



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**OREGON AUTOMOBILE INSURANCE COMPANY  
PORTLAND, OREGON**

**NAIC COMPANY CODE 23922**

DECEMBER 31, 2007

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**SALUTATION**

November 3, 2008

Alfred W. Gross, Commissioner  
Chairman, NAIC Financial Condition (E) Committee  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
PO Box 1157  
Richmond, Virginia 23218

Morris J. Chavez, Superintendent  
Secretary, NAIC Western Zone IV  
PO Drawer 1269  
Santa Fe, New Mexico 87504-1269

Honorable Cory Streisinger, Director  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE, Room 440  
Salem, Oregon 97301-3883

Dear Commissioner, Superintendent, 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

**OREGON AUTOMOBILE INSURANCE COMPANY**  
**One Liberty Centre**  
**650 NE Holladay Street**  
**Portland, Oregon 97232**

**NAIC Company Code 23922**

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

## **SCOPE OF EXAMINATION**

This regularly scheduled examination of the Company was conducted as of December 31, 2007, covering the five year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off date and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Company's financial condition, ability to fulfill its obligations, the nature of operations, and compliance with the insurance code. Accounting methods, internal control procedures, records and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume and complexity of the accounting system and operations utilized by the Company. The record testing included, but was not limited to, assets, liabilities, income and expense related items. A review was also made of the corrective actions taken by the Company with respect to comments and recommendations in the previous financial report of examination as of December 31, 2002, published by the Oregon Insurance Division.

Concurrent with this examination, the Company's parent, Liberty Northwest Insurance Corporation, and an affiliate, North Pacific Insurance Company, were also examined as of December 31, 2007. There was a separate report of financial examination made for each company.

## **COMPANY HISTORY**

The Company was incorporated in Oregon on December 28, 1925, and received a Certificate of Authority on December 31, 1925. Its original Certificate of Authority authorized the Company to transact casualty and fire (automobile) lines of business. Through subsequent amendments to its Certificates of Authority, the Company acquired authority to write property, casualty (including workers' compensation), marine & transportation, and surety lines.

Ownership of the Company was held by local interests until 1963, when all outstanding controlling stock was acquired by the American General Insurance Company of Houston, Texas. American General maintained control until November 1965, when it sold its interest to Northwestern National Insurance Company of Milwaukee, Wisconsin. Northwestern National Insurance Company transferred ownership to its parent, NN Corporation, in 1972. NN Corporation was merged into Armco Insurance Group, Inc, in 1980, which held control until acquired by General Accident Insurance Company of America. On July 2, 1998, as a result of the worldwide merger of General Accident, plc, and Commercial Union, plc, a new entity, CGU, plc, became the ultimate controlling parent. On June 1, 2001, the CGU Insurance Group (renamed OneBeacon Insurance Group) was acquired by the White Mountains Insurance Group, Ltd, from GCU, plc. On January 1, 2002, all of the issued and outstanding capital stock of the Company was acquired by Liberty Northwest Insurance Corporation. Thereupon, the Company immediately paid a dividend to Liberty Northwest in the form of all issued and outstanding capital stock of its wholly owned subsidiary, North Pacific Insurance Company.

During the period under examination, the Company joined the Liberty Mutual Agency Market strategic business unit. As described in the Reinsurance section below, effective January 1, 2006, the Company ceded all of its risks to the lead insurer in the unit, Peerless Insurance Company, at which point the Company became a fronting insurer for Peerless.

### **Capital Stock**

Under Article III of the Article of Incorporation, the Company is authorized to issue 15,000 shares of common stock of \$200 par value common stock. The Company has issued all 15,000 shares to its direct parent, Liberty Northwest Insurance Corporation, 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 stockholder during the period under examination.

