

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



REPORT OF FINANCIAL EXAMINATION

OF

NORTH PACIFIC INSURANCE COMPANY
PORTLAND, OREGON

AS OF

DECEMBER 31, 2018

FILED 8/26/2020 *GA*
DEPT. CONSUMER & BUSINESS SERVICES
INSURANCE DIVISION

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

DIVISION OF FINANCIAL REGULATION

REPORT OF FINANCIAL EXAMINATION

OF

**NORTH PACIFIC INSURANCE COMPANY
PORTLAND, OREGON**

NAIC COMPANY CODE 23892

AS OF

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TABLE OF CONTENTS

SALUTATION	3
SCOPE OF EXAMINATION	4
COMPANY HISTORY	5
CORPORATE RECORDS	6
MANAGEMENT AND CONTROL	6
INTERCOMPANY AGREEMENTS	12
FIDELITY BOND AND OTHER INSURANCE	13
TERRITORY AND PLAN OF OPERATION	13
GROWTH OF THE COMPANY	14
REINSURANCE	15
ACCOUNTS AND RECORDS	17
STATUTORY DEPOSIT	17
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS	17
SUBSEQUENT EVENTS	18
FINANCIAL STATEMENTS	18
ASSETS	19
LIABILITIES, SURPLUS AND OTHER FUNDS	20
STATEMENT OF INCOME	21
RECONCILIATION OF SURPLUS SINCE THE LAST EXAMINATION	22
NOTES TO FINANCIAL STATEMENTS	23
<i>Note 1 – Invested Assets</i>	23
<i>Note 2 – Actuarial Reserves</i>	24
SUMMARY OF COMMENTS AND RECOMMENDATIONS	24
CONCLUSION	25
ACKNOWLEDGMENT	26
AFFIDAVIT	27

SALUTATION

May 26, 2020

Honorable Andrew Stolfi, Director
Department of Consumer and Business Services
Division of Financial Regulation
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

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

**NORTH PACIFIC INSURANCE COMPANY
One Liberty Centre
650 NE Holladay Street
Portland, Oregon 97232**

NAIC Company Code 23892

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

SCOPE OF EXAMINATION

We have performed our regular, multi-state, full-scope examination of North Pacific Insurance Company, together with its affiliates, Safeco Insurance Company of Oregon and Oregon Automobile Insurance Company, and the Company's direct parent, Liberty Northwest Insurance Corporation. There will be a separate report of financial examination prepared for each company. The examination was coordinated with the insurers in the Liberty Mutual Group, with the State of Massachusetts designated as the lead state. The last examination of this property and casualty insurer was completed as of December 31, 2013. This examination covers the period of January 1, 2014, to December 31, 2018.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, as mentioned in ORS 731.302 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and the Company.

COMPANY HISTORY

The Company was incorporated in Oregon on June 26, 1958, and received a Certificate of Authority on July 1, 1958. It was formed as a subsidiary of Oregon Automobile Insurance Company. Its original Certificate of Authority authorized the Company to transact property, casualty (including workers' compensation), marine & transportation, and surety lines.

The Company was part of the Liberty Mutual Agency Corporation strategic business unit (LMAC SBU) within the Liberty Mutual Group. LMAC merged into the Commercial Insurance SBU. After internal reorganizations, the business written by the statutory entities in the Liberty Mutual Insurance Company (LMIC) Pool includes the following internal business units (SBU's): Global Retail Markets (GRM) and Global Risk Solutions (GRS). As described in the Reinsurance section below, effective January 1, 2013, the Company ceded all of its risks to the lead insurer, Liberty Mutual Insurance Company (LMIC) and was retroceded (0%) zero percent of the pooled business.

Capitalization

Under Article III of the Article of Incorporation, the Company is authorized to issue 20,000 shares of common stock of \$260 par value common stock. The Company has issued 11,539 shares to its

direct parent, LNW, representing 100% of the shares outstanding. No additional capital was contributed to the Company during the period under examination.

Dividends to Stockholders and Other Distributions

The Company has not declared nor paid any dividends or made any distributions to its parent during the period under examination.

