, Liberty Northwest Insurance Corporation (LNW), and LNW's wholly owned insurance subsidiaries, North Pacific Insurance Company (NPIC) and Oregon Automobile Insurance Company (OAIC). There will be a separate report of financial examination prepared for each company. The last examination of this property and casualty insurer was completed as of December 31, 2009. This is a full-scope examination covering the period January 1, 2010, to December 31, 2013. All accounts and activities of the Company were considered in accordance with the risk-focused examination approach.

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

The examination was performed on a group that pools 100% of its business through the use of pooling arrangement. A coordinated examination was performed to coordinate efficiencies for those companies with similar systems, management, and/or control processes across legal entities, business units or lines of business within a group.

## **COMPANY HISTORY**

Safeco Insurance Company of Oregon was incorporated on October 16, 2000, by Safeco Corporation and received its certificate of authority on November 29, 2000, to transact property and casualty (excluding workers' compensation) insurance. On September 28, 2001, Safeco Corporation made a capital contribution to its subsidiary, Safeco Insurance Company of America (SICA), in the form of all of the issued and outstanding capital stock of the Company. SICA thus became the direct parent of the Company.

On April 23, 2008, Safeco announced an agreement to be acquired by Liberty Mutual for \$68.25 per share. Effective September 22, 2008, Liberty Mutual completed the acquisition and Safeco Corporation and all of its subsidiaries became subsidiaries of Liberty Insurance Holdings, Inc. (LIH), a downstream holding company of Liberty Mutual Holding Company Inc.

### **Capitalization**

The Articles of Incorporation as amended, Article IV, stated the capital stock of the Company shall be two million dollars (\$2,000,000) and the number of shares shall be twenty thousand (20,000) with a par value of \$100. All 20,000 shares have been issued and are owned by SICA.

### **Dividends to Stockholders and Other Distributions**

From 2010 to 2013, the Company did not declare or pay any dividend or make any distribution to its parent.

## CORPORATE RECORDS

### Board of Director Minutes

In general, the review of the 2013 Board meeting minutes indicated that the minutes support the transactions of the Company and the actions taken by its directors and officers. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

### Articles of Incorporation

There were two amendments filed with the Oregon Insurance Division during the period under examination. A March 11, 2011, filing amended Article VII to change the principal place of business and a September 28, 2011, filing amended Article IV to change the capital stock amount and par value. The Articles of Incorporation conformed to Oregon statutes.

### Bylaws

There were no changes made to the Bylaws during the period under examination. The Bylaws conformed to Oregon statutes.

## MANAGEMENT AND CONTROL

### Board of Directors

Management and control of the Company is vested in a Board of Directors. Article III, section 1 of the restated Bylaws dated January 1, 2009, stated the Board shall consist of not less than five members, no fewer than five directors or one-quarter of the directors, whichever is fewer, shall be residents of Oregon. The term for each director is one (1) year. As of December 31, 2013, 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>
Casie L. Bowers Beaverton, OR	AVP, Personal Insurance Liberty Mutual Insurance Company	2012
Michael J. Cronan Beaverton, OR	Senior Underwriter Liberty Mutual Insurance Company	2012
Margaret Dillon Norfolk, MA	EVP Chief Customer Officer Personal Insurance Liberty Mutual Insurance Company	2012
John D. Doyle Southborough, MA	VP and Controller Liberty Mutual Insurance Company	2009
Paul Ivanovskis Foxboro, MA	SVP, Actuary Personal Insurance Liberty Mutual Insurance Company	2012
Dexter R. Legg Portsmouth, NH	Vice President and Corporate Secretary Liberty Mutual Insurance Company	2012
Elizabeth J. Morahan Newtonville, MA	SVP Assistant General Counsel Liberty Mutual Insurance Company	2012
Timothy M. Sweeney* Boston, MA *Chairman	President Personal Insurance Liberty Mutual Insurance Company	2012

The Company's Board of Directors complied with ORS 732.305.

