



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**FARMERS INSURANCE COMPANY OF OREGON
HILLSBORO, OREGON**

NAIC CODE 21636

DECEMBER 31, 2009

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SALUTATION

February 28, 2011

Joseph Torti, III
Deputy Director and Superintendent of Insurance
Chairman, NAIC Financial Condition (E) Committee
Rhode Island Division of Banking Regulation
Division of Insurance
1511 Pontiac Avenue
Cranston, RI 02920

Honorable Monica J. Lindeen, Commissioner
Secretary, NAIC Western Zone IV
Montana Dept. of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Scott Harra, Acting Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Superintendent, Commissioner and 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

FARMERS INSURANCE COMPANY OF OREGON
23175 NW Bennett Street
Hillsboro, Oregon 97124

NAIC Company Code 21636

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

SCOPE OF EXAMINATION

We have performed our multi-state examination of Farmers Insurance Company of Oregon. The examination was conducted as part of the coordinated examination of the underwriting pool of the Farmers Group, Inc., under the lead of the California Department of Insurance. The last examination of the Oregon domestic insurer was completed as of December 31, 2006. This examination covers the period of January 1, 2007, to December 31, 2009.

We conducted our examination pursuant to ORS 731.300 and in accordance with 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 and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process.

COMPANY HISTORY

Farmers Insurance Company of Oregon was incorporated in 1970 as a for-profit stock property and casualty insurance company under the laws of the Oregon Insurance Code. It received its Certificate of Authority on September 15, 1970, authorizing the Company to transact property, casualty (excluding workers' compensation), marine and transportation,

and surety business. An amended Certificate of Authority was issued on December 23, 1987, adding authority to transact workers' compensation.

In December 1988, British American Tobacco Industries, plc (B.A.T.), acquired 100% ownership of Farmers Insurance Group (including the Company) through its wholly owned American subsidiary, BATUS Financial Services. BATUS Financial Services was then merged with and into Farmers Group, Inc.

In September 1998, the financial services businesses of B.A.T., including the Company, were acquired by Zurich Insurance Company through a dual holding company structure. The entity was renamed Zurich Financial Services Group. In October 2000, this structure was simplified under a single holding company based in Switzerland.

Capital Stock

Article II of the Company's Restated Articles of Incorporation authorized the Company to issue 100,000 shares of common stock with a par value of \$100 per share. The examiners prepared a stock register from copies of the outstanding common capital stock certificates, as follows:

Certificate Number	Date Issued	Common Shares	Capital Stock	Owner
4	2/28/1992	8,000	\$ 8,000	Farmers Insurance Exchange
5	6/23/1995	12,800	128,000	Farmers Insurance Exchange
9	12/27/2001	2,600	26,000	Truck Insurance Exchange
10	9/30/2008	<u>2,600</u>	<u>26,000</u>	Truck Insurance Exchange
Total		<u>26,000</u>	<u>\$2,600,000</u>	

On September 30, 2008, Truck Insurance Exchange purchased an additional 10% ownership interest from Farmers Insurance Exchange for \$43 million, with settlement made through cash and pledged securities during the fourth quarter of 2008. During the period under examination, there was no change in the Company's paid in and contributed surplus account.

Dividends to Stockholders and Other Distributions

From 2006 to 2009, the Company declared and paid dividends to its stockholder as follows:

<u>Declared Date</u>	<u>Paid Date</u>	<u>Amount</u>	<u>Description</u>
5/29/2007	6/15/2007	\$40,000,000	Ordinary

The financial analyst noted the dividend was reported to the Director of DCBS within five business days of declaration, as required by ORS 732.554 and OAR 836-027-0170(2). The dividend was approved by the Oregon Insurance Division.

