

STATE OF OREGON

**DEPARTMENT OF
CONSUMER & BUSINESS
SERVICES**

**DIVISION OF FINANCIAL
REGULATION**



REPORT OF FINANCIAL EXAMINATION

OF

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

AS OF

DEC. 31, 2021

STATE OF OREGON

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NAIC COMPANY CODE 21636

AS OF

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SALUTATION

Sept. 28, 2023

Honorable Andrew Stolfi, director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter St. NE
Salem, OR 97301-3883

Dear Director Stolfi:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

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

NAIC Company Code 21636

Hereinafter referred to as the “company.” The following report is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our regular, coordinated, multistate examination of Farmers Insurance Company of Oregon, part of the Farmers Group Inc. holding company system, with the California Department of Insurance designated as the lead state. The last examination of this property and casualty insurance company was completed as of Dec. 31, 2017. This examination covers the period of Jan. 1, 2018 to Dec. 31, 2021.

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 effects of such an adjustment will be documented separately following the company's financial statements.

This examination report includes facts determined and conclusions made, 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 and proprietary information), are not included within the examination report, but separately communicated to other regulators and the company.

COMPANY HISTORY

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

Farmers Insurance Exchange (FIE) is an inter-insurance exchange owned by its policyholders and organized under the laws of the State of California. Through its 80 percent direct stock ownership interest of the company's capital stock, Farmers Insurance Exchange is the ultimate controlling person.

Farmers Group Inc. (FGI), a Nevada corporation and the attorney-in-fact for FIE, is a significant related person. Zurich Insurance Group, the ultimate shareholder of FGI, is neither an ultimate controlling person nor a significant related person.

Capitalization

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

In the prior examination, the company reported 26,000 shares issued and outstanding. Shares are owned by Farmers Insurance Exchange (20,800 shares, or 80 percent) and Truck Insurance

Exchange (5,200 shares, or 20 percent). During the period under examination, there were no changes in the company's capital stock or paid in and contributed surplus accounts.

Dividends to stockholders and other distributions

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

CORPORATE RECORDS

Board minutes

In general, the review of 2018 to 2021 board meeting minutes of the company indicated that the minutes support the transactions of the company and clearly describe the actions taken by its directors and officers. A quorum met at all of the meetings held during the period under review. The board met quarterly, and additional meetings were scheduled as necessary.

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

Articles of Incorporation

The company's restated Articles of Incorporation were most recently amended on May 4, 2011, and were not amended during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The company's bylaws were last restated on June 7, 2018, to change the size of the board of directors to no less than five and no more than nine directors. The bylaws conformed to Oregon statutes.

MANAGEMENT AND CONTROL

Board of directors

Management and control of the company was vested in a board of directors. The company's bylaws, in Section 11, states that the board shall be comprised of no less than five and no more than nine directors. Section 14 describes a quorum as a majority of the number of directors. As of Dec. 31, 2021, the company was governed by a five-member board of directors as follows:

<u>Name and address</u>	<u>Principal affiliation</u>	<u>Member since</u>
Alan R. Gildemeister Batavia, Illinois	President Metal Fabricating Equipment Business	2019
Gary R. Martin Monument, Colorado	President Commercial Real Estate Management Company	2019
Brady T. Pearson Portland, Oregon	Farmers Field Claims Manager Farmers	2019
Stacy A. Reierson Tigard, Oregon	Director Farmers contact center	2018
Ronald L. Marrone Pittsburg, Kansas	Wholesale Food Service Distributor	2014

The company's board met all of the requirements of ORS 732.305, which requires no fewer than five directors or one-quarter of the directors, whichever is fewer, be residents of Oregon. The directors, as a group, had experience in insurance, accounting, and management, in accordance with the provisions of ORS 731.386.