### Officers

Principal Officers serving at December 31, 2013, were as follows:

<u>Officer</u>	<u>Office</u>
Timothy M. Sweeney	President and Chief Executive Officer
Dexter R. Legg	Vice President and Secretary
Laurance H. S. Yahia	Vice President and Treasurer
Margaret Dillon	Vice President and CFO
John D. Doyle	Vice President and Comptroller
Anthony A. Fontanes	Vice President and Chief Investment Officer
Elizabeth J. Morahan	Vice President and General Counsel

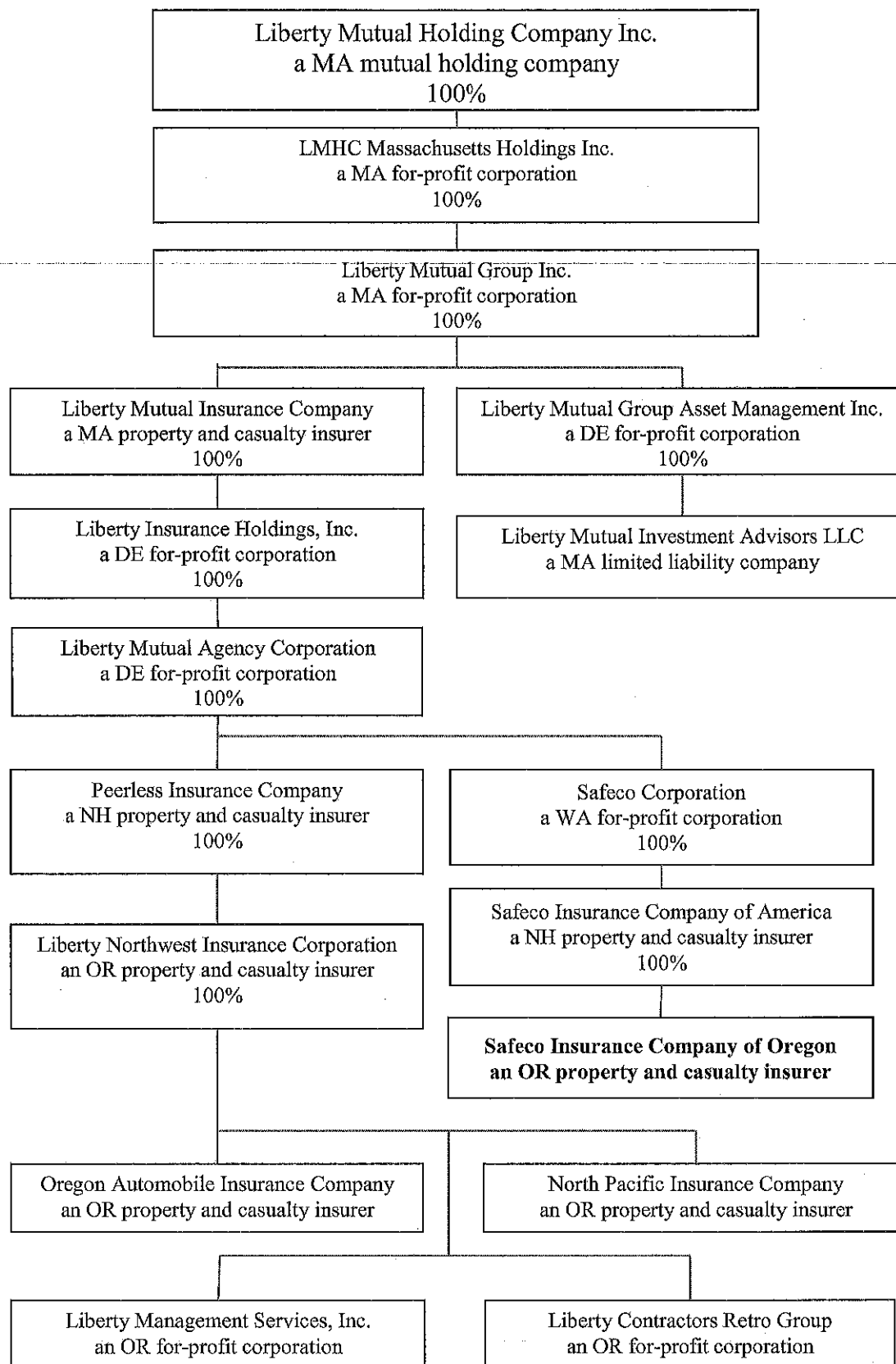


### **Conflict of Interest**

The Company is party to the Liberty Mutual Code of Business Ethics and Conduct, which requires officers, directors, and selected responsible employees to report annually 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**

