



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**SAFECO INSURANCE COMPANY OF OREGON  
PORTLAND, OREGON**

**NAIC CODE 11071**

AS OF

DECEMBER 31, 2009

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## SALUTATION

March 31, 2011

Honorable Joseph Torti III, Superintendent  
Chairman, NAIC Financial Condition (E) Committee  
State Corporation Commission  
Rhode Island Department of Business Regulation  
Cranston, Rhode Island

Honorable Monica J. Lindeen, Commissioner  
Secretary, Zone IV-Western  
Montana Office of the Commissioner of Securities and Insurance  
Helena, Montana

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

**SAFECO INSURANCE COMPANY OF OREGON**  
**650 NE Holladay Street**  
**Portland, Oregon**

**NAIC Company Code 11071**

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

## **SCOPE OF EXAMINATION**

We have performed our examination of Safeco Insurance Company of Oregon. The examination was conducted in conjunction with the multi-state examination of insurers within Safeco Insurance, a group of property and casualty insurers within the Peerless Insurance Company pool, under the lead of the Indiana Department of Insurance. The last examination of the Oregon domestic insurer was completed as of December 31, 2005. This examination covers the period of January 1, 2006 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 instruction 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**

Safeco Insurance Company of Oregon was incorporated on October 16, 2000, by Safeco Corporation and received its certificate of authority on November 29, 2000, to transact property and casualty (excluding workers' compensation) insurance. On September 28, 2001, Safeco Corporation made a capital contribution to its subsidiary, Safeco Insurance

Company of America (SICA), in the form of all of the issued and outstanding capital stock of the Company. SICA thus became the direct parent of the Company.

On April 23, 2008, Safeco announced an agreement to be acquired by Liberty Mutual for \$68.25 per share. Effective September 22, 2008, Liberty Mutual completed the acquisition and Safeco Corporation and all of its subsidiaries became a subsidiary of LIH US P&C Corporation, a downstream holding company of Liberty Mutual Holding Company Inc.

### **Capital Stock**

The Articles of Incorporation, Article IV, stated the capital stock of the Company shall be one million dollars (\$1,000,000) and the number of shares shall be twenty thousand (20,000). These shares shall have no par value. All 20,000 shares have been issued and are owned by SICA. The examiners noted the Company has been reporting a value of \$2,000,000 in common capital stock in the Annual Statements filed for each year under examination, and are in violation of its Articles of Incorporation.

**I recommend the Company either reduce the value of its issued and outstanding capital stock, or file amended Articles of Incorporation with the Oregon Insurance Division to allow the larger value. This recommendation is supported by ORS 732.095 and ORS 60.047.**

### **Dividends to Stockholders and Other Distributions**

From 2006 to 2009, the Company did not declare or pay any dividend or make any distribution to its stockholder.

## **CORPORATE RECORDS**

### **Board Minutes**

In general, the review of the Board meeting minutes of the Company, as well as the finance committee 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.

Prior to September 22, 2008, the finance committee approved investments at each quarterly meeting and monitored the investment guidelines as needed in accordance with ORS 733.730. The Board as a whole approved the finance committee actions. Subsequent to this date, all standing committees were disbanded and the Board approved all investments at its annual meeting.

### **Articles of Incorporation**

The Articles of Incorporation were filed with the Oregon Insurance Division on October 16, 2000. 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 amended effective January 1, 2009, as a result of the acquisition by Liberty Mutual. The Restated Bylaws conformed to Oregon statutes.

### **Statutory Deposit**

The Company listed no securities held on deposit in Schedule E – Part 3 – Special Deposits in the 2009 Annual Statement. None were required pursuant to Oregon statutes.

## MANAGEMENT AND CONTROL

### Board of Directors

Management and control of the Company was vested in a Board of Directors, comprised of officers of the upstream parents, together with two local members. There were no external directors. Article III, section 1 of the restated Bylaws dated January 1, 2009, stated the Board shall consist of not less than five members, no fewer than five directors or one-quarter of the directors, whichever is fewer, shall be residents of Oregon. The term for each director is one (1) year. 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>
Mary Ann Augustyn Portland, OR	Vice President of Finance Liberty Northwest Insurance Corporation	2008
Julie A. Burnett Tigard, OR	President and CEO Liberty Northwest Insurance Corporation	2009
John D. Doyle Southborough, MA	Vice President and Comptroller Liberty Mutual Group	2009
Michael J. Fallon Bedford, MA	Chief Financial Officer Liberty Mutual Agency Markets	2008
Scott R. Goodby Marblehead, MA	President Regional Companies	2008
Gary R. Gregg* Milton, MA	President and CEO Liberty Mutual Agency Markets	2008
Christopher C. Mansfield Dedham, MA *Chairman	Senior VP and General Counsel Liberty Mutual Group	2008

Ms. Augustyn left the Company in January 2010. She was replaced by Danny R. Schamma.

Mr. Gary R. Gregg retired on February 1, 2011. He was replaced by J. Paul Condrin, III.

