STATE OF OREGON
DEPARTMENT OF
CONSUMER & BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
SALEM, OREGON

AS OF

DECEMBER 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

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SALEM, OREGON

NAIC COMPANY CODE 10698

AS OF

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SALUTATION

May 29, 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

VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
4263 Commercial Street, Suite 400
Salem, Oregon 97301

NAIC Company Code 10698

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

SCOPE OF EXAMINATION

We have performed a multi-state coordinated group examination of Valley Property & Casualty Insurance Company. The last examination of this property and casualty insurer was completed as of December 31, 2008. This is a full-scope examination covering the period January 1, 2009, 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 a pooling arrangement. A coordinated examination is recommended using the coordination 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

The Company was incorporated in Oregon on December 5, 1996, received a Certificate of Authority to act as a property casualty insurer on December 30, 1996, and commenced business on February 2, 1997.

Capitalization

As of December 31, 2013, the Company's Articles authorized 100,000 shares of common stock, with a par value of $280 per share. There are 12,550 shares currently issued and outstanding. Trinity Universal Insurance Company, the Company's parent, owns 100% of the issued and outstanding shares as of December 31, 2013.

Dividends to Stockholders and Other Distributions

During the period under examination, the Company declared and paid the following dividend to its stockholder:

Declared Date	Paid Date	Amount	Description
5/31/2012	7/2/2012	$2,352,367	Extraordinary

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. The minute books also contained accompanying documentation that supported the minutes. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review. The annual meeting of the shareholders of the corporation shall be held each year as designated by the Board of Directors. The Bylaws state that special meetings may be called at any time by the president or by the members of the Board of Directors.

Articles of Incorporation

There were no changes made to the Articles of Incorporation during the period under examination. The Articles of Incorporation conformed to Oregon Insurance Code.

Bylaws

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

MANAGEMENT AND CONTROL

A five member Board of Directors manages the Company. A majority of directors constitutes a quorum. Directors met the age, number, and residency requirements and all other provisions of ORS 732.305. Directors serving at December 31, 2013, were as follows:

Member	Occupation	Member Since
John M. Boschelli Geneva, IL	Insurance Executive Kemper Corporation	2009
Andrea E. James Ponte Verda Beach, FL	Insurance Executive Kemper Corporation	2013
Dennis I Lynch St. Augustine, FL	Insurance Executive Kemper Corporation	2009
Maxwell T. Mindak Elhurst, IL	Insurance Executive Kemper Corporation	2013
Geoffrey T. Steward Corvallis, OR	Insurance Executive Kemper Corporation	2008
Kirk W. Triance Salem, OR	Insurance Executive Kemper Corporation	2010

Officers

Officers elected and serving at December 31, 2013, were as follows:

Name	Title
Andrea E. James	President
Dristine R. Azar	Vice President/Secretary
Brian T. Sandlin	Treasurer
Shawn R. Crawford	Senior Vice President
Brian J. Delfino	Senior Vice President
Gabriel F. Carrillo	Senior Vice President
Eric W. Neely	Senior Vice President

Conflict of Interest

The Company is party to the Kemper Corporation's 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

Kemper Corporation is a Delaware publically-traded insurance and consumer finance corporation (NYSE: KMPR). It is a holding company owning a number of property and casualty and life and health insurers. The following organizational chart lists the following members of the holding company system as of December 31, 2013:

Kemper Corporation (Delaware)

- One East Wacker LLC (Illinois)
- Kemper Corporate Services, Inc. (Illinois)
- KAHG LLC (Illinois)
- Trinity Universal Insurance Company (Texas)
  - Alpha Property & Casualty Insurance Company (Wisconsin)
  - Charter Indemnity Company (Texas)
  - Direct Response Corporation (Delaware)
    - Response General Agency of Texas, Inc. (Connecticut)
    - Response Insurance Company (Illinois)
      - National Merit Insurance Company (Illinois)
      - Response Worldwide Insurance Company (Illinois)
        - 301 Oxford Valley Insurance Agency Inc. (Pennsylvania)
        - Connecticut Casualty Insurance Agency Inc. (Connecticut)
  - Warner Insurance Company (Illinois)
    - Response Worldwide Direct Auto Insurance Company (Illinois)
  - Financial Indemnity Company (Illinois)
  - Kemper General Agency (Texas)
  - Kemper Independence Insurance Company (Illinois)
  - Merastar Industries LLC (Delaware)
    - Merastar Insurance Company (Illinois)
    - Security One Insurance Agency (Tennessee)
  - NCM Management Corporation (Delaware)
    - Unitrin County Mutual Insurance Company* (Texas)
  - Union National Fire Insurance Company (Louisiana)
  - United Casualty Insurance Company of America (Illinois)