The Company is part of an insurance company holding system in which Liberty Mutual Holding Company Inc. is the ultimate controlling entity. The holding company contained numerous separate entities, but the following condensed organizational chart depicts the relationships relevant to the Company within the holding company system:



A brief description of the entities listed in the above chart is as follows:

Liberty Mutual Group Inc. (LMG) is a Massachusetts holding company formed as part of the reorganization of Liberty Mutual Insurance Company in 2001 under a mutual holding company system. As part of the transaction, it formed Liberty Mutual Holding Company Inc. (LMHC), as a mutual holding company and the ultimate controlling entity. LMHC Massachusetts Holdings Inc. was formed as a stock holding company 100% owned by LMHC, and is the direct parent of LMG. Significant subsidiaries of LMG include:

- Liberty Mutual Insurance Company (LMIC), a Massachusetts domiciled property and casualty insurer, was formed in 1912 and is the flagship insurance company of the group.
- Liberty Mutual Group Asset Management Inc. (LMGAM), a Delaware stock company and an indirect subsidiary of LMG. It was formed for the purpose of making, holding, and administering investments in designated asset sectors for the insurance companies within LMG.
- Liberty Insurance Holdings Inc. (LIH), a Delaware stock for-profit corporation 100% owned by LMIC.
- Liberty Mutual Agency Corporation. (LMAC), a Delaware stock for-profit corporation 100% owned by LIH.
- Safeco Corporation (SC), a Washington stock for-profit corporation 100% owned by LMAC.
- Safeco Insurance Company of America (SICA), a New Hampshire property and casualty insurance company 100% owned by SC.
- Peerless Insurance Company (PIC), a New Hampshire stock property and casualty insurance company 100% owned by LMAC. PIC owns 100% of the outstanding shares of the Company's common stock and is the direct parent.
- Liberty Northwest Insurance Corporation (LNW), an Oregon stock property and casualty insurance company 100% owned by PIC. LNW owns the following for-profit stock subsidiaries, all 100% owned:
  - Oregon Automobile Insurance Company (OAIC), an Oregon-domiciled stock property and casualty insurer.
  - North Pacific Insurance Company (NPIC), an Oregon-domiciled stock property and casualty insurer.

- Liberty Management Services, Inc. (LMS), an Oregon corporation formed in 1987 as a non-insurance claims servicing company, providing operational support for employers that are self-insured for workers' compensation.
- Liberty Contractors Retro Group, an Oregon corporation formed in 1991 to perform ancillary services for the property and casualty company.

A holding company registration statement was filed by the Company for each year of this examination in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

## **INTERCOMPANY AGREEMENTS**

### **Management Services Agreement**

Effective January 1, 2013, the Company and LMIC entered into an agreement whereby LMIC will provide; A) insurance; B) accounting, actuarial, risk management, financial, tax and auditing services; C) purchasing, payroll, human resources and employee benefits; D) marketing and strategic support; E) information technology and support; F) policy administration and production; G) real estate management; H) legal and compliance; I) general administration; J) miscellaneous; K) reinsurance negotiations; and L) maintenance of and access to records. Pursuant to the agreement, the Company shall reimburse LMIC for the reasonable cost of services provided and shall include direct expenses and direct allocable expenses, consistent with the principles of SSAP No. 70. Settlement shall be quarterly and amounts owing shall be made within 45 days.

### **Investment Management Agreement**

Effective July 1, 2011, the Company entered into an agreement with LMGAM to act as discretionary investment manager of all the invested assets held by the Company, subject to the guidelines, limitations, and objectives set by the Company's Board of Directors. The agreement has no expiration date, but may be terminated immediately upon written notice by

the Company or with 180 days written notice by LMGAM. Monthly fees charged will be based on an average of the market value of cash and securities times .00015.