Surplus Notes

In December 2003, the Company issued surplus notes in the amount of \$87.5 million to Farmers New World Life Insurance Company, an affiliate, at an interest rate of 6.15% with a due date of December 31, 2013. On October 10, 2005, the surplus note was transferred to Farmers Group, Inc., and transferred again to Zurich Group Holdings on November 21, 2005. On June 30, 2008, the surplus note was assigned by Zurich Group Holdings to Zurich American Insurance Company. Interest on the notes total \$2,690,625 semi-annually, with no principal payments due until maturity. Six interest payments amounting to \$16,143,750 were made during the period under examination and each were properly approved by the director pursuant to ORS 732.576(1) and OAR 836-027-0170.

CORPORATE RECORDS

Board Minutes

In general, the review of the Board meeting minutes of the Company, as well as the executive and finance committees authorized by the Board, indicated the minutes support the transactions of the Company and clearly describe the actions taken by its directors and officers. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review.

The Board approved investments at each annual meeting and monitored the investment guidelines as needed in accordance with ORS 733.730. The Board's executive committee approved officer salaries annually, pursuant to ORS 732.320(3).

Articles of Incorporation

The restated Articles of Incorporation were filed with the Oregon Insurance Division on June 23, 1995. No changes were made during the period under examination. The Articles of Incorporation conformed to the Oregon Insurance code.

Bylaws

The Company's Bylaws were adopted on August 21, 1970, and restated twice; once in 1981 and again in 1986. The Bylaws were not amended during the period under examination. The Bylaws conformed to Oregon statutes.

Statutory Deposit

At year-end 2009, the Company maintained deposits with the Oregon Insurance Division in the amount of \$2,665,000 (par value) for the purposes of complying with workers' compensation deposit requirements pursuant to ORS 731.628.

In addition, the Company maintained deposits in the State of Michigan in the sum of \$1,737,000 (par value). These deposits were verified from the records of the Michigan Office of Finance and Insurance Regulation.

MANAGEMENT AND CONTROL

Board of Directors

Management and control of the Company was vested in a Board of Directors. The Company's Bylaws, Section 11, stated that the Board shall be comprised of seven (7)

members. Section 14 described a quorum as a majority of the number of directors. The Company's Board met all of the requirements of ORS 732.305. As of December 31, 2009, the Company was governed by a seven member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Darrell M. Brown Portland, OR	Division Marketing Manager Farmers Insurance Company of Oregon	2008
Steven B. Dawson Camas, WA	HRS Operations Manager Farmers Insurance Company of Oregon	2004
Stephen E. Ferdinand Tigard, OR	Commercial Center Manager Farmers Insurance Company of Oregon	2008
James A. Ignozzitto Beaverton, OR	President Farmers Insurance Company of Oregon	2007
Ronald G. Myhan Laguna Beach, CA	Exec. VP and Treasurer Farmers Insurance Group	2008
Joseph F. Storment Tigard, OR	Customer Advocate Manager Farmers Insurance Company of Oregon	2008
F. Robert Woudstra Los Angeles, CA	President and CEO Farmers Insurance Group	2009