CORPORATE RECORDS

Board Minutes

In general, the review of the 2018 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

The Company's restated Articles of Incorporation were most recently amended on February 8, 2002. The Articles of Incorporation conformed to the Oregon Insurance Code.

Bylaws

The Company's Bylaws were last restated on September 1, 2007. 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 2 of the Company's Bylaws designates that the Board shall be comprised of not less than five

members, the exact number thereof to be fixed by resolution. As of December 31, 2018, the Company was governed by a twelve member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Michael John Cronan Beaverton, Oregon	Senior Personal Lines Underwriting Manager Liberty Mutual Group Inc.	2018
Matthew Paul Dolan Avon, Connecticut	President, North America Specialty Liberty Mutual Group Inc.	2018
Alison Brooke Erbig Stoneham, Massachusetts	Senior VP, Comptroller Liberty Mutual Group Inc.	2015
Michael Joseph Fallon Bedford, Massachusetts	President, National Insurance Liberty Mutual Group Inc.	2018
Julie Marie Haase Boston, Massachusetts	CFO, Global Retail Markets Liberty Mutual Group Inc.	2018
Mark Richard Harmon Lake Oswego, Oregon	Sr. Complex Claims Resolution Specialist Liberty Mutual Group Inc.	2018
James Michael MacPhee Boston, Massachusetts	President and Chief Operating Officer, Global Retail Markets US Liberty Mutual Group Inc.	2018
Sean Bulman McSweeney Ashland, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.	2018
Joseph Lee Meils West Linn, Oregon	Division Underwriting Manager Liberty Mutual Group Inc.	2018
Elizabeth Julia Morahan Newton, Massachusetts	Deputy General Counsel Liberty Mutual Group Inc.	2014
Francis William Robinson, Jr. North Andover, Massachusetts	CFO, Global Risk Solutions Liberty Mutual Group Inc.	2018
Mark Charles Touhey * Scituate, Massachusetts	SVP, Corporate Secretary and Chief of Staff Liberty Mutual Group Inc.	2015

*Chairman

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

Officers

Principal officers serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
James Michael MacPhee	President & CEO
Christopher Locke Peirce	Executive Vice President and CFO
Laurance Henry Soyer Yahia	Treasurer and Senior Vice President
Mark Charles Touhey	Secretary and Senior Vice President
James Francis Kelleher	Chief Legal Officer and Executive Vice President
Neeti Bhalla Johnson	Chief Investment Officer and Executive Vice President
Alison Brooke Erbig	Comptroller and Senior Vice President