Officers

Principal officers serving as of Dec. 31, 2021, were as follows:

<u>Name</u>	<u>Office</u>
Keith G. Daly	President
Thomas S. Noh	Vice president and treasurer
Doreen E. Hohl	Secretary
Robert P. Howard	Vice president
James L. Nutting	Vice president and actuary

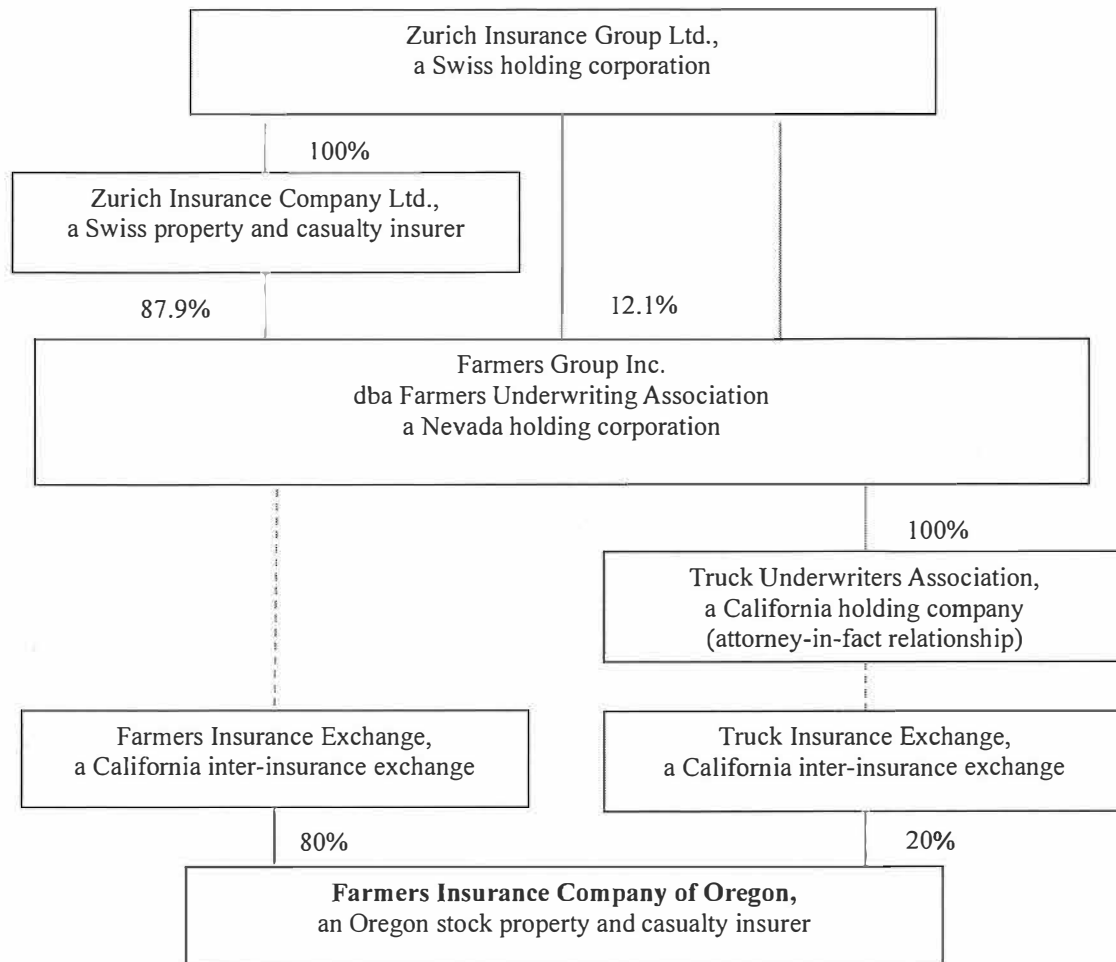
Conflict of interest

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

Insurance company holding system

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

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



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

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

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

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

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

INTERCOMPANY AGREEMENTS

Service agreement

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

Tax-sharing agreement

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

Revolving credit facility framework agreement (framework agreement)

Effective Jan. 25, 2017, the company became a signatory to the framework agreement. The Framework agreement provides for short-term loans to be executed on an as-needed basis between signatories to the agreement, all of who are affiliate insurers within the Farmers Insurance holding company system.