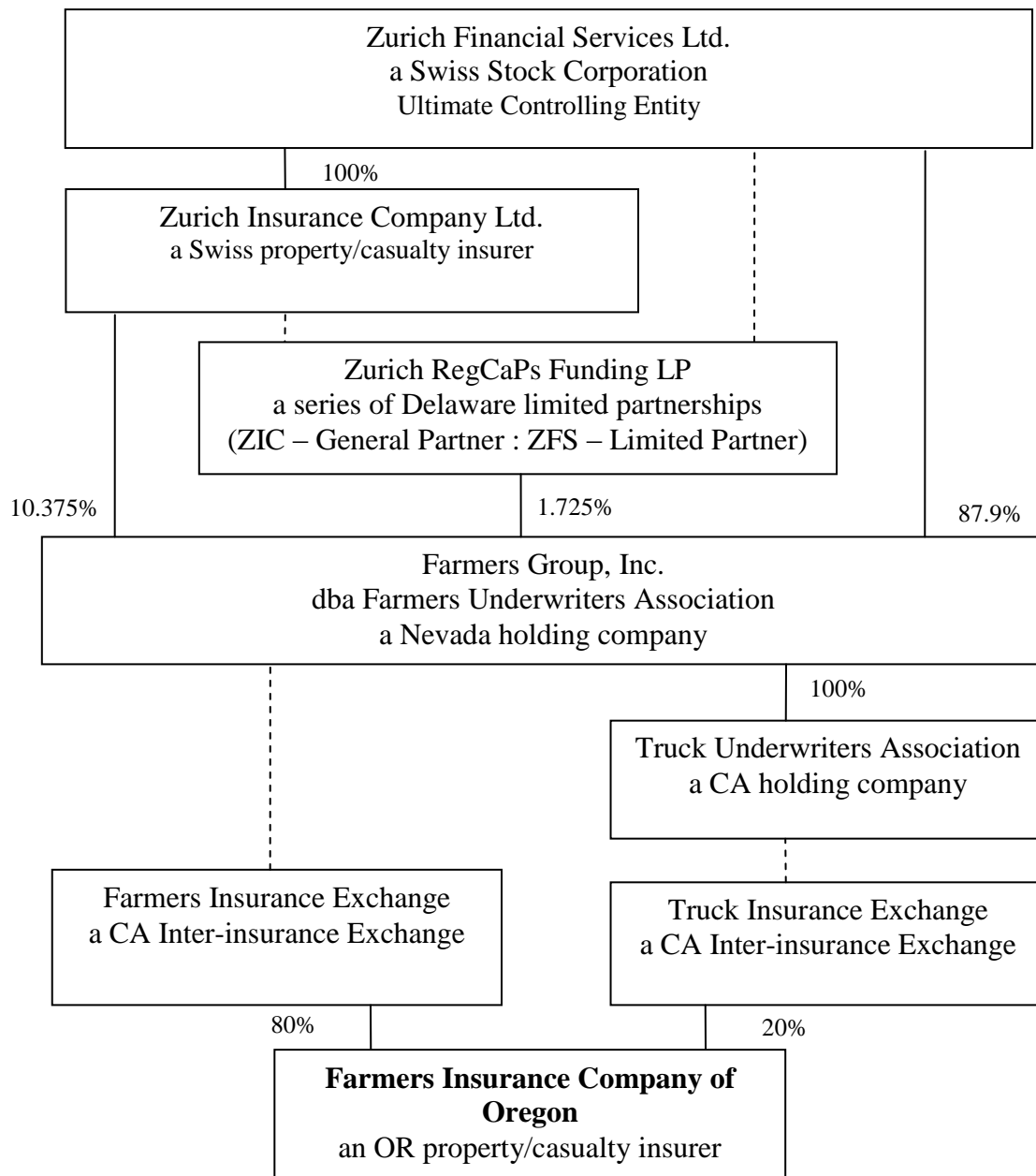
Officers

Principal officers serving at December 31, 2009, were as follows:

<u>Officer</u>	<u>Office</u>
James A. Ignozzitto	President and CEO
Ronald G. Myhan	VP and Treasurer
Doren E. Hohl	VP and Secretary
Frank J. Ceglar, Jr	VP and General Counsel
Jeffrey J. Dailey	VP, Personal Lines Unit
Dan C. Dunmoyer	VP
Scott R. Lindquist	VP and CFO
Bryan F. Murphy	VP, Chief Claims Officer
James L. Nutting	VP and Chief Actuary
Mhayse G. Samalya	VP, Business Lines Unit
F. Robert Woudstra	VP

Insurance Company Holding System

The Company is part of an insurance company holding system in which Zurich Financial Services Ltd. is the ultimate controlling entity. The holding company contains approximately 185 separate entities, but the following condensed organizational chart depicts the relationships relevant to 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., as the attorney-in-fact. A description of each of the entities above is as follows:

Zurich Financial Services Ltd. (Zurich) is a Swiss financial corporation serving as a holding company for global insurance risk management operations. It would be considered the ultimate controlling entity of the Company.