- Unitrin Advantage Insurance Company (New York)
- Unitrin Auto and Home Insurance Company (New York)
- Unitrin Direct Insurance Company (Illinois)
- Unitrin Direct Property & Casualty Company (Illinois)
  - Kemper Direct General Agency Inc. (Texas)
- Unitrin Preferred Insurance Company (New York)
- Unitrin Safeguard Insurance Company (Wisconsin)
- Valley Insurance Company (California)
- **Valley Property & Casualty Insurance Company (Oregon)**

- United Insurance Company of America (Illinois)
  - Union National Life Insurance Company (Louisiana)
  - UICA Investment Holdings LLC (Delaware)
  - Reserve National Insurance Company (Oklahoma)
    - Summerset Marketing Company (Oklahoma)
      - National Association of Self-Employed Business (Oklahoma)
      - Rural American Consumers National Association (Oklahoma)
  - Mutual Savings Life Insurance Company (Alabama)
    - Mutual Savings Fire Insurance Company (Alabama)
  - The Reliable Life Insurance Company (Missouri)
    - Family Security Funerals Company (Texas)
    - Capitol County Mutual Fire Insurance Company** (Texas)
      - Old Reliable Casualty Company*** (Missouri)

All ownership was 100 percent unless otherwise noted.

*Entity was ultimately controlled by Kemper Corporation through a management agreement with NCM Management Corp.

**Entity was ultimately controlled by Kemper Corporation through a management agreement with The Reliable Life Insurance Company.

***Entity was ultimately controlled by Kemper Corporation through its affiliation with Capitol County Mutual Fire Insurance Company.

The Company's direct parent is Trinity Universal Insurance Company (Trinity); a Texas domiciled insurer licensed for multiple property and casualty classes of insurance in Oregon and is wholly owned by Kemper. Under a quota share reinsurance agreement, the Company cedes net of reinsurance 100% of premiums, losses and loss adjustment expenses to Trinity.

As a member of an insurance holding company system, the Company has made timely holding company registration filings in accordance with ORS 732.551 and OAR 836-027-0020(1).

INTERCOMPANY AGREEMENTS

The Company was party to the following agreements with its parent and affiliates as of December 31, 2013:

General Services Agreement

Effective January 1, 2009, the Company entered into a General Services Agreement with Merastar Insurance Company (Merastar). Under the agreement, Merastar agrees to provide marketing, underwriting, claim adjusting and reinsurance reporting, facilities, supplies and staffing, and accounting services. During 2013, there were no expenses charged to the Company under this agreement, since expenses are net of reinsurance.

Services Agreement

On December 21, 2012, the Company entered into a Service Agreement with Kemper Corporate Services, Inc. (KCS), an affiliate, whereby KCS provides the companies with certain general and computer services. General services provided include, but are not limited to the following: trade execution and investment analysis, financial accounting and reporting, purchasing and accounts payable, investment accounting, payroll processing and administration, tax return preparation, tax accounting and tax advice, maintenance of benefit plans (such as life, health, disability, pension and savings benefit plans), administration of post-retirement life and medical benefits, benefit plan regulatory reporting and support, human resource management (including recruitment, training and salary and performance administration), risk management (including corporate insurance), automobile fleet management, internal audit including field audit, cash management and bank relations, financial planning and analysis of results of operations, capital project review and evaluation, real estate management, corporate secretarial functions, legal support and advice, consulting services in other areas including but not limited to media relations, branding initiatives, and other corporate functions. Computer services include mainframe, midrange and minicomputer and other central processors and controllers, data storage devices, cartridge and tape drives, MVS, UNIX and other operating system software, database management software (exclusive of applications running under such software), CICS and other transaction processing software, groupware, middleware, and network software, routers and other network and telecommunications equipment and lines located at its data center facilities, internet and intranet access software and systems, purchase, lease, license or otherwise acquisition of computer hardware and equipment, licensing and/or otherwise acquisition of computer software, information technology consulting and related services.