**Cash Management Agreement**

Effective April 1, 2012, the Company entered into an agreement with Liberty Mutual Group Asset Management Inc. (LMGAM) to make, hold, and administer certain positions in short-term investments. Monthly fees charged will be based on an average of the market value of cash and securities times .00015 plus its proportionate share of all reasonable cost and expenses incurred by the LMGAM in performing its obligations under this agreement, including but not limited to reimbursement of direct commissions, transaction fees, and custodial fees incurred. Exhibit A of the agreement described the permitted assets allowed for purchase. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 30 days written notice by LMGAM.

**Federal Tax Sharing Agreement**

Effective September 22, 2008, the Company became party to an existing agreement between LMHC and its taxable subsidiaries. There were approximately 131 subsidiaries, five of which either merged or dissolved during 2009. Under the terms of the agreement, LMHC shall compute a consolidated federal tax return of any legal entity that is part of the Liberty Mutual Group. All taxes payable from each legal entity shall be based on a separate tax return liability, after adjusting for any current year, carryovers or carrybacks of net operating losses, net capital losses, excess tax credits, or other tax attributes. Estimated federal tax payments shall be settled on the 12<sup>th</sup> day of April, June, September, December and March. Payments reflecting the final tax return liability for a given tax year will be settled after the filing of Liberty Mutual Group's federal tax return.

## FIDELITY BOND AND OTHER INSURANCE

At December 31, 2013, Liberty Mutual Holding Company, Inc, was covered for up to \$15,000,000 single loss limit, after a \$50,000,000 deductible, against losses from acts of dishonesty and fraud by its employees. An endorsement of the policy defined any subsidiary of Liberty Mutual Holding Company to be an insured. However, since the surplus of the Company is less than the deductible amount, the Company was essentially self-insured for fidelity coverage. All other insurance coverages in force at December 31, 2013, were determined to be adequate, and include the following:

Commercial general liability	Professional liability
Umbrella excess liability	Directors & officers liability
Property	Automobile liability
Workers' compensation	

## TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was authorized to write property and casualty excluding workers' compensation business in Oregon. The Company was also authorized to write business in Georgia, Louisiana and Washington. Direct premiums written in 2013 were:

Georgia	\$	0
Louisiana		136,547,209
Oregon		262,709,599
Washington		<u>31,701,747</u>
Total Direct Premium		<u>\$430,958,555</u>

At year-end 2013, the Company wrote the following lines of business:

	<u>Direct Premium</u>	<u>Percentage</u>
Fire	\$ 8,608,044	2.00
Allied Lines	7,973,502	1.85
Homeowners multiple peril	131,940,668	30.62
Inland marine	3,426,375	0.80
Earthquake	1,374,130	0.32
Other liability-occurrence	10,697,964	2.48
Private passenger auto liability	177,238,910	41.12
Auto Physical damage	<u>89,698,959</u>	<u>20.81</u>
Total	<u>\$430,958,552</u>	<u>100.00</u>

The Company is part of the Reinsurance Pooling Agreement where 100% of the business is ceded by 55 affiliated insurers to the lead company, "Liberty Mutual Insurance Company".

Liberty Mutual Insurance Company records 100% of its external assumed and ceded reinsurance activity after recording the assumed affiliate transactions, and then retrocede to the pool members in accordance with each company's pooling percentage. The Company did not participate in any retrocession, and as a result, it reported no reserves or other policy-related liabilities.

The following is the retrocession reinsurance participants and their respective participation percentages (six companies):

Liberty Mutual Insurance Company	50.00%
Peerless Insurance Company	20.00%
Employers Insurance Company of Wausau	8.00%
The Ohio Casualty Insurance Company	8.00%
Liberty Mutual Fire Insurance Company	8.00%
Safeco Insurance Company of America	<u>6.00%</u>
Total	<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 filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2009*	\$19,613,339	\$11,592,492	\$ 8,020,847	\$229,604
2010	24,223,891	16,002,396	8,221,495	186,828
2011	27,700,483	19,248,354	8,452,129	141,254
2012	36,285,302	27,663,905	8,621,397	169,268
2013*	16,738,118	3,843,425	12,894,693	273,296

\*Per examination

The 2013 reduction in assets and liabilities was primarily due to the cancellation of the Peerless quota share agreement at the end of 2012 which resulted in a more efficient process and settlements. The timing of the settlement of the intercompany reinsurance and administrative service agreement balances in 2013 reflects the efficiencies gain under the new reinsurance pooling and administrative service agreements with LMIC. Capital and surplus increase in 2013 was the result of a \$4,000,000 capital contribution from the parent.