## **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. The Company's Board met all of the requirements of 732.305. As of December 31, 2007, the Company was governed by an eight member Board of Directors as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Affiliation</u></b>	<b><u>Member Since</u></b>
Mary A. Augustyn Tigard, OR	VP of Finance Liberty Northwest Insurance Corporation	2007
Larry W. Becker Portland, OR	President and CEO Liberty Northwest Insurance Corporation	2003
James F. Dore Boston, MA	Treasurer and CFO Liberty Northwest Insurance Corporation	2005
John D. Doyle Southborough, MA	Vice President and Controller Liberty Mutual Insurance Company	2006
Scott R. Goodby Marblehead, MA	Exec. VP and COO Liberty Northwest Insurance Corporation	2005
Gary R. Gregg Milton, MA	President and CEO Liberty Northwest Insurance Corporation	2005
Thomas H. Johnson* Portland, OR	General Counsel Liberty Northwest Insurance Corporation	2007
Christopher C. Mansfield Dedham, MA	Sr. VP and General Counsel Liberty Mutual Insurance Company	2005

\*Thomas Johnson resigned from the Board in May 2008. The vacancy was not filled.

During the period 2003 to 2006, the Board had authorized three committees: an Executive Committee, Audit Committee, and Investment Committee. On November 15, 2006, the Board resolved to disband all three committees.

### **Officers**

Principal officers serving at December 31, 2007 were as follows:

<b><u>Officer</u></b>	<b><u>Office</u></b>
Gary R. Gregg	President and Chief Executive Officer
Edmund C. Kenealy	Secretary
James F. Dore	Treasurer and Chief Financial Officer
Anthony A. Fontanes	Executive Vice President and Chief Investment Officer
Scott R. Goodby	Executive Vice President and Chief Operations Officer
Joseph A. Gilles	Executive Vice President

## **CONFLICT OF INTEREST**

The Company has established a Code of Business Ethics and Conduct for its directors and senior management. This Code requires officers and directors 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 questionnaires, it appeared that the affected personnel performed due diligence in completing the conflict of interest statements. No material conflicts of interest were noted.

## **CORPORATE RECORDS**

### **Board of Director Minutes**

In general, the review of 2003 to 2007 Board meeting minutes, as well as the various committees authorized by the Bylaws, indicated that the minutes support the transactions of the Company and the actions taken by its directors and officers. The minutes indicated that the Board approves investments in accordance with the provisions of ORS 733.730 and ORS 733.740. A quorum, as defined by ORS 731.302, met at all of the meetings held during the period under review. As noted earlier, all three committees of the Board were disbanded in 2006, and the Board as a whole now governs the Company's operations.

### **Articles of Incorporation**

One change was made to the Articles of Incorporation during the period under examination. The Company increased the par value of its common stock from \$100 per share to \$200 per share. The Articles of Incorporation conformed with Oregon statutes.

### **Bylaws**

Substantial changes were made to the Bylaws since the last examination:

- 1) The annual meeting date was changed from the 4th Friday in May, held in Portland, to a date, time and place fixed by the Board.
- 2) The number of board members was changed from between five and fifteen, to at least five or the exact number fixed by resolution by the Board.
- 3) Residency requirement for board members was silent in the old bylaws, now at least 1/4 of the Board must be residents of Oregon, and a majority may not be salaried officers of the Corporation.
- 4) Salaried officers formerly included a chairman, vice-chairman, president, vice-president, secretary and chief financial officer. New Bylaws require a president, a secretary and a treasurer.

The Bylaws conformed with Oregon statutes.

### **Holding Company Registration Statement**

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

### **Parent, Subsidiaries and Affiliates**

The Company is part of a holding company system in which Liberty Mutual Holding Company, Inc. (LMHC), is the ultimate controlling entity. LMHC was formed after the demutualization of Liberty Mutual Insurance Company during 2001, under a mutual holding company system owned by the former policyholders of Liberty Mutual Insurance Company.

Other significant subsidiaries of LMHC include as follows:

LMHC Massachusetts Holdings, Inc. – a Massachusetts corporation 100% owned by LMHC.