Assignment and Consent Agreement

Effective January 1, 2009, the Company entered into Assignment and Consent Agreements whereby Trinity and the Company assigned administration of the business reinsured by Trinity under the 100% quota share reinsurance agreement to Merastar. Under the agreements, Merastar agrees to provide administrative services for those policies for which Trinity has assumed based on a 100% quota share reinsurance agreements entered into by Trinity and the Company effective January 1, 2009. Under the Consent, Trinity agreed to pay Merastar's fees in performing these services.

The Company is party to a general services agreement with Trinity. According to the agreement, Trinity is responsible for providing the Company the following services: executive management, financial accounting and reporting, purchasing and accounts payable, financial planning and analysis of operations, marketing and actuarial services, and certain MIS support and advice. Terms of the agreement call for the Company to reimburse Trinity based on hours of services provided or on actual costs incurred for out of pocket items.

Information Technology Services Agreement

Effective January 1, 2009, the Company entered into an information technology services agreement. Under the terms of the contract, Unitrin Direct Property & Casualty Company (UDPC) will provide information technology services, such as IT applications and consulting services with respect to technology shared among the Unitrin, Kemper Corporation property and casualty affiliates.

Tax Allocation Agreement

Effective for tax years ending December 31, 1999, the Company is party to a written tax sharing agreement with Kemper Corporation, and its eligible subsidiaries. Under this tax allocation agreement, the Company files a consolidated federal income tax return with Kemper Corporation and its eligible subsidiaries.

The tax sharing agreement states that each participant in the agreement shall be allocated tax as if it filed a separate company return and the tax liability can be no greater under the agreement than it would have been had a separate tax return been filed for all years in the consolidated period.

Reinsurance 100% Quota Share

Effective January 1, 2009, the Company and Trinity entered into an Amended and restated 100% Quota Share reinsurance agreement, amending the June 1, 1999 100% quota share reinsurance agreement. See caption "Reinsurance" below.

The Oregon Insurance Division approved the above agreements.

FIDELITY BONDS AND OTHER INSURANCE

The examination of insurance coverages involved a review of limits and retentions of coverages, and the solvency of the insurers providing the coverages.

Kemper Corporation purchased financial institution bond coverage for itself and its subsidiaries, including the Company. This bond covers losses from forgery or alteration, securities, computer systems, trading losses and extortion up to $20,000,000 with a $500,000 deductible. The Company's fidelity coverage met the limits recommended by the NAIC.

Kemper Corporation purchased other coverage for itself and its subsidiaries, including the Company. Kemper's insurance coverages include Insurance Company Errors and Omissions, Directors and Officers Liability Insurance, Property Damage, Cyber Risk and General Liability Insurance, among other insurances. Coverages are typically renewed annually.

TERRITORY AND PLAN OF OPERATION

The Company markets personal and commercial package policies through independent agents in Oregon and Washington. It is authorized to write business in Wisconsin, but it has yet to write business in that State. Direct premiums written in 2013 were as follows:

Oregon	$19,095,477
Washington	933,803
Wisconsin	-
Total	$20,029,280

A breakdown of premium written by line of business is shown below:

Line of Business	Direct Written Premium	Percent of Total Written
Fire	$ 786,762	3.93%
Allied lines	487,156	2.43%
Homeowners multiple peril	5,770,362	28.81%
Inland marine	240,932	1.20%
Earthquake	305,646	1.53%
Other liability - occurrence	572,147	2.86%
Private passenger auto liability	8,230,156	41.09%
Auto physical damage	3,636,118	18.15%
Total	$20,029,280	100.00%

GROWTH OF THE COMPANY

Growth of the Company since December 31, 2008, is reflected below. Amounts were compiled from copies of the Company's filed annual statements and, where indicated, from the current or a previous examination report.