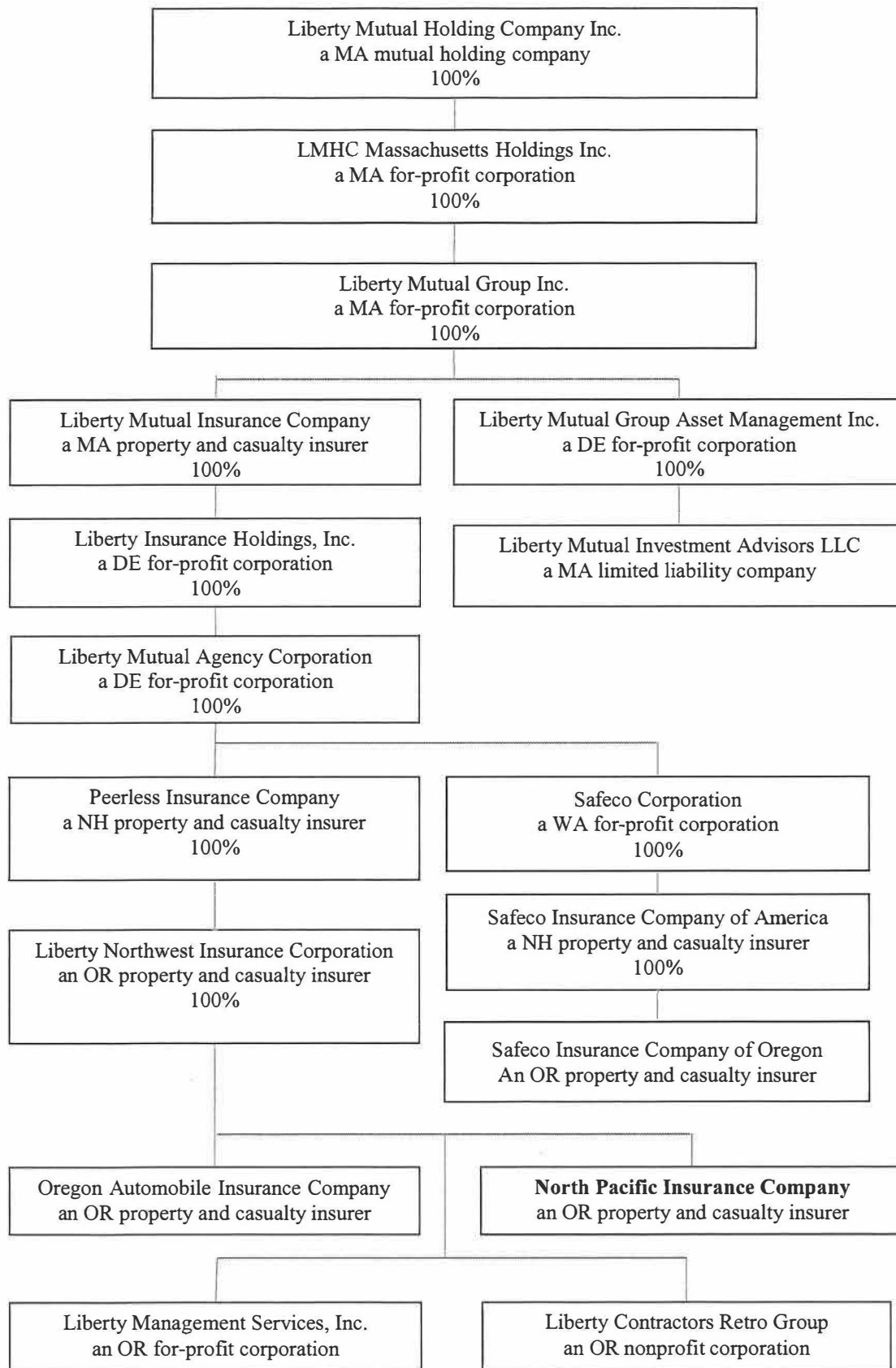
Conflict of Interest

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

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). The following condensed organizational chart depicts the relationships of the Company within the holding company system:



A description of each of the entities above 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, 100% owned by LMG.
- 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 holding company 100% owned by LMIC.
- Liberty Mutual Agency Corporation. (LMAC), a Delaware stock for-profit corporation 100% owned by LIH.
- Safeco Corporation (SC), a Washington 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.
- Safeco Insurance Company of Oregon (SICO), an Oregon property and casualty insurance company 100% owned by SICA.
- Peerless Insurance Company (PIC), a New Hampshire stock property and casualty insurance company 100% owned by LMAC.
- Liberty Northwest Insurance Corporation (LNW), an Oregon stock property and casualty insurance company 100% owned by PIC. LNW owns 100% of the outstanding shares of the Company's common stock and is the direct parent. LNW owns the following subsidiaries, all 100% owned:

- Oregon Automobile Insurance Company (OAIC), 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.

INTERCOMPANY AGREEMENTS

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

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.

Tax Sharing Agreement

On January 1, 2002, the company joined Liberty Mutual Holding Company, Inc., (LMHC) in a tax-sharing agreement. 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. 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

The Company was covered against losses through a fidelity bond with a single loss limit of \$15,000,000 with a single loss limit deductible of \$50,000,000. This coverage met the amounts recommended by the NAIC. An endorsement of the policy defined any subsidiary of Liberty Mutual Holding Company to be an insured. The Company is insured under a commercial umbrella liability policy with a limit of \$25,000,000 and a self-insurance retention of \$100,000. Other major insurance coverages in force included commercial general liability, financial institution bond, and workers' compensation. All coverages appeared adequate as of December 31, 2018.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was authorized to write property and casualty excluding workers' compensation in the State of Oregon. The Company was also authorized to write

business in Alaska, Idaho, Montana, Utah and Washington. During the period under examination, the Company wrote property and casualty business, including a comprehensive set of commercial coverages through independent agents. At December 31, 2018, the Company wrote direct premiums in four of the six states in which it is licensed, as follows:

<u>State</u>	<u>Direct Premiums Written</u>	<u>Percentage</u>
Alaska	\$ -	-
Idaho	10,554,572	20.6%
Montana	5,280,196	10.3%
Oregon	21,482,669	41.8%
Utah	-	-
Washington	13,991,827	27.3%
Total	<u>\$ 51,309,264</u>	<u>100.0%</u>

The following is a breakdown of the direct premiums written in 2018:

<u>Lines of Business</u>	<u>Premium</u>	<u>Percentage</u>
Fire	\$ 25,791	0.1%
Allied lines	16,279	0.0%
Farm owners multi-peril	25,459,645	49.6%
Commercial multi-peril	4,513,871	8.8%
Inland marine	2,281,810	4.4%
Earthquake	502	0.0%
Other liability – occurrence	3,368,741	6.6%
Products liability – occurrence	45,835	0.1%
Commercial auto liability	10,950,902	21.3%
Auto physical damage	4,645,159	9.1%
Burglary and theft	728	0.0%
Totals	<u>\$ 51,309,263</u>	<u>100.0%</u>

GROWTH OF THE COMPANY

Growth of the Company over the past five years is reflected in the following schedule. Amounts were derived from Company's annual statements, except in those years where a report of examination was published by the Oregon Division of Financial Regulation.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2014	\$ 13,160,366	\$ 5,442,408	\$ 7,717,958	\$ 51,586
2015	7,837,349	45,984	7,791,365	75,408
2016	8,058,787	185,642	7,873,146	82,781
2017	8,498,232	537,143	7,961,090	87,943
2018*	8,505,856	425,390	8,080,467	121,377

*Per examination

All business was 100% ceded to Liberty Mutual Insurance Company, the lead insurer in the pool, pursuant to the second amended and restated intercompany reinsurance agreement, which resulted in \$0 net underwriting gains for the entire examination period.

REINSURANCE

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.

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 retrocedes 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>

Risk Retention

The Company did not retain risk on any one subject in excess of 10% of its surplus as regards policyholders. The Company complied with the provisions of ORS 731.504.

Insolvency Clause

The reinsurance agreements each contained an insolvency clause that specified payments would be made to a statutory successor without diminution in the event of insolvency in compliance with ORS 731.508(3).

The lead company in the intercompany pooling arrangement, LMIC, recorded the effects of nonaffiliated external assumed reinsurance, on a net basis. As a result, the individual pool participants (other than LMIC) are incorrectly recording its assumed underwriting results on a net basis whereby each participant's portion of premiums, losses, expenses and other operations in the pool are improperly reported in its financial statements. This accounting practice is in violation of SSAP No. 62R, paragraph 20, SSAP No. 63, paragraph 8, and ORS 731.574(1).

I recommend the lead company record all external assumed reinsurance on a gross basis for all companies that participate in the pool, including the Company, in accordance with the provisions of SSAP No. 62R, paragraph 20, SSAP No. 63, paragraph 8, and ORS 731.574(1).

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2018, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

However, the Company did not file its 2018 Annual Statement accurately or completely. The incorrect or incomplete disclosures are in violation with ORS 731.574 and OAR 836-011-0000.

I recommend the company file its annual and quarterly financial statements accurately and completely in accordance with the requirements of ORS 731.574 and OAR 836-011-0000.

STATUTORY DEPOSIT

The Company has a deposit with the Oregon Division of Financial Regulation, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604 and 731.628. The deposit consisted of US Treasury Notes with a par value of \$1,236,000. The deposits were properly disclosed on Schedule E – Part 3 of the 2018 Annual Statement.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no comments or recommendations made from the prior report of examination.