It acts as an intermediate stock holding company within the mutual holding company system.

Liberty Mutual Group, Inc. (LMG) – a Massachusetts stock holding company 100% owned by LMHC Massachusetts Holdings. Liberty Mutual Group is based in Boston, Massachusetts, and through its subsidiaries has operations throughout the United States, employing approximately 41,000 people in over 900 offices worldwide.

Liberty Mutual Insurance Company (LMIC) – a Massachusetts stock property and casualty insurance company 100% owned by LMG.

Liberty Mutual Investment Advisors LLC (LMIA) – a Massachusetts limited liability company and an indirect subsidiary of LMIC. It was formed for the purpose of making, holding, and administering investments in designated asset sectors for the insurance companies within LMG.

Liberty Northwest Insurance Corporation (LNW) – an Oregon-domiciled stock property and casualty insurer 100% owned by LMIC. LNW owns all of the outstanding shares of the Company's common stock and would be considered the direct parent.

Affiliates of the Company include the following:

North Pacific Insurance Company (NPIC) – an Oregon-domiciled stock property and casualty insurer.

Liberty Management Services, Inc. (LMS) – an Oregon corporation formed in 1987 as a claims servicing company, providing operational support for employers that are self-insured for workers' compensation.

Access Insurance Services Company (AISC) – an Oregon corporation formed in 2000 as an insurance agency to market property and casualty business.

### Intercompany Agreements

The Company was party to the following agreements with its parent and affiliates as of December 31, 2007:

#### Memorandum of Understanding

The Company entered into an undated memorandum of understanding (MOU) with LNW, which specifies the general terms wherein common facilities and personnel may be shared. The MOU stated reimbursements are generally based on actual expenses.

#### Management Services Agreement

Effective January 1, 2006, the Company and LMIC entered into an agreement whereby LMIC will provide; a) accounting, financial, tax and auditing services, b) purchasing, payroll and employee benefits, c) information technology and support, d) policy administration and production, e) real estate management, f) legal, g) general administration, h) miscellaneous, and i) reinsurance negotiations. The Company will pay a reasonable fee to LMIC, including direct expenses and allocated expenses. There is no expiration date, but either party may terminate the agreement with 90 days written notice. An amendment dated December 31, 2007, requires all amounts owing between the parties be settled within 45 days of the end of each calendar quarter.

#### Cash Management Agreement

Effective February 22, 2002, the Company entered into an agreement with LMIA to make, hold, and administer certain positions in short-term investments. Compensation will be a fee equal to the reasonable expense of providing legal, auditing, investment, accounting and money management services, in addition to reimbursement of direct commissions,

transaction fees, and custodial fees incurred. Exhibit A of the agreement described the permitted assets allowed for purchase. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company, or with 30 days' written notice by LMIA.

#### Investment Management Agreement

Effective February 22, 2002, the Company entered into an agreement with LMIA 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 terminates five years from execution, and may be renewed for a period not to exceed five years. Fees are charged monthly, equal to 3.4 basis points (annualized) on the average monthly par value of bonds and market value of equities. Effective January 1, 2007, LMIC replaced LMIA on an identical agreement.

#### Tax Sharing Agreement

On January 1, 2002, the company joined Liberty Mutual Holding Company, Inc., (LMHC) in a tax-sharing agreement. Under the agreement, the taxes payable shall be based on the separate tax return liability of each tax reporting segment, adjusted for any carryover, carryback, credit, or other attribute. Estimated tax payments are due no later than the 12<sup>th</sup> day of April, June, September and December of each tax year.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is covered against losses through a fidelity bond for risks up to \$125,000,000 in the aggregate, after a \$1,000,000 retention. This coverage was found to comply with the limits recommended by the NAIC. The Company is insured for directors and officers liability for losses up to \$125,000,000 in aggregate, after a \$25,000,000 deductible. Other

major insurance coverages in force included company securities, financial institution bond, and workers' compensation. All coverages appeared adequate as of December 31, 2007.