Zurich Insurance Company Ltd. (ZIC) is a Swiss property/casualty insurer owned 100% 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, they act 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' affairs.

Farmers Insurance Exchange (F.I.E.) and Truck Insurance Exchange (T.I.E.) are two of the three reciprocal inter-insurance exchanges formed by FGI to own and operate subsidiary insurance companies. Together, they own 100% of the outstanding common shares of the Company, and would be considered the direct parent.

INTERCOMPANY AGREEMENTS

Service Agreement

Effective March 1, 2005, the FIE entered into a service agreement with the Company to provide: a) insurance policies, premium calculations, and arranging for commission payments to agents and producers; b) receiving applications from licensed agents, underwriting applications and issuing policies; c) maintaining adequate policyholder and agent records; d) policyholder billings, properly recording and accounting for monies received; e) preparing all necessary forms required to properly administer the Company; f) providing claims adjustment services, and; g) such other services as necessary. FIE further agrees to provide or arrange for investment services for the Company for an additional fee. The Company agrees to pay all costs and expenses actually incurred by FIE. On March 1, 2010, the agreement was amended to require FIE provide all services at cost, allocated in accordance with the methods prescribed in SSAP No. 70. Amounts payable shall be determined and settled monthly, as soon after the end of the month as can reasonably be performed.

Tax Sharing Agreement

Effective January 3, 2007, FIE executed a tax allocation agreement with fifty-three (53) of its subsidiaries, 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.

CONFLICT OF INTEREST

The Company requires officers and directors annually to 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 material conflicts of interest were noted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2009, Farmers Group, Inc., was covered for up to \$15,000,000 per occurrence, \$30,000,000 aggregate, after a \$1,000,000 deductible, against losses from acts of dishonesty and fraud by its employees. This fidelity bond coverage exceeds the minimum 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 December 31, 2009, the Company was authorized to write property, casualty including workers' compensation, marine and transportation, and surety business in Oregon. The Company was also authorized to write business in California and Michigan. Direct premiums written in 2009 were:

California	\$	0
Michigan		0
Oregon		<u>\$341,867,117</u>
Total Direct Premium		<u>\$341,867,117</u>

At year-end 2009, the Company wrote the following lines of business:

	<u>Direct Premium</u>	<u>Percentage</u>
Personal automobile	\$169,881,205	49.7%
Auto physical damage	87,964,041	25.7%
Homeowner's	64,018,245	18.7%
Commercial multi-peril	12,004,460	3.5%
Earthquake	4,163,062	1.2%
Other lines	<u>3,836,104</u>	<u>1.2%</u>
Total	<u>\$341,867,117</u>	<u>100.0%</u>

The Company markets its business through an exclusive agency force employed directly by Farmers Group, Inc., or through one or more of its agency subsidiaries that utilize registered trade names and logos, including Farmers®, Farmers Insurance Group®, and Farmers Insurance Group of Companies®.

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 Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Net Income (Loss)</u>
2005	\$1,429,850,561	\$ 963,204,750	\$466,645,811	\$48,916,230
2006*	1,501,799,808	981,914,955	519,884,854	49,589,077
2007	1,579,189,670	1,056,332,547	522,857,123	39,516,935
2008	1,523,619,860	1,003,232,888	520,386,972	3,508,855
2009*	1,469,117,183	911,356,266	557,760,917	35,395,296

*Per examination

LOSS EXPERIENCE

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

<u>Year</u>	(1) <u>Premium Earned</u>	(2) <u>Losses and LAE Incurred</u>	(3) <u>Other Underwriting Expenses Incurred</u>	(2)+(3)/(1) <u>Combined Ratio</u>
2005	\$732,332,175	\$499,339,201	\$202,748,780	95.9%
2006*	797,362,222	533,888,134	230,646,591	95.9%
2007	864,062,895	601,625,639	266,195,174	100.4%
2008	855,123,475	645,738,696	254,891,830	105.3%
2009*	711,683,718	472,313,370	221,570,111	97.5%

*Per examination

REINSURANCE

All of the Company's reinsurance is transacted through a pooling agreement with FIE, which was last amended effective January 1, 1999. FIE is designated as the "Lead Company" in the Group, which now contains approximately 48 insurers. Under the terms of the pooling agreement, FIE assumes 100% of the business written by all members of the P&C Group, except for the business written by Farmers Re., and retrocedes to fifteen participating insurers according to their respective participating percentages. The Company's share of the assumed pool business was 7% throughout the examination period.