SUBSEQUENT EVENTS

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

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Division of Financial Regulation and present the financial condition of the Company for the period ending December 31, 2018. 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

NORTH PACIFIC INSURANCE COMPANY
ASSETS
As of December 31, 2018

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 7,853,800	\$ -	\$ 7,853,800	1
Cash, cash equivalents and short-term investments	203,210		203,210	1
Securities lending invested collateral assets	409,680		409,680	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>8,466,690</u>	<u>\$ -</u>	<u>8,466,690</u>	
Investment income due and accrued	39,059	-	39,059	
Receivable from parent, subsidiaries and affiliates	107		107	
Aggregate write-ins for other than invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$ 8,505,856</u>	<u>\$ -</u>	<u>\$ 8,505,856</u>	

**NORTH PACIFIC INSURANCE COMPANY
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2018**

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ -	\$ -	\$ -	2
Loss adjustment expenses	-	-	-	2
Other expenses	-	-	-	
Current FIT payable	7,723	-	7,723	
Net deferred tax liability	5,000	-	5,000	
Payable to parent, subsidiaries and affiliates	2,987	-	2,987	
Payable for securities	409,680	-	409,680	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$ 425,390</u>	<u>\$ -</u>	<u>\$ 425,390</u>	
Common capital stock	\$ 3,000,140	\$ -	\$ 3,000,140	
Gross paid-in and contributed capital	178,204	-	178,204	
Unassigned funds (surplus)	<u>4,902,123</u>	<u>-</u>	<u>4,902,123</u>	
Surplus as regards policyholders	<u>8,080,467</u>	<u>-</u>	<u>8,080,467</u>	
Total Liabilities, Surplus and other Funds	<u>\$ 8,505,857</u>	<u>\$ -</u>	<u>\$ 8,505,857</u>	

NORTH PACIFIC INSURANCE COMPANY
STATEMENT OF INCOME
For the Year Ended December 31, 2018

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting income				
Premium earned	\$ -	\$ -	\$ -	
Deductions				
Losses incurred	-	-	-	
Loss adjustment expenses incurred	-	-	-	
Other underwriting expenses	-	-	-	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Net underwriting gain or (loss)	-	-	-	
Investment income				
Net investment income earned	150,377	-	150,377	
Net realized gains or (losses)	<u>-</u>	<u>-</u>	<u>-</u>	
Net investment gain or (loss)	150,377	-	150,377	
Other income				
Net gain or (loss) from agents' or premium balances charges off	-	-	-	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	<u>-</u>	<u>-</u>	<u>-</u>	
Total other income	<u>-</u>	<u>-</u>	<u>-</u>	
Net income before dividends to policyholders and income taxes	<u>150,377</u>	-	<u>150,377</u>	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>29,000</u>	<u>-</u>	<u>29,000</u>	
Net income	<u>\$ 121,377</u>	<u>\$ -</u>	<u>\$ 121,377</u>	

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

	2018	2017	2016	2015	2014
Surplus as regards policyholders, December 31, previous year	<u>\$ 7,961,090</u>	<u>\$ 7,873,147</u>	<u>\$ 7,791,366</u>	<u>\$ 7,717,958</u>	<u>\$ 7,665,372</u>
Net income (loss)	121,377	87,943	82,871	75,408	51,586
Change in net unrealized capital gains or (losses)	-	-	-	-	-
Change in net deferred income tax	(2,000)	-	(1,000)	(2,000)	1,000
Change in non-admitted assets	-	-	-	-	-
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	-	-	-	-	-
Change in surplus as regards policyholders for the year	<u>119,377</u>	<u>87,943</u>	<u>81,781</u>	<u>73,408</u>	<u>52,586</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 8,080,467</u>	<u>\$ 7,961,090</u>	<u>\$ 7,873,147</u>	<u>\$ 7,791,366</u>	<u>\$ 7,717,958</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

At year-end 2018, the Company's long-term bond investments were in US Treasury obligations and a moderate amount of residential mortgage backed securities. The MBS issues were all investment rated, with a carrying book value of \$2.9 million, which comprised 37.7% of both the long-term bond portfolio and all invested assets.