### **STATUTORY DEPOSIT**

The Company has a deposit with the Oregon Insurance Division, 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 \$1,200,000.

### **TERRITORY AND PLAN OF OPERATION**

During the period under examination, the Company wrote property and casualty business, including a comprehensive set of personal and commercial coverages, through independent agents. At December 31, 2007, the Company wrote direct premiums in four of the seven states in which it is licensed, as follows:

Alaska	\$	0
Idaho		3,148,952
Montana		151,732
Nevada		0
Oregon		18,570,548
Utah		0
Washington		<u>12,138,424</u>
Total Direct Premium		<u>\$ 34,009,656</u>

The Company is a member of the Liberty Mutual Agency Market (LMAM) strategic business unit, which offers agribusiness protection, commercial lines, personal lines, and workers' compensation. It writes business in the Northwest Region under the following brands: American Fire and Casualty Company, Indiana Insurance Company, Liberty Northwest Insurance Corporation, North Pacific Insurance Company, The Ohio Casualty Insurance Company, Ohio Security Insurance Company, Oregon Automobile Insurance Company, Peerless Insurance Company and West American Insurance Company.

For the Northwest Region (which includes AK, ID, MT, OR, and WA), the Liberty Mutual group has established 17 sales offices staffed by approximately 800 employees.

### **GROWTH OF THE COMPANY**

The growth of the Company since the last financial examination is reflected in the following schedule. The amounts were derived from Company's filed annual statements, except in those years where a report of examination has been published by the Oregon Insurance Division.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Surplus and Other Funds</u></b>	<b><u>Net Income (Loss)</u></b>
2002*	\$ 6,874,656	\$ 574,656	\$6,300,000	\$ 0
2003	6,300,000	0	6,300,000	0
2004	7,072,740	772,740	6,300,000	0
2005	7,397,649	1,097,649	6,300,000	0
2006	12,266,442	5,748,312	6,518,130	218,130
2007*	13,464,134	6,668,336	6,795,798	294,668

\*Per examination

The changes in assets and liabilities reported in 2006 and 2007 were due to the effects of the 100% quota-share reinsurance agreement with Peerless Insurance Company.

### **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 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>
2002*	\$0	\$0	\$0	0.0%
2003	0	0	0	0.0%
2004	0	0	0	0.0%
2005	0	0	0	0.0%
2006	0	0	0	0.0%
2007*	0	0	0	0.0%

\*Per examination

### REINSURANCE

Effective January 1, 2006, the Company entered into a 100% quota-share reinsurance agreement with an affiliate, Peerless Insurance Company, the lead insurer in the Liberty Mutual Agency Market strategic business group. The agreement calls for Peerless to assume all risks from first dollar.

#### Assumed Business

The Company did not assume any significant business.

#### Ceded Business

The quota share reinsurance agreement with Peerless described above is further broken down into nine contracts covering different layers and lines of business.

##### All Lines Casualty Excess of Loss

- \$10 million excess of \$10 million (\$15 million maximum for Terrorism)

##### Property Excess of Loss Reinsurance

- \$25 million excess of \$25 million
- \$50 million excess of \$50 million

Property Catastrophe Excess of Loss Reinsurance

- \$50 million excess of \$50 million
- \$50 million excess of \$100 million
- \$50 million excess of \$150 million
- \$50 million excess of \$200 million
- \$50 million excess of \$250 million
- \$50 million excess of \$300 million

Property Catastrophe Excess of Loss Reinsurance

- \$200 million excess of \$500 million
- \$350 million excess of \$750 million
- \$300 million excess of \$1,100 million
- \$250 million excess of \$1,400 million
- \$300 million excess of \$1,650 million

Workers' Compensation Clash Excess of Loss Reinsurance

- \$5 million excess of \$5 million ultimate net loss, any one loss occurrence

Workers' Compensation Catastrophe Excess of Loss Reinsurance

- \$75 million excess of \$25 million (excludes Terrorism)
- \$100 million excess of \$100 million
- \$300 million excess of \$200 million