The pooling agreement contains a satisfactory insolvency clause, in accordance with the provisions of ORS 731.508(3). In addition, it was determined that the pooling agreement provided for risk transfer in accordance with the requirements of SSAP No. 62.

Although FIE has various reinsurance agreements with outside reinsurers and its affiliates, the Company is not a party to any other reinsurance agreements on a direct basis.

ACCOUNTS AND RECORDS

In general, the Company's records and source documentation supported the amounts presented in the Company's December 31, 2009, 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.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The Company has taken corrective action with respect to the two recommendations made in the 2006 report of examination. A formal follow-up report was not prepared.

SUBSEQUENT EVENTS

The Company contacted the Oregon Insurance Division on November 15, 2010, requesting permission to repay its \$87.5 million surplus note issued on December 31, 2003, to Zurich American Insurance Company, as assignee, and pay accumulated interest of \$1,345,312.50.

The Division approved the payment on December 15, 2010. The payments were to be made prior to December 31, 2010. On May 12, 2011, the Company withdrew this request.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of Farmers Insurance Company of Oregon as of December 31, 2009:

- 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
STATEMENT OF ASSETS
As of December 31, 2009

Assets	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$1,164,425,224	\$ -	\$1,164,425,224	1
Common stocks	273,740	-	273,740	1
Cash, cash equivalents and short-term investments	77,266,565	-	77,266,565	1
Receivable for securities	41,093	-	41,093	
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$1,242,006,622</u>	<u>\$ -</u>	<u>\$1,242,006,622</u>	
Investment income due and accrued	11,612,693	-	11,612,693	
Agents' balances or uncollected premiums:				
Premiums and agents' balances in course of collection	21,028,571	-	21,028,571	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	134,817,704	-	134,817,704	
Accrued retrospective premiums	266,105	-	266,105	
Reinsurance				
Amounts recoverable from reinsurers	20,411,010	-	20,411,010	
Net deferred tax asset	37,787,665	-	37,787,665	
Aggregate write-ins for other than invested assets	1,186,814	-	1,186,814	
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	-	-	-	
Total Assets	<u>\$1,469,117,184</u>	<u>\$ -</u>	<u>\$1,469,117,184</u>	

NOTE: Total assets differ from total liabilities, surplus and other funds due to rounding.

FARMERS INSURANCE COMPANY OF OREGON
LIABILITIES, SURPLUS AND OTHER FUNDS
As of December 31, 2009

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Liabilities, Surplus and other Funds				
Losses	\$ 395,743,351	\$ -	\$ 395,743,351	2
Reinsurance payable on paid loss and loss adjustment expenses	43,935,083	-	43,935,083	
Loss adjustment expenses	121,027,287	-	121,027,287	2
Other expenses	-	-	-	
Taxes, licenses and fees (excluding federal and foreign income taxes)	637,400	-	637,400	
Unearned premiums	294,333,115	-	294,333,115	
Advanced premium	6,870,175	-	6,870,175	
Dividend declared and unpaid				
Stockholders	-	-	-	
Policyholders	215,360	-	215,360	
Ceded reinsurance premiums payable	16,931,269	-	16,931,269	
Payable to parent, subsidiaries and affiliates	22,654,748	-	22,654,748	
Aggregate write-ins for liabilities	9,008,478	-	9,008,478	
Protected cells liabilities	-	-	-	
Total Liabilities	<u>\$ 911,356,266</u>	<u>\$ -</u>	<u>\$ 911,356,266</u>	
Common capital stock	2,600,000	-	2,600,000	
Surplus notes	87,500,000	-	87,500,000	
Gross paid in and contributed surplus	266,550,000	-	266,550,000	
Unassigned funds (surplus)	<u>201,110,917</u>	<u>-</u>	<u>201,110,917</u>	
Surplus as regards policyholders	<u>557,760,917</u>	<u>-</u>	<u>557,760,917</u>	
Total Liabilities, Surplus and other Funds	<u>\$1,469,117,183</u>	<u>\$ -</u>	<u>\$1,469,117,183</u>	