Agency agreement

Effective Dec. 9, 2021, the company entered into an agency agreement with FX Insurance Agency LLC. Under the terms of the agreement, general responsibilities are required of the agent on behalf of the company, including selling, soliciting, and servicing insurance for the company; recruiting and training agents; and providing personnel necessary to furnish professional insurance services and ancillary services. The agent bears full responsibility for persons or entities selling, soliciting, negotiating, or servicing insurance under the agent's authority. The agreement requires renegotiation between the parties at least every three years.

Agency agreement

Effective Oct. 6, 2021, the company entered into an agency agreement with Farmers General Insurance Agency. Under the terms of the agreement, general responsibilities are required of the agent on behalf of the company, including selling, soliciting, and servicing insurance for the company, recruiting and training agents, and providing personnel necessary to furnish professional insurance and ancillary services. The agent bears full responsibility for any person that sells, solicits, negotiates, or services insurance under the agent's authority. The agreement requires renegotiation between the parties at least every three years.

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. On Dec. 31, 2021, Farmers Group Inc., was covered for up to \$10 million per occurrence, \$20 million aggregate, after a \$1 million deductible, against losses from acts of dishonesty and fraud by its employees. This fidelity bond coverage met the coverage recommended by the NAIC. Other insurance coverages protect the company from fiduciary liability and director and officer liability in amounts that were determined to be sufficient.

TERRITORY AND PLAN OF OPERATION

As of Dec. 31, 2021, the company was authorized to write property, casualty including workers' compensation, marine, transportation, and surety business in Oregon. The company was also authorized to write business in California and Michigan. Direct premiums written in 2021 were:

California	\$ -
Michigan	-
Oregon	<u>269,035,586</u>
Total Direct Premium	<u>\$ 269,035,586</u>

The following is a breakdown of the direct premiums written in 2021:

<u>Line</u>	<u>Direct premium</u>	<u>Percentage</u>
Private passenger auto liability	\$ 154,977,630	57.60%
Auto physical damage	66,866,288	24.85%
Homeowners multiple peril	31,351,016	11.65%
Commercial multiple peril	9,135,394	3.40%
Other	<u>6,705,258</u>	<u>2.50%</u>
Total	<u>\$ 269,035,586</u>	<u>100.00%</u>

GROWTH OF THE COMPANY

Growth of the company over the past five years is reflected in the following schedule. Amounts were derived from the 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>
2017*	\$1,634,593,020	1,104,992,102	529,600,917	15,490,527
2018	1,660,081,505	1,098,476,643	561,604,862	28,881,031
2019	1,725,874,657	1,135,219,035	590,655,621	26,641,210
2020	1,752,885,579	1,145,744,477	607,141,102	13,214,871
2021*	1,913,674,501	1,304,873,631	608,800,870	(7,229,243)

*Per examination

LOSS EXPERIENCE

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

<u>Year</u>	<u>(1) Premium earned</u>	<u>(2) Losses and LAE incurred</u>	<u>(3) Other underwriting expenses incurred</u>	<u>(2)+(3)/(1) Combined ratio</u>
2017*	\$1,016,464,921	708,413,868	335,070,571	102.7%
2018	960,784,842	653,776,865	321,125,085	101.5%
2019	979,072,711	674,585,610	318,799,021	101.5%
2020	993,835,743	686,393,251	333,415,185	102.6%
2021*	1,089,709,651	800,174,836	336,010,738	104.3%

*Per examination

The company had net underwriting losses in each of the past five years, but were offset by investment gains that resulted in positive net income for four of the past five years under examination. The company reported a net loss of (\$7.2 million) at YE 2021, mainly due to a large net underwriting loss of (\$46.2 million).

REINSURANCE

Assumption agreement

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

Intercompany reinsurance and pooling agreement

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

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

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

Risk retention

The company did not retain risk on any one subject in excess of 10 percent 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 Dec. 31, 2021, 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.