Workers' Compensation Catastrophe Excess of Loss Reinsurance

- \$200 million excess of \$500 million (excludes Terrorism)
- \$300 million excess of \$700 million
- \$200 million excess of \$1,000 million (excludes CA earthquake)

Multi-line Terrorism Aggregate Excess of Loss Reinsurance

- \$200 million in excess of aggregate ultimate loss of \$150 million, subject to recoveries under TRIA of 2002 and Extension Act of 2005

Commercial Umbrella Excess of Loss Reinsurance

- Peerless is liable for 100% of the net loss in excess of \$5 million for each and every loss, each and every occurrence, not to exceed \$10 million.

**Risk Retention and Transfer**

The Company retained no risk on any one insured. As such, the Company was in compliance with the provisions of ORS 731.504. In addition, it was determined that the Company's pooled reinsurance agreements are reported in accordance with the requirements specified in the NAIC Accounting Practices and Procedures Manual, SSAP No. 63.

### **Insolvency Clause**

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

### **ACCOUNTS AND RECORDS**

In general, the Company's accounting and corporate records were maintained in a manner in which the financial condition was verifiable as required by the provisions of ORS 733.170, however, the examiners experienced significant delays in getting information from the Boston offices of Liberty Mutual Insurance Company. The Company should be aware of the provisions of ORS 731.308(3), which require timely and convenient access to records and the requirement of the officers, directors, employees and agents of the insurer to facilitate the examination.

The Company maintained its accounting records on a Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting and adjusts to a Generally Accepted Accounting Principles (GAAP) basis of accounting for its purposes. The Company, as part of the combined Peerless Insurance Company Pool, is audited annually by the certified public accounting firm of Ernst & Young LLP. The Company (prior to 2006) and the combined companies received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no material exceptions were noted.

The following issues were noted as result of this examination:

Schedule P

The Company did not provide a copy of Schedule P with the 2007 annual statement filed with the Oregon Insurance Division and the NAIC I-Site electronic database. Due to the intercompany quota-share agreement, the Company retained no risk, and believed they were not required to complete the filing. At the request of the Oregon Insurance Division, the Company did complete a Schedule P and submitted it on May 28, 2008.

According to the NAIC Annual Statement Instructions for Property/Casualty manual, unless an insurer is a party to a pooling arrangement and the lead insurer in the pool assumes 100% of the risks, the insured companies will be required to complete Schedule P.

**I recommend the Company file Schedule P with all future filings of the annual statements in accordance with NAIC Annual Statement Instructions and ORS 731.574(1).**

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company took corrective action with respect to the one recommendation made in the 2002 report of examination. The follow-up report was prepared on December 14, 2004.

## **SUBSEQUENT EVENT**

On December 16, 2008, the director issued an Order of Exemption, Case No. INS 08-12-007, regarding a LMIC request dated October 27, 2008, to contribute on or before December 31, 2008, the shares of LNW downstream through intervening holding companies and ultimately to Peerless Insurance Company (“PIC”), a downstream subsidiary. Because NPIC and the Company were wholly-owned subsidiaries of LNW, they, along with two non-insurance subsidiaries of LNW, would become indirect wholly-owned subsidiaries of PIC.

The director determined the contribution of shares did not have the effect of changing or influencing the control or ownership of a domestic insurer since LMIC and LMHC would remain controlling parties of LNW, NPIC, and the Company as before the contribution. The proposed transaction thereby met the requirements for exemption from the provisions of ORS 732.521(1) pursuant to ORS 732.521(2).

## **FINANCIAL STATEMENTS**

The following examination financial statements show the financial conditions of Oregon Automobile Insurance Company:

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Reconciliation of Surplus for the Period Since the last Examination

The financial statements are presented on the basis of statutory accounting practices permitted or prescribed by the Oregon Insurance Division as of December 31, 2007.