Year	Assets	Liabilities	Surplus and Other Funds	Net Income (Loss)
2008*	$16,677,048	$6,983,781	$9,693,267	$395,367
2009	16,919,576	8,981,183	7,938,392	422,874
2010	15,758,271	7,479,498	8,278,773	376,745
2011	15,871,765	7,181,985	8,689,780	365,564
2012	13,210,843	6,547,248	6,663,595	328,872
2013*	12,262,065	5,280,601	6,981,464	256,281

*Per examination

REINSURANCE

Under an amended and restated 100% quota share reinsurance agreement effective January 1, 2009, restating the 100% quota share agreement effective June 1, 1999, the Company cedes, net of third party reinsurance, 100% of premiums, losses and loss adjustment expenses for prior period business and current in-force business to Trinity. The Company ceded all of the risks associated with policies written in exchange for the entire premium written. Under the terms of the agreements, Trinity was authorized to collect premiums directly from policyholders and to administer policies for the ceding companies. The Company and Trinity then entered into assignment and consent agreements to assign the administration authority to Merastar.

The Company is included in the group of companies named as ceding insurers on the following reinsurance treaties in effect as of December 31, 2013.

Effective January 1, 2013, Trinity and its affiliates entered into a two-layer casualty excess of losses agreement with various authorized and unauthorized reinsurers. Under the terms of the agreement, Trinity and affiliates retained $2,000,000 of coverage liabilities under various lines of business underwritten by the Kemper Preferred, Kemper Specialty and Kemper Direct business. The Companies then ceded 100 percent of $3,500,000 in excess of $2,000,000 to four reinsurers and 96.433 percent of $7,500,000 in excess of $5,500,000 to seven Lloyds Syndicates and five reinsurers. The reinsurers' limit of liability from all loss occurrences were $27,500,000 for first layer and $15,000,000 for second layer. The reinsurers' limit of liability from all loss occurrences in the event of runoff were $38,000,000 for first layer and $15,000,000 for second layer.

Effective January 1, 2013, Trinity and its affiliates entered into a two-layer Kemper Preferred and Kemper Direct property excess per risk reinsurance agreement with eleven reinsurers. Under the terms of the agreement, Trinity and affiliates retained $2,000,000 of risks related to property business underwritten by Kemper Preferred and Unitrin Direct divisions of Kemper Corporation. The Company then ceded $2,000,000 in excess of $2,000,000 for first layer and $5,000,000 in excess of $5,000,000 for second layer to the reinsurers. The reinsurers' limit of liability from all loss occurrences were $9,000,000 for first layer and $10,000,000 for second layer. The reinsurers' limit of liability from all loss occurrences in the event of runoff were $6,000,000 for first layer and $5,000,000 for second layer.

Effective January 1, 2013, Trinity and affiliates entered into a four-layer property catastrophe excess of loss reinsurance agreement with various authorized and unauthorized reinsurers. Under the terms of the agreement, Trinity and affiliates retained $50,000,000 of risks related to property business underwritten by the Kemper Preferred, Kemper Direct and Kemper Specialty divisions of Kemper Corporation. Trinity and its affiliates cede business under the following four layers to reinsurers:

First Layer:	$50,000,000 in excess of $50,000,000 of each loss occurrence to reinsurers' limit of liability of $100,000,000 for all loss occurrences. The percentage ceded to reinsurers for the first layer was 35 percent.
Second Layer:	$100,000,000 in excess of $100,000,000 of each loss occurrence to reinsurers' limit of liability of $200,000,000 for all loss occurrences. The percentage ceded to the reinsurers was 5 percent for the second layer.
Third Layer:	$150,000,000 in excess of $200,000,000 of each loss occurrence to reinsurers' limit of liability of $300,000,000 for all loss occurrences. The percentage ceded to the reinsurers was 10 percent for the third layer.
Fourth Layer:	$100,000,000 in excess of $350,000,000 of each loss occurrence to reinsurers' limit of liability of $200,000,000 for all loss occurrences. The percentage ceded to the reinsurers was 50 percent for fourth layer.

Trinity and its affiliates utilized Aon Benfield, Inc., as its reinsurance intermediary.