However, during the course of the examination, the California Department of Insurance (CDI) experienced significant delays in obtaining access to various supporting documentation because the Farmers Insurance Group initially would not provide certain documentation and asserted the documentation was under the protection of the attorney-client privilege (ACP), which resulted in significant delays in the progress and timing of the completion of the examination. ORS 731.308 (2) states "Every person being examined or investigated shall produce all books, records, accounts, papers, documents and computer and other recordings in its possession or control relating to the matter under examination or investigation, including, in the case of an examination, the property, assets, business and affairs of the person."

ORS 731.308 (3) states " With regard to an examination, the officers, directors and agents of the person being examined shall provide timely, convenient and free access at all reasonable hours at the offices of the person being examined to all books, records, accounts, papers, documents and computer and other recordings. The officers, directors, employees and agents of the person must facilitate the examination."

I recommend the company provide future record requests timely to properly facilitate the examination in accordance with ORS 731.308(3). I further recommend the company provide all requested records in accordance with ORS 731.308(2).

ORS 731.302(1) states, “When the director of the Department of Consumer and Business Services determines that an examination should be conducted, the director shall appoint one or more examiners to perform the examination and instruct them as to the scope of the examination. In conducting the examination, each examiner shall consider the guidelines and procedures in the examiner handbook, or its successor publication, adopted by the National Association of Insurance Commissioners. The director may prescribe the examiner handbook or its successor publication and employ other guidelines and procedures that the director determines to be appropriate.”

The NAIC guidelines also includes compliance with the NAIC Annual Financial Reporting Model Regulation or Model Audit Rule (MAR). MAR Section 13, Paragraph B, and OAR 836-011-2220 (2) requires that “Every insurer required to file an audited financial report shall require the accountant to make available for review by Insurance Department examiners, all work papers prepared in the conduct of the accountant’s audit and any communications related to the audit between the accountant and the insurer, at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit work papers and communications until the Insurance Department has filed a report on examination covering the period of the audit but no longer than seven (7) years from the date of the audit report.”

OAR 836-011-0220(3) requires during a periodic review by the department examiners, photocopies of pertinent audit workpapers be made and retained by the Department of Consumer and Business Services.

In the process of authorizing the release of the external auditor's audit work papers, the group obtained the audit work-paper index of the archived workpapers from the external auditor. The Group initially declined to consent to the release of 13 workpapers listed on the index on the basis of attorney client privilege. All but one of the 13 were later provided.. The observed process of reviewing and approving the release of the audit work papers does not comply with MAR Section 13, Paragraph B, nor OAR 836-011-0220(2) and (3).

I recommend the company comply with MAR Section 13, Paragraph B, and OAR 836-011-0220(2) and (3) by not interfering with the requirements of the external auditors to provide the state examiners full access to the external work papers without company involvement.

MAR Section 15 (internal audit function requirements), Paragraphs B through D, require an insurer or group of insurers to establish an internal audit function providing independent, objective and reasonable assurance to the audit committee and insurer management regarding the insurer's governance, risk management and internal controls (Paragraph B).

To ensure that internal auditors remain objective, the internal audit function must be organizationally independent. Specifically, the internal audit function will not defer ultimate judgment on audit matters to others, and shall appoint an individual to head the internal audit function who will have direct and unrestricted access to the board of directors. Organizational independence does not preclude dual-reporting relationships (Paragraph C).

The head of the internal audit function shall report to the audit committee regularly, but no less than annually, on the periodic audit plan, factors that may adversely affect the internal audit function's independence or effectiveness, material findings from completed audits and the appropriateness of corrective actions implemented by management as a result of audit findings (Paragraph D).

During the course of the examination, it was determined that:

- The internal audit (IA) function performs a significant number of its audits of key activities under the protection of attorney-client privilege, with the audits being performed under the advisement of the legal counsel within the Office of the General Counsel (OGC);
- The IA reports prepared under the advisement of the legal counsel are not shared directly with the audit committee, but with the selected legal counsel from the OGC and senior management. IA shares with the audit committee a summary of all audit reports concluded during the quarter; and
- The Internal Controls over Financial Reporting (ICFR) function, which is responsible for testing controls in compliance with MAR regulations, is not aligned under IA, but is a centralized assurance unit within the companies' finance department, reporting directly to management, and therefore not an independent function, despite being responsible for internal control testing.