NOTE: Total assets differ from total liabilities, surplus and other funds due to rounding.

FARMERS INSURANCE COMPANY OF OREGON
STATEMENT OF INCOME
For the Year Ended December 31, 2009

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Underwriting Income				
Premiums earned	\$711,683,718	\$ -	\$711,683,718	
Deductions				
Losses incurred	388,926,782	-	388,926,782	
Loss expenses incurred	83,386,958	-	83,386,958	
Other underwriting expenses incurred	221,570,111	-	221,570,111	
Aggregate write-ins for underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Total underwriting deductions	<u>693,883,851</u>	<u>-</u>	<u>693,883,851</u>	
Net underwriting gain or (loss)	17,799,867	-	17,799,867	
Investment Income				
Net investment income earned	44,002,153	-	44,002,153	
Net realized capital gains or (losses)	<u>(2,534,222)</u>	<u>-</u>	<u>(2,534,222)</u>	
Net investment gain or (loss)	41,467,931	-	41,467,931	
Other Income				
Net gain or (loss) from agents' or premium balances charged off	(7,244,557)	-	(7,244,557)	
Finance and service charges not included in premiums	5,947,600	-	5,947,600	
Aggregate write-ins for miscellaneous income	<u>(7,787,243)</u>	<u>-</u>	<u>(7,787,243)</u>	
Total other income	<u>(9,084,200)</u>	<u>-</u>	<u>(9,084,200)</u>	
Dividends to policyholders	121,929	-	121,929	
Federal and foreign income taxes incurred	<u>14,666,375</u>	<u>-</u>	<u>14,666,375</u>	
Net income	<u>\$ 35,395,294</u>	<u>\$ -</u>	<u>\$ 35,395,294</u>	

FARMERS INSURANCE COMPANY OF OREGON
RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE THE LAST
EXAMINATION

For the Year Ended December 31,

	2009	2008	2007
Surplus as regards policyholders, December 31, previous year	<u>\$520,386,974</u>	<u>\$522,857,124</u>	<u>\$519,884,854</u>
Net income	35,395,294	3,508,855	39,516,935
Change in net unrealized capital gains or (losses)	(4,289,011)	(666,231)	(1)
Change in net deferred income tax	535,068	(2,481,088)	1,050,509
Change in nonadmitted assets	1,042,372	(508,897)	1,643,417
Change in provision for reinsurance	-	-	-
Change in surplus notes	-	-	-
Surplus (contributed to) withdrawn from protected cells			
Cumulative effects of changes in accounting principles	2,318,298	-	-
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 stockholders (cash)	-	-	(40,000,000)
Change in treasury stock	-	-	-
Aggregate write-ins for gains and losses in surplus	<u>2,371,922</u>	<u>(2,322,789)</u>	<u>761,410</u>
Change in surplus as regards policyholders for the year	<u>37,373,943</u>	<u>(2,470,150)</u>	<u>2,972,270</u>
Surplus as regards policyholders, December 31, current year	<u>\$557,760,917</u>	<u>\$520,386,974</u>	<u>\$522,857,124</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Invested Assets

Most of the Company’s long-term bond investments were in US obligations, US federal agency bonds, municipal obligations, and corporate issues. The Company did have a moderate exposure to mortgaged-backed and asset-backed securities. All MBS/ABS issues were investment rated at year-end 2009, but the carrying book value of \$339.9 million comprised over 29% of the total long-term bond portfolio, or over 27% of all invested assets. An additional \$172.5 million was invested in bonds of banking and financial corporations.