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

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.

STATUTORY DEPOSIT

As of December 31, 2013, the Company maintained a $125,000 par value security deposit (US Treasury Note) with the Oregon Insurance Division for the purposes of complying with workers' compensation deposit requirements pursuant to ORS 731.628.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company complied with the recommendation noted in the 2008 examination report.

SUBSEQUENT EVENTS

There were no events subsequent to the examination period that would have a material impact on the financial results of the Company.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Valley Property & Casualty Insurance Company:

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Reconciliation of Surplus for the Period Since the last Examination

The financial statements are presented on the basis of statutory accounting practices permitted or prescribed by the Oregon Insurance Division as of December 31, 2013.

VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
ASSETS
AS OF DECEMBER 31, 2013

Invested Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	$ 4,801,837	$ -	$ 4,801,837	1
Cash, cash equivalents and short-term investments	2,747,740	-	2,747,740	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	$ 7,549,577	$ -	$ 7,549,577	
Investment income due and accrued	40,689	-	40,689	
Premiums and considerations				
Uncollected premiums and agents' balances in the course of collection	603,845	-	603,845	
Deferred premiums, agents' balances and installments not yet due	3,998,845	-	3,998,845	
Current FIT recoverable	2	-	2	
Net deferred tax assets	62,314	-	62,314	
Aggregate write-ins for other than invested assets	6,793	-	6,793	
Total Assets	$ 12,262,065	$ -	$ 12,262,065	

VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
AS OF DECEMBER 31, 2013

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	$ -	$ -	$ -	2
Reinsurance payable on losses and lae	-	-	-	
Loss adjustment expenses	-	-	-	2
Commissions payable	334,083	-	334,083	
Other expenses	1,000	-	1,000	
Taxes, licenses and fees	45,000	-	45,000	
Unearned premiums	-	-	-	
Advance premiums	261,788	-	261,788	
Ceded reinsurance premium payable	4,603,840	-	4,603,840	
Payable to parent, subsidiaries and affiliates	34,890	-	34,890	
Aggregate write-ins for liabilities	-	-	-	
Total Liabilities	$ 5,280,601	$ -	$ 5,280,601	
Common capital stock	$ 3,514,000	$ -	$ 3,514,000	
Gross paid in and contributed surplus	4,225,000	-	4,225,000	
Unassigned funds (surplus)	(757,536)	-	(757,536)	
Surplus as regards policyholders	$ 6,981,464	-	$ 6,981,464	
Total Liabilities, Surplus and other Funds	$12,262,065	$ -	$12,262,065	

VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
STATEMENT OF INCOME
FOR THE YEAR ENDING DECEMBER 31, 2013

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	$ -	$ -	$ -	
Deductions				
Losses incurred	-	-	-	
Loss adjustment expenses incurred	-	-	-	
Other underwriting expenses incurred	-	-	-	
Aggregate write-ins for underwriting deductions	-	-	-	
Net underwriting gain (loss)	-	-	-	
Investment income				
Net investment income earned	252,906	-	252,906	
Net realized capital gains (losses)	3,373	-	3,373	
Net investment gain (loss)	256,279	-	256,279	
Other income				
Net gain (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	-	-	-	
Net income before dividends to policyholders and FIT incurred	-	-	-	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	(2)	-	(2)	
Net income	$256,281	$ -	$256,281	

VALLEY PROPERTY & CASUALTY INSURANCE COMPANY
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST EXAMINATION
For the Year Ended December 31,