I recommend the company take the necessary steps to adjust the reporting structure for both internal audit and ICFR to comply with MAR Section 15, Paragraphs B through D per the requirements of ORS 731.302(1).

STATUTORY DEPOSIT

At year-end 2021, the company maintained deposits with the Oregon Division of Financial Regulation in the amount of \$1,518,950 (par value) for the purposes of complying with workers' compensation deposit requirements pursuant to ORS 731.628.

In addition, the company maintained deposits with the State of Michigan in the sum of \$2,129,871 (par value). These deposits were verified from the records of the Michigan Office of Finance and Insurance Regulation.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

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

SUBSEQUENT EVENTS

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

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the company with the Division of Financial Regulation and present the financial condition of the company for the period ending Dec. 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. These statements include:

- Statement of assets
- Statement of liabilities, surplus, and other funds
- Statement of income
- Reconciliation of capital and surplus since the last examination

FARMERS INSURANCE COMPANY OF OREGON
ASSETS
As of Dec. 31, 2021

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 1,592,125,300	\$ -	\$ 1,592,125,300	1
Cash, cash equivalents, and short-term investments	44,580,979	-	44,580,979	1
Other invested assets	25,729,975	-	25,729,975	1
Receivables for securities	<u>3,186</u>	<u>-</u>	<u>3,186</u>	
Subtotal, cash and invested assets	<u>1,662,439,441</u>	<u>\$ -</u>	<u>1,662,439,441</u>	
Investment income due and accrued	10,089,134	-	10,089,134	
Premiums and considerations				
Uncollected premiums, agents' balances in course of collection	12,744,018	-	12,744,018	
Deferred premiums, agents' balances and installments not yet due	179,183,963	-	179,183,963	
Accrued retrospective premiums and contracts subject to redetermination	72,404	-	72,404	
Reinsurance				
Amounts recoverable from reinsurers	13,455,727	-	13,455,727	
Net deferred tax assets	32,289,064	-	32,289,064	
Aggregate write-ins for other than invested assets	<u>3,400,751</u>	<u>-</u>	<u>3,400,751</u>	
Total assets	<u>\$ 1,913,674,501</u>	<u>\$ -</u>	<u>\$ 1,913,674,501</u>	

FARMERS INSURANCE COMPANY OF OREGON
LIABILITIES, SURPLUS, AND OTHER FUNDS
As of Dec. 31, 2021

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ 560,782,971	\$ -	\$ 560,782,971	2
Reinsurance payable on paid losses and loss adjustment expenses	67,185,351		67,185,351	
Loss adjustment expenses	151,963,295	-	151,963,295	2
Other expenses	689,221	-	689,221	
Taxes, licenses, and fees (excl. FIT)	416,397	-	416,397	
Unearned premiums	485,377,091	-	485,377,091	
Advance premium	12,176,249	-	12,176,249	
Ceded reinsurance premium payable	15,830,144	-	15,830,144	
Payable to parent, subsidiaries, and affiliates	359,368	-	359,368	
Payable for securities	-	-	-	
Aggregate write-ins for liabilities	<u>10,093,543</u>	<u>-</u>	<u>10,093,543</u>	
	\$			
Total liabilities	<u>1,304,873,631</u>	<u>\$ -</u>	<u>\$ 1,304,873,631</u>	
Common capital stock	\$ 2,600,000	\$ -	\$ 2,600,000	
Gross paid-in and contributed capital	266,550,000	-	266,550,000	
Unassigned funds (surplus)	<u>339,650,870</u>	<u>-</u>	<u>339,650,870</u>	
Surplus as regards policyholders	<u>\$ 608,800,870</u>	<u>-</u>	<u>\$ 608,800,870</u>	
	\$			
Total liabilities, surplus, and other funds	<u>1,913,674,501</u>	<u>\$ -</u>	<u>\$ 1,913,674,501</u>	