Common stocks included an Institutional Cash Reserve fund held at Bank of New York Mellon as part of the securities lending program.

Cash, cash equivalents and short-term deposits consisted of cash on deposit at Bank of America, four individual money market mutual funds and a repurchase account with Bank of New York Mellon.

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

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Common and</u> <u>Preferred</u> <u>Stocks</u>	<u>C</u> <u>Cash and</u> <u>Short-term</u>	<u>Ratio</u> <u>A/</u> <u>Total Assets</u>	<u>Ratio</u> <u>B/</u> <u>Total Assets</u>	<u>Ratio</u> <u>C/</u> <u>Total Assets</u>
2005	1,082,764	0	2,051	75.7%	0.0%	0.1%
2006 *	1,114,929	0	82,029	74.2%	0.0%	5.5%
2007	1,225,295	0	95,315	77.6%	0.0%	6.0%
2008	1,194,863	575	135,983	78.4%	0.0%	8.9%
2009 *	1,164,425	274	77,267	79.3%	0.0%	5.3%

The Board of Directors approved the investment transactions in each of the years under review, pursuant to ORS 733.740. As of December 31, 2009 invested assets with a book value of \$113,963,982, representing 9.2% of the total invested assets, were invested in amply secured obligations of the United States or in FDIC insured cash deposits. The Company was in compliance with ORS 733.580.

Effective July 23, 2008, the Company entered into a custodial agreement with JP Morgan Chase Bank, NA. The agreement contains all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

On December 14, 2001, the Company entered into a securities lending agreement with the Bank of New York.

Note 2 – Actuarial Reserves

As described earlier in this report, during the period under examination the Company participated in an intercompany reinsurance pooling arrangement, whereby 100% of the direct business was ceded to the Pool, and 7% of the nationwide pool was 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 were booked at the end of each reporting period in an amount equal to 7% of the pooled amounts.

The California Department of Insurance (CDI) contracted with Charles Letourneau, FCAS, MAAA, of the firm American Actuarial Consulting Group LLC, to provide a full actuarial evaluation of the loss and loss adjustment expense reserves of the insurance entities of Farmers Insurance Group. In his report, his objective was to estimate FIG's loss and LAE reserves as of December 31, 2009, on a net of reinsurance basis, and to determine if FIG's carried loss and LAE reserves were reasonable.

Mr. Letourneau's estimate of the loss and defense & cost containment expense (DCCE) reserves were conducted separately for personal lines and commercial lines, and the adjusting and other expense reserve were performed separately for the personal auto, personal property, commercial lines, workers' compensation, and catastrophe segments.

Mr. Letourneau concluded, based on the results of their analysis, the net of reinsurance loss and LAE reserves as of December 31, 2009, for each insurance company of FIG appear to be reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the Company's surplus as a result of this examination and the examiners made no recommendations or comments.

CONCLUSION

During the three year period covered by this examination, the surplus of the Company has increased from \$519,884,853, as presented in the December 31, 2006, report of examination to \$557,760,917, as shown in this report. The comparative assets and liabilities are:

	<u>2009</u>	<u>December 31,</u> <u>2006</u>	<u>Change</u>
Assets	\$1,469,117,183	\$1,501,799,808	\$ (32,682,625)
Liabilities	<u>911,356,266</u>	<u>981,914,955</u>	<u>70,558,689</u>
Surplus	<u>\$ 557,760,917</u>	<u>\$ 519,884,853</u>	<u>\$ 37,876,064</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, Timothy R. Hurley, CFE, insurance examiner for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Greg A. Lathrop, 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, Hillsboro, 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, and 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.

Greg A. Lathrop, CFE
Supervising Financial Examiner
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn to me this _____ day of _____, 2011.

Notary Public for the State of Oregon

My Commission Expires: _____