**OREGON AUTOMOBILE INSURANCE COMPANY**  
**ASSETS**  
**December 31, 2007**

<b>ASSETS</b>	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
Bonds	\$ 7,396,102	\$ -	\$ 7,396,102	1
Cash, cash equivalents and short-term investments	765,210		765,210	1
Aggregate write-ins for invested assets	-		-	
Subtotal, cash and invested assets	<u>8,161,312</u>	<u>-</u>	<u>8,161,312</u>	
Investment income due and accrued	76,854		76,854	
Reinsurance				
Amounts recoverable from reinsurers	2,617,118		2,617,118	
Receivable from parent, subsidiaries and affiliates	2,575,887		2,575,887	
Aggregate write-ins for other than invested assets	32,963		32,963	
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	-		-	
Total Assets	<u>\$ 13,464,134</u>	<u>\$ -</u>	<u>\$ 13,464,134</u>	

**OREGON AUTOMOBILE INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2007**

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>				
Losses	\$ -	\$ -	\$ -	2
Reinsurance payable on paid loss and loss adjustment expenses	98,917		98,917	
Loss adjustment expenses	-		-	2
Current federal and foreign income taxes	65,223		65,223	
Net deferred tax liability	17,000		17,000	
Ceded reinsurance premiums payable	3,149,048		3,149,048	
Payable to parent, subsidiaries and affiliates	3,338,148		3,338,148	
Protected cells liabilities	-		-	
Total Liabilities	<u>6,668,336</u>	<u>-</u>	<u>6,668,336</u>	
Common capital stock	3,000,000		3,000,000	
Gross paid in and contributed surplus	3,257,395		3,257,395	
Unassigned funds (surplus)	<u>538,403</u>	<u>-</u>	<u>538,403</u>	
Surplus as regards policyholders	6,795,798		6,795,798	
Total Liabilities, Surplus and other Funds	<u>\$ 13,464,134</u>	<u>\$ -</u>	<u>\$ 13,464,134</u>	

**OREGON AUTOMOBILE INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2007**

	Balance Per Company	Examination Adjustments	Balance Per Examination	Notes
<b>UNDERWRITING INCOME</b>				
Premiums earned	\$ -	\$ -	\$ -	
Deductions:				
Losses incurred	-		-	
Loss expenses incurred	-		-	
Other underwriting expenses incurred	-		-	
Aggregate write-ins for underwriting deductions	-		-	
Total underwriting deductions	-		-	
Net underwriting gain or (loss)	-		-	
<b>INVESTMENT INCOME</b>				
Net investment income earned	433,769		433,769	
Net realized capital gains or (losses)	3,737		3,737	
Net investment gain or (loss)	437,506		437,506	
<b>OTHER INCOME</b>				
Net gain or (loss) from agents' or premium balances charged off	-		-	
Finance and service charges not included in premiums	-		-	
Aggregate write-ins for miscellaneous income	-		-	
Total other income	-		-	
Dividends to policyholders	-		-	
Federal and foreign income taxes incurred	142,838	-	142,838	
Net income	\$ 294,668	\$ -	\$ 294,668	