FARMERS INSURANCE COMPANY OF OREGON
STATEMENT OF INCOME
For the year ended Dec. 31, 2021

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ 1,089,709,651	\$ -	\$ 1,089,709,651	
Deductions				
Losses incurred	700,019,546	-	700,019,546	
Loss adjustment expenses incurred	100,153,269	-	100,153,269	
Other underwriting expenses	336,010,738	-	336,010,738	
Aggregate write-ins for underwriting deductions	<u>(253,002)</u>	<u>-</u>	<u>(253,002)</u>	
Total underwriting deductions	<u>1,135,930,551</u>	<u>-</u>	<u>1,135,930,551</u>	
Net underwriting gain or (loss)	(46,220,901)	-	(46,220,901)	
Investment income				
Net investment income earned	36,263,873	-	36,263,873	
Net realized gains or (losses)	<u>2,435,937</u>	<u>-</u>	<u>2,435,937</u>	
Net investment gain or (loss)	38,699,810	-	38,699,810	
Other income				
Net gain or (loss) from agents' or premium balances charges off	(4,497,029)	-	(4,497,029)	
Finance and service charges not included in premiums	10,895,078	-	10,895,078	
Aggregate write-ins for miscellaneous income	<u>(5,660,082)</u>	<u>-</u>	<u>(5,660,082)</u>	
Total other income	<u>737,966</u>	<u>-</u>	<u>737,966</u>	
Net income before dividends to policyholders and income taxes	(6,783,124)	-	(6,783,124)	
Dividends to policyholders	74,276	-	74,276	
Federal income taxes incurred	<u>371,842</u>	<u>-</u>	<u>371,842</u>	
Net income	<u>\$ (7,229,243)</u>	<u>\$ -</u>	<u>\$ (7,229,243)</u>	

FARMERS INSURANCE COMPANY OF OREGON
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION
For the year ended Dec. 31,

	2021	2020	2019	2018
Surplus as regards policyholders, Dec. 31, previous year	<u>\$607,141,102</u>	<u>\$590,655,621</u>	<u>\$561,604,862</u>	<u>\$529,600,917</u>
Net income (loss)	(7,229,243)	13,214,871	26,641,210	28,881,031
Change in net unrealized capital gains or (losses)	4,073,686	1,186,230	478,419	669,359
Change in net deferred income tax	3,635,237	1,447,977	1,947,659	(786,486)
Change in non-admitted assets	1,134,363	833,383	(14,622)	3,185,751
Change in provision for reinsurance	-	-	-	-
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>45,725</u>	<u>(196,979)</u>	<u>(1,908)</u>	<u>54,291</u>
Change in surplus as regards policyholders for the year	<u>1,659,768</u>	<u>16,485,481</u>	<u>29,050,759</u>	<u>32,003,945</u>
Surplus as regards policyholders, Dec. 31, current year	<u>\$608,800,870</u>	<u>\$607,141,102</u>	<u>\$590,655,621</u>	<u>\$561,604,862</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested assets

At year-end 2021, the company's long-term bond investments were diversified in U.S. obligations, U.S. special revenue bonds, municipal obligations, and industrial and miscellaneous. The company had an exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2021, and the carrying book value comprised 15.6 percent of the total long-term bond portfolio, or 15.3 percent of all invested assets.

Cash consisted of cash on deposit. Short-term investments consisted of one U.S. treasury bill purchased on Dec. 30, 2021 and maturing on June 30, 2022. Other invested assets consisted of one affiliated limited partnership. The company did not hold any cash equivalents at year-end 2021.

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

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total assets</u>	<u>Ratio</u> <u>B/</u> <u>Total assets</u>
2017*	\$1,378,997,231	24,130,318	84.4%	1.5%
2018	1,397,687,483	17,976,648	84.2%	1.1%
2019	1,397,616,812	50,660,768	81.0%	2.9%
2020	1,450,893,626	55,606,120	82.8%	3.2%
2021*	1,592,125,300	44,580,979	83.2%	2.3%

* Balance per examination

The board of directors ratified the investment transactions in each of the years under review, in compliance with ORS 733.730. As of Dec. 31, 2021, sufficient assets were invested in amply secured obligations of the U.S., the State of Oregon, or in FDIC insured cash deposits, and the company was in compliance with ORS 733.580.