Cash and short-term deposits consisted of one money market mutual fund. The Company also recorded securities lending reinvested collateral assets comprised of cash and cash equivalents.

A comparison of the major investments over the past five years is as follows:

<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>
2014	\$ 7,589,699	\$ 107,641	57.6%	0.8%
2015	7,645,793	132,039	97.5%	1.7%
2016	7,712,393	127,151	95.7%	1.6%
2017	7,867,626	78,168	92.6%	0.9%
2018*	7,853,800	203,210	92.3%	2.4%

*Balance per examination.

The Board of Directors approved the investment transactions pursuant to ORS 733.730. As of December 31, 2018, sufficient invested assets were invested in amply secured obligations of the United States, the State of Oregon, or in FDIC insured cash deposits, and the Company was in compliance with ORS 733.580.

The Company entered into a global custody agreement with JP Morgan Chase, NA, dated January 10, 2002. An Oregon rider was executed on January 20, 2009, to comply with the protections required in OAR 836-027-0200 (4)(a) through (l).

The Company participates in a Securities Lending Program to generate additional income. Borrowers of those securities provide collateral equal to or in excess of 102% of the market value of the loaned securities. Cash collateral is carried as an asset with an offsetting liability on the balance sheet. At December 31, 2018, the total fair value of securities on loan was \$409,680, with corresponding collateral value of \$409,680 of which \$409,680 represents cash collateral that was reinvested.

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. Stephanie A. Neyenhouse, FCAS, MAAA, VP & Chief Actuary for Liberty Mutual Group, Inc., prepared the LMIC actuarial report and opinion.

David F. Dahl, FCAS, MAAA, Oregon Division of Financial Regulation 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. Lisa Chanzit, FCAS, MAAA, of Risk and Regulatory Consulting, prepared the reserving section of the LMIC financial examination report for the Massachusetts Division of Insurance. The financial examination report indicates the combined LMIC pool reported a deficiency of \$719 million from the central estimate on a direct plus assumed basis, which is less than 2% of the reported loss and LAE reserves of \$20.1 billion and approximately 4.4% of the statutory surplus of \$16.3 billion as of December 31, 2018. The appointed actuary's report showed a redundancy of \$24 million to the central estimate, or less than 0.1% of the net loss and LAE reserves before intercompany pooling. Neither amount was considered material and the Company's reserves were accepted as stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination. The following is a summary of the recommendations made as a result of this examination.

Page:

- 17 I recommend the lead company record all external assumed reinsurance on a gross basis for all companies that participate in the pool, including the Company, in accordance with the provisions of SSAP No. 62R, paragraph 20, SSAP No. 63, paragraph 8, and ORS 731.574(1).
- 17 I recommend the company file its annual and quarterly financial statements in accordance with the requirements of ORS 731.574(1) and OAR 836-011-0000.

CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from \$7,665,372 as presented in the December 31, 2013 report of examination, to \$8,080,467, as shown in this report. The comparative assets and liabilities are:

	<u>2018</u>	December 31, <u>2013</u>	<u>Change</u>
Assets	\$ 8,505,856	\$ 12,142,289	\$ (3,636,433)
Liabilities	<u>425,390</u>	<u>4,476,917</u>	<u>4,051,527</u>
Surplus	<u>\$ 8,080,467</u>	<u>\$ 7,665,372</u>	<u>\$ 415,095</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, insurance examiner, and David Dahl, FCAS, MAAA, Property & Casualty Actuary for the State of Oregon, Department of Consumer and Business Services, Division of Financial Regulation, all participated in this examination.

Respectfully submitted,

/s/ Mark A. Giffin

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

AFFIDAVIT

STATE OF OREGON)

County of Marion)

Mark A. Giffin, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of North Pacific Insurance Company, Portland, 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 North Pacific Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

/s/ Mark A. Giffin _____

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

Subscribed and sworn to before me this 29 ___ day of June _____, 2020.

/s/ Lauren Bodine _____
Notary Public in and for the State of _____

Oregon My Commission Expires: 2022 _____