**OREGON AUTOMOBILE INSURANCE COMPANY**  
**RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE LAST**  
**EXAMINATION**  
**For the Year Ended December 31, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Surplus as regards policyholders, December 31, previous year	\$6,518,130	\$6,300,000	\$6,300,000	\$6,300,000	\$6,300,000
Net Income	294,668	218,130	0	0	0
Net transfers (to) from Protected Cell accounts	0	0	0	0	0
Change in unrealized capital gains (losses)	0	0	0	0	0
Change in net unrealized foreign exchange capital gain (loss)	0	0	0	0	0
Change in net deferred income tax	(17,000)	0	0	0	0
Change in nonadmitted assets	0	0	0	0	0
Change in provisions for reinsurance	0	0	0	0	0
Change in surplus notes	0	0	0	0	0
Cumulative effect of changes in accounting principles	0	0	0	0	0
Capital changes					
Paid in	0	1,500,000	0	0	0
Transferred from surplus (Stock Dividend)	0	0	0	0	0
Transferred to surplus	0	0	0	0	0
Surplus adjustments					
Paid in	0	(1,500,000)	0	0	0
Transferred to capital (Stock Dividend)	0	0	0	0	0
Tranferred from capital	0	0	0	0	0
Net remittances from or (to) Home Office	0	0	0	0	0
Dividends to stockholders	0	0	0	0	0
Change in Treasury Stock	0	0	0	0	0
Examination Adjustments	0	0	0	0	0
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>277,668</u>	<u>218,130</u>	<u>0</u>	<u>0</u>	<u>0</u>
Surplus as regards policyholders, December 31, current year	<u>\$6,795,798</u>	<u>\$6,518,130</u>	<u>\$6,300,000</u>	<u>\$6,300,000</u>	<u>\$6,300,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 - Investments

All of the Company's long-term bond investments were in US Treasury obligations. Cash and short-term deposits consisted of cash on deposit and two short-term money market funds. A comparison of the 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>
2003	\$6,490,395	\$(3,236,675)	103.0%	(51.4)%
2004	6,736,268	336,472	95.2%	4.8%
2005	7,000,398	397,251	94.6%	5.4%
2006	6,396,621	2,025,162	52.1%	16.5%
2007	7,396,102	765,210	54.9%	5.7%

The Board of Directors approved the investment transactions pursuant to ORS 733.740. As of December 31, 2007, invested assets of \$7,396,102, representing 90.6% of the total invested assets, were invested in amply secured obligations of the United States or FDIC insured cash deposits. This exceeded the amount that must be invested in these types of assets as required by ORS 733.580.

The Company entered into a global custody agreement with JP Morgan Chase dated January 10, 2002. This agreement did not contain a protection required under OAR 836-027-0200(4)(f), stating the custodian agrees to notify the Director of DCBS within three business days in the event the agreement is terminated or if 100% of the assets are withdrawn from any one custodial account. **I recommend the Company amend its custodial agreement with JP Morgan Chase to contain all of the protections of OAR 836-027-0200(4).**

### Note 2 – Actuarial Reserves

The Company did not report loss reserves as a result of the 100% quota-share reinsurance agreement, under which 100% of losses were ceded to Peerless Insurance Company.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

In addition to the following recommendations, DCBS has presented the Company with a management letter containing matters not considered material for purposes of this examination.

### Page

- 18 I recommend the Company file Schedule P with all future filings of the annual statements in accordance with NAIC Annual Statement Instructions and ORS 731.574(1).
- 24 I recommend the Company amend its custodial agreement with JP Morgan Chase to contain all of the protections of OAR 836-027-0200(4).

## CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from \$6,300,000, as presented in the December 31, 2002, report of examination, to \$6,795,798, as shown in this report of examination. There were no adjustments made to the financial statements as a result of this examination. The comparative assets and liabilities are shown below:

	<u>2007</u>	<u>December 31,</u> <u>2002</u>	<u>Change</u>
Assets	\$13,464,134	\$6,874,656	\$ 6,589,478
Liabilities	<u>6,668,336</u>	<u>574,656</u>	<u>(6,093,680)</u>
Surplus	<u>\$ 6,795,798</u>	<u>\$6,300,000</u>	<u>\$ 495,798</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, Mark Giffin, CFE, and Michael P. Phillips, CFE, CPA, AES, insurance examiners for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

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Greg A. Lathrop, CFE  
Supervising Insurance 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 Oregon Automobile Insurance Company, Portland, Oregon.
  
2.     The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
  
3.     I have reviewed the examination work papers and examination report, and the examination of Oregon Automobile Insurance Company 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 \_\_\_\_\_, 2009.

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

My Commission Expires: \_\_\_\_\_