Effective June 4, 2007, the company entered into a custodial agreement with JP Morgan Chase Bank NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (1).

Note 2 – Actuarial reserves

The California Department of Insurance (CDI) retained Risk and Regulatory Consulting Inc. (RRC), including Dave Heppen, FCAS, MAAA, supported by Jennifer Balester, FCAS, MAAA and Joan Klucarich, FCAS, MAAA, to determine the reasonableness of the Farmers Insurance Exchange Group's loss and loss adjustment reserves. As part of their review, they examined the actuarial report and supporting statements as of Dec. 31, 2021, prepared by James L. Nutting, FCAS, MAAA, chief actuary of the Farmers Group Inc. who prepared the company's actuarial

report and opinion. Based on the analysis performed by RRC, and a peer review of their work by a casualty actuary from the CDI, the group's reserves for loss and loss adjustment expenses were found to be reasonably stated.

David Dahl, FCAS, MAAA, property/casualty actuary for the Oregon Division of Financial Regulation, peer reviewed the actuarial review performed by the risk and regulatory consulting actuaries and their assessment of the liabilities established as of the Dec. 31, 2021. Mr. Dahl's review noted that the assessment of the company's pricing and reserving risk were reasonable and the assumptions and methodologies used were reasonable. Therefore, the company's liability for losses and loss adjustment expenses was found to be reasonably stated as of Dec. 31, 2021.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the company's surplus as a result of this examination. The following is a summary of the recommendations made in this report of examination:

Page

- 18 I recommend the company provide all record requests, and provide them in a timely manner to properly facilitate the examination in accordance with the provisions of ORS 731.308(2) and ORS 731.308(3), respectively.
- 19 I recommend the company comply MAR Section 13, Paragraph B, and OAR 836-011-0220(2) and (3) by not interfering with the requirements of the external auditors to provide the state examiners full access to the external work papers without company involvement.
- 20 I recommend the company take the necessary steps to adjust the reporting structure for both Internal Audit and ICFR to comply with MAR Section 15, Paragraphs B through D, per the requirements of ORS 731.302(1).

CONCLUSION

During the four-year period covered by this examination, the surplus of the company has increased from \$529,600,917 as presented in the Dec. 31, 2017, report of examination, to \$608,800,870 as shown in this report of examination. The comparative assets and liabilities are:

	<u>2021</u>	Dec. 31, <u>2017</u>	<u>Change</u>
Assets	\$ 1,913,674,501	\$1,634,593,020	\$279,081,481
Liabilities	<u>\$1,304,873,631</u>	<u>\$1,104,992,102</u>	<u>\$199,881,529</u>
Surplus	<u>\$608,800,870</u>	<u>\$529,600,917</u>	<u>\$79,199,953</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, PIR, senior insurance examiner; Jordan Mills, AFE, insurance examiner; David Lorenz, APIR, insurance examiner; and David Dahl, FCAS, MAAA, property and casualty actuary, for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, participated in the examination. In addition, examiners and contractors representing the California Department of Insurance participated and their cooperation during this coordinated examination is greatly appreciated.

Respectfully submitted,

/s/ Mark A. Giffin

Mark A. Giffin, CFE

Senior Insurance Examiner – EIC

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 Farmers Insurance Company of Oregon, Tigard, Oregon.
2. The Division of Financial Regulation of the Department of Consumer and Business Services of the State of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of Farmers Insurance Company of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Mark A. Giffin

Mark A. Giffin, CFE

Senior Insurance Examiner – EIC

Division of Financial Regulation

Department of Consumer and Business Services

State of Oregon

Subscribed and sworn to before me this 26th day of October, 2023.

/s/ Janet A. Vitus

Notary Public for the

State of Oregon

My Commission Expires: Nov. 21, 2026