	2013	2012	2011	2010	2009
Surplus as regards policyholders, December 31, previous year	$6,663,595	$8,689,780	$8,278,774	$7,938,393	$9,693,267
Net income	256,281	328,872	365,564	376,745	422,874
Change in net unrealized capital gains or (losses)	-	-	-	-	-
Change in net deferred income tax	(889,980)	1,174,057	79,954	102,314	1,744,673
Change in non-admitted assets	951,567	4,435,284	(34,512)	(149,359)	3,647,210
Change in provision for reinsurance	-	-	-	-	7,621
Change in surplus notes	-	-	-	10,681	-
Cumulative effects of changes in accounting principles	-	(5,612,031)	-	-	(5,391,813)
Capital changes:					
Paid in	-	-	-	-	-
Transferred from surplus (Stock Dividend)	-	-	-	-	-
Transferred to surplus	-	-	-	-	-
Surplus adjustments:					
Paid in	-	-	-	-	-
Transferred to capital (Stock Dividend)	-	-	-	-	-
Transferred from capital	-	-	-	-	-
Net remittances from or (to) Home Office	-	-	-	-	-
Dividends to parent (cash)	-	(2,352,367)	-	-	-
Change in treasury stock	-	-	-	-	-
Examination adjustments	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-	(2,185,439)
Change in surplus as regards policyholders for the year	317,868	(2,026,185)	411,006	340,381	(1,754,874)
Surplus as regards policyholders, December 31, current year	$6,981,463	$6,663,595	$8,689,780	$8,278,774	$7,938,393

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

Most of the Company's long-term bond investments were diversified in US Treasury obligations, federal agency bonds, and municipal obligations. The Company had a very small exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2013, and the book carrying value of $27,053 comprised less than one percent of the total long-term bond portfolio, or almost 0.4% of all invested assets. Cash and short-term deposits consisted of cash on deposit and a US Treasury Bill. A comparison of the investments over the past five years is as follows:

Year	A Bonds	B Cash and Short Term	Ratio A/ Total Assets	Ratio B/ Total Assets
2009	$8,699,508	$2,108,355	51.4%	12.5%
2010	7,720,067	1,449,981	49.0%	9.2%
2011	8,194,010	1,275,194	51.6%	8.0%
2012	6,272,613	1,183,437	47.5%	9.0%
2013	4,801,837	2,747,740	39.2%	22.4%

The Board of Directors approved the investment transactions, pursuant to ORS 733.740. As of December 31, 2013, sufficient invested assets were invested in amply secured obligations of the United States or FDIC insured cash deposits, as required by ORS 733.580.

The Company entered into a custodial agreement with BNY Midwest Trust Company, effective October 11, 1999. The agreement contains the protections required under OAR 836-027-0200(4)(a) to (l).

Note 2 – Losses and Loss Adjustment Expenses (LAE)

David Dahl, FCAS, MAAA, Oregon Insurance Division actuary, reviewed the Company's loss reserves at December 31, 2013. His findings and scope of review are contained in a memorandum. He reviewed the actuarial examination summary for Trinity Universal Insurance Company (TUIC) and the 2013 Statements of Actuarial Opinion for Valley Property & Casualty Insurance Company (VPCIC) and TUIC. TUIC is the lead company in an intercompany pooling arrangement the between several affiliate companies in the Kemper Property and Casualty group of companies, which includes VPCIC. The purpose of this review was to determine in general if the company's liabilities were reasonably stated and identify any areas where there may be significant risks.

His conclusion was that there do not appear to be any material risks to Valley Property & Casualty Insurance Company's liabilities for Loss and Loss Adjustment Expense of December 31, 2013 arising from their intercompany pooling arrangement. There do not appear to be any significant pricing, underwriting or liquidity risks that need to be investigated in greater detail.

Note 3 – Underwriting Income

No underwriting gain or loss is shown since the Company ceded 100% of its premiums and losses, net of reinsurance with non-affiliates, to Trinity under a quota share reinsurance agreement. See details under the Reinsurance section.

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 years covered by this examination, the Company's surplus decreased from $9,693,267, as of December 31, 2008, to $6,981,464, as shown in this report of examination.

Comparative assets, liabilities and surplus changes from December 31, 2008 to December 31, 2013, are shown below:

	December 31, 2013	December 31, 2008	Change
Assets	$12,262,065	$16,677,048	$(4,414,983)
Liabilities	5,280,601	6,983,781	(1,703,180)
Surplus	$ 6,981,464	$ 9,693,267	$(2,711,803)

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

Respectfully submitted,

Joseph A. Rome, CFE, CIE
Lead Insurance Examiner
Insurance Division
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 Valley Property & Casualty Insurance Company, Salem, 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 Valley Property & Casualty 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 Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

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

Notary Public in and for the State of Oregon

My Commission Expires: 3/22/2017

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