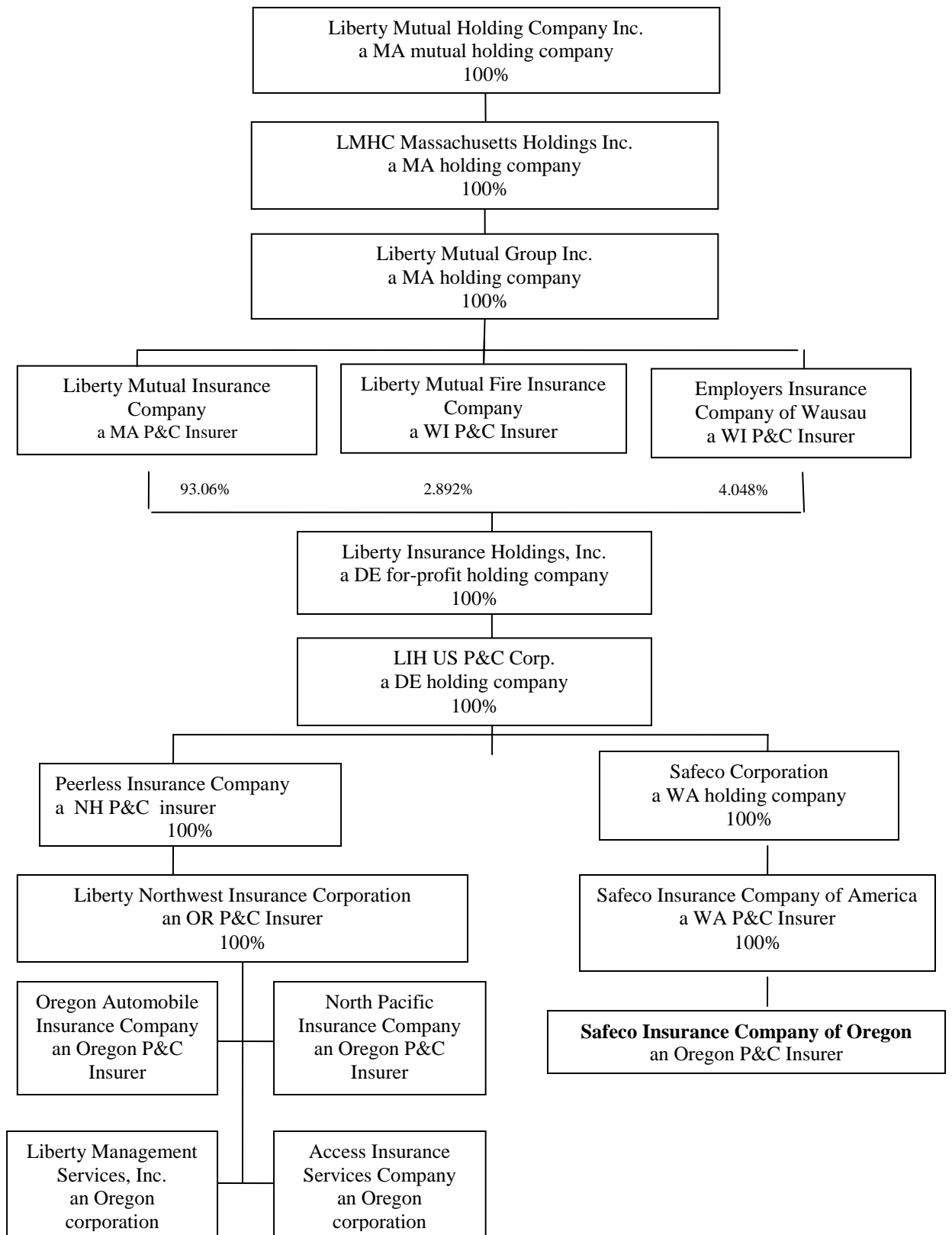
## Officers

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

<u>Officer</u>	<u>Office</u>
Gary R. Gregg	Chairman, President and CEO
Michael J. Fallon	CFO and Treasurer
Dexter R. Legg	Secretary
Anthony A. Fontanes	Executive VP and Chief Investment Officer
Scott R. Goodby	Executive VP and Chief Operations Officer
Joseph A. Gilles	Executive VP

## Insurance Company Holding System

The Company is part of an insurance company holding system in which Liberty Mutual Holding Company Inc., is the ultimate controlling entity. The holding company contained numerous separate entities, but the following condensed organizational chart depicts the relationships relevant to the Company within the holding company system:



A brief description of the entities listed in the above chart is as follows:

Liberty Mutual Group, Inc. (LMG) is a Massachusetts holding company formed as part of the demutualization 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 second tier 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.
- Liberty Mutual Fire Insurance Company is a Wisconsin domiciled property and casualty insurer. Formed as the United Mutual Fire Insurance Company in 1908 in Boston, MA, it redomesticated to Wisconsin in 2006.
- Employers Insurance Company of Wausau, is a Wisconsin domiciled property and casualty insurer. It was founded in 1911.
- Liberty Insurance Holdings Inc. is a Delaware holding company.
- LIH US P&C Corporation is a Delaware holding company.
- Safeco Corporation is a Washington holding company.
- Safeco Insurance Company of America (SICA) is a Washington domiciled property and casualty insurer.

## **INTERCOMPANY AGREEMENTS**

### **Management Services Agreement**

Effective January 1, 2009, the Company entered into a service agreement with the LMIC to 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. 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.

### **Services Agreement**

Effective January 1, 2009, the Company was made a party to an existing agreement between the various LMG affiliates and Peerless Insurance Company (PIC). Under the agreement, PIC agrees to perform such services as the Company may request, including supervising investments, coordinating activities, coordinating the development of corporate plans, and providing consulting and other services. PIC shall maintain and be signatory to bank and other types of accounts, and shall handle all deposits and withdrawals. PIC will provide at its cost a staff of professional and office personnel. PIC and the Company shall determine the type and amount of insurance necessary or appropriate for the conduct of business operations. PIC shall supervise compliance with all applicable laws, rules and regulations, and provide all necessary reports as required by law. The Company agrees to pay PIC quarterly for services rendered, not exceeding the costs the Company would have expended in providing services for itself. Payment of amounts due shall be made 30 days after receipt of invoice.

### **Investment Management Agreement**

On January 1, 2010, the LMG entered into an agreement with the Company to provide investment advisory services. Under the agreement, the Company shall authorize LMG to act as the agent and attorney in fact and to have complete discretionary control of the Company's investment portfolio. LMG shall be paid a quarterly management fee based on the average GAAP market value under management, in addition to reimbursement of custodial fees and wire transfer fees. Payment of amount owing shall be due 45 days after the end of each calendar quarter.

### **Cash Management Agreement**

On September 22, 2008, the Company entered into an agreement with Liberty Mutual Investment Advisors LLC (LMIA), whereby LMIA agrees to make, hold and administer certain investments in short-term obligations. LMIA will be entitled to a reasonable compensation for its services, paid quarterly. This agreement was amended and restated January 1, 2010, to change management fees to a fixed percentage of the average market value of securities held.

### **Federal Tax Sharing Agreement**