#### REINSURANCE

Prior to 2013, all of the Company's reinsurance was transacted through a pooling agreement with Peerless Insurance Company (PIC), which contained approximately 40 insurers. Under the terms of that pooling agreement, PIC assumed 100% of the business written by various members of the Liberty Mutual Group, and retrocedes to participating insurers according to their respective participating percentages. This agreement was terminated effective December 31, 2012. Business ceded under this agreement was reinsured under the amended and restated agreement below.

Effective January 1, 2013, the Company entered into a Second Amended and Restated Intercompany Reinsurance Agreement, a 100% quota-share pooling reinsurance agreement with its indirect parent, Liberty Mutual Insurance Company (LMIC), the lead insurer in the LMIC Pool. The agreement calls for LMIC to assume all risks from first dollar, both assumed and direct.



Although the LMIC Pool has various reinsurance agreements with outside reinsurers and with affiliates within the Liberty Mutual Group, the Company is not a party to any other reinsurance agreements on a direct basis.

**Risk Retention and Transfer**

The Company retains no risk on any one insured. As such, the Company was in compliance with the provisions of ORS 731.504.

**Insolvency Clause**

Each of the reinsurance agreements contained a proper insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency, as required by the provisions of ORS 731.508.

**ACCOUNTS AND RECORDS**

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2013, 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 DEPOSITS**

The Company had deposits with the Oregon Insurance Division, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604. The deposit consisted of a US Treasury Notes with a par value of \$500,000.

## **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were one recommendations made in the 2009 report of examination. A formal follow-up report was prepared and evidence of the correction was provided.

## **SUBSEQUENT EVENTS**

The following item was considered significant in operations of the Company subsequent to December 31, 2013.

NICO: LMIC has entered into an adverse development cover with National Indemnity Company (“NICO”) effective January 1, 2014 which provides coverage for LMIC’s US commercial workers’ compensation (“WC”) and asbestos and environmental (“A&E”) exposures. Specifically, the treaty provides \$6.5 billion of aggregate coverage on carried loss and allocated loss adjustment expense (“ALAE”) reserves of \$15.8 billion as of December 31, 2013, with an attachment point of \$12.5 billion on combined WC and A&E reserves. Sub-limits are also in place, consisting of \$3.1 billion on A&E and \$4.5 billion on WC large deductible policy (“LDD”) reserves. The cover excludes certain segments of WC business, such as UPS, CSO, and Summit. The treaty specifies that NICO will assume the claim handling responsibility for A&E claims, while the settlement of WC claims remains with LMIC. LMIC is paying NICO total consideration of \$3.05 billion. Based on carried reserves as of December 31, 2013, the NICO cover will provide LMIC with \$3.3 billion of reimbursement, leaving \$3.2 billion of the \$6.5 billion overall limit available to cover adverse development of the carried reserves. This transaction will be recorded as retroactive reinsurance and reported as an Aggregate Write-in for Liabilities on LMIC’s statutory balance sheet.

## FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Safeco Insurance Company of Oregon as of December 31, 2013:

Statement of Assets

Statement of Liabilities, Surplus, and Other Funds

Statement of Income

Reconciliation of Capital and Surplus Since the last Examination

**SAFECO INSURANCE COMPANY OF OREGON**  
**ASSETS**  
**As of December 31, 2013**

<u>ASSETS</u>	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Bonds	\$11,892,845	\$ -	\$11,892,845	1
Cash, cash equivalents and short-term investments	886,190	-	886,190	1
Receivables for securities	20,000	-	20,000	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$12,799,035</u>	<u>\$ -</u>	<u>\$12,799,035</u>	
Investment income due and accrued Reinsurance	141,849	-	141,849	
Amounts recoverable from reinsurers	3,358,306	-	3,358,306	
Receivable from parent, subsidiaries and affiliates	438,928	-	438,928	
From separate accounts, segregated accounts and protected cell accounts	-	-	-	
Total Assets	<u>\$16,738,118</u>	<u>\$ -</u>	<u>\$16,738,118</u>	

**SAFECO INSURANCE COMPANY OF OREGON**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
As of December 31, 2013

Liabilities, Surplus and Other Funds	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Losses	\$ -	\$ -	\$ -	2
Reinsurance payable on paid loss and loss adjustment expenses	-	-	-	
Loss adjustment expenses	-	-	-	2
Current federal income taxes	4,326	-	4,326	
Net deferred tax liability	40,000	-	40,000	
Unearned premiums	-	-	-	
Advanced premium	-	-	-	
Ceded reinsurance premiums payable	(473,551)	-	(473,551)	
Payable to parent, subsidiaries and affiliates	4,272,650	-	4,272,650	
Aggregate write-ins for liabilities	-	-	-	
Protected cells liabilities	-	-	-	
Total Liabilities	<u>\$ 3,843,425</u>	<u>\$ -</u>	<u>\$ 3,843,425</u>	
Common capital stock	2,000,000	-	2,000,000	
Surplus notes	-	-	-	
Gross paid in and contributed surplus	8,100,000	-	8,100,000	
Unassigned funds (surplus)	2,794,693	-	2,794,693	
Surplus as regards policyholders	<u>12,894,693</u>	<u>-</u>	<u>12,894,693</u>	
Total Liabilities, Surplus and other Funds	<u>\$16,738,118</u>	<u>\$ -</u>	<u>\$16,738,118</u>	

**SAFECO INSURANCE COMPANY OF OREGON**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2013**

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
<b>Underwriting Income</b>				
Premiums earned	\$ -	\$ -	\$ -	
Deductions				
Losses incurred	-	-	-	
Loss expenses incurred	-	-	-	
Other underwriting expenses incurred	-	-	-	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Net underwriting gain or (loss)	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Investment Income</b>				
Net investment income earned	272,708	-	272,708	
Net realized capital gains or (losses)	<u>13,382</u>	<u>-</u>	<u>13,382</u>	
Net investment gain or (loss)	<u>286,090</u>	<u>-</u>	<u>286,090</u>	
<b>Other Income</b>				
Net gain or (loss) from agents' or premium balances charged off	-	-	-	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	-	-	-	
Total other income	<u>-</u>	<u>-</u>	<u>-</u>	
Dividends to policyholders	-	-	-	
Federal and foreign income taxes incurred	<u>12,794</u>	<u>-</u>	<u>12,794</u>	
Net income	<u>\$273,296</u>	<u>\$ -</u>	<u>\$273,296</u>	

**SAFECO INSURANCE COMPANY OF OREGON**  
**RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST**  
**EXAMINATION**  
**For the Year Ended December 31,**

	2013	2012	2011	2010
Surplus as regards policyholders, December 31, previous year	<u>\$8,621,397</u>	<u>\$8,452,129</u>	<u>\$8,221,495</u>	<u>\$8,020,297</u>
Net income	273,296	169,268	141,254	186,828
Change in net unrealized capital gains or (losses)	-	-	-	-
Change in net deferred income tax	-	-	89,230	13,820
Change in nonadmitted assets	-	-	150	-
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Surplus (contributed to) withdrawn from protected cells	-	-	-	-
Cumulative effects of changes in accounting principles	-	-	-	-
Capital changes:				
Paid in	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-
Transferred to surplus	-	-	-	-
Surplus adjustments:				
Paid in	4,000,000	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-
Transferred from capital	-	-	-	-
Net remittances from or (to) home office	-	-	-	-
Dividends to stockholders (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-
Change in surplus as regards policyholders for the year	<u>4,273,296</u>	<u>169,268</u>	<u>230,634</u>	<u>200,648</u>
Surplus as regards policyholders, December 31, current year	<u>\$12,894,693</u>	<u>\$8,621,397</u>	<u>\$8,452,129</u>	<u>\$8,221,495</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested Assets

The Company's long-term bond investments were in US obligations and US States obligations and US Special Revenue and Special Assessment obligations. All bonds had an NAIC designation of 1. The Company did not have any exposure to mortgage-backed and asset-backed securities at year-end 2013.

Short-term deposits consisted of funds on deposit with an affiliated investment advisor, Liberty Mutual Investment Advisors LLC, and with one issue money market fund held in the custodial account.

A comparison of the major investments over the past four years shows the following (in thousands):

<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>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2009*	5,579,118	2,531,285	28.4%	0.0%	12.9%
2010	5,071,099	2,821,707	20.9%	0.0%	11.6%
2011	8,206,133	145,575	29.6%	0.0%	0.5%
2012	8,389,094	377,068	23.1%	0.0%	1.0%
2013*	11,892,845	886,190	71.1%	0.0%	5.3%

The Board of Directors approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2013, sufficient invested assets were invested in amply secured obligations of the United States, a state, or in FDIC insured cash deposits, in compliance with ORS 733.580.

On December 12, 2008, the Company entered into a custodial agreement with JP Morgan Bank, NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

### Note 2 – Actuarial Reserves

As described earlier in this report, the Company participated in an intercompany reinsurance pooling arrangement, whereby 100% of the direct business was ceded to the pool, with no business retroceded back to the Company. As a result, all loss reserves, LAE reserves, premiums and considerations, unearned premium reserves, and any other amount to be actuarially determined would be reported in the statements of the participating insurers.

David F. Dahl, FCAS, MAAA, Oregon Insurance Division property and casualty actuary, reviewed the work performed by the lead state, Massachusetts as well as the opining actuary over loss reserves and loss adjustment expenses reserves. Mark Littman, FCAS, MAAA, of PwC prepared the financial examination report for the Massachusetts DOI and Stephanie A. Neyenhouse, FCAS, MAAA, of Liberty Mutual prepared the company's actuarial report and opinion. The financial examination report indicates the Liberty Mutual pool has a deficiency of



\$372 million. The actuarial report shows a deficiency of \$89 million. Both amounts are less than 1% of carried reserves of \$34.6 billion and statutory surplus of \$15.1 billion and neither is material.

### **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no adjustments made to the Company's surplus as a result of this examination, and the examiners make no recommendation.

### **CONCLUSION**

During the four year period covered by this examination, the surplus of the Company has increased from \$8,020,847, as presented in the December 31, 2009, report of examination to \$12,894,693, as shown in this report. The comparative assets and liabilities are:

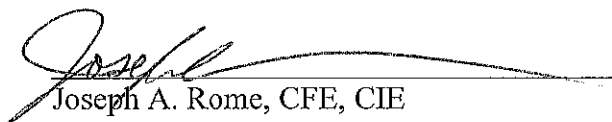
	<b><u>2013</u></b>	<b><u>December 31,</u></b> <b><u>2009</u></b>	<b><u>Change</u></b>
Assets	\$16,738,118	\$19,613,339	\$ (2,875,221)
Liabilities	<u>3,843,425</u>	<u>11,592,492</u>	<u>(7,749,067)</u>
Surplus	<u>\$12,894,693</u>	<u>\$ 8,020,847</u>	<u>\$ 4,873,846</u>

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, David F. Dahl, FCAS, MAAA, property and casualty actuary, and Heather L. DeShores, MPA, MAFM, insurance examiner, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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

Joseph A. Rome, CFE, CIE  
Lead Examiner  
Department of Consumer and Business Services  
State of Oregon

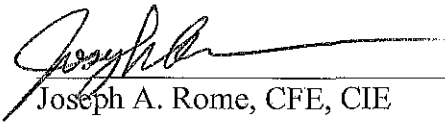
**AFFIDAVIT**

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 Safeco Insurance Company of Oregon, Portland, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Safeco 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  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to me this 18 day of May, 2015.

  
\_\_\_\_\_  
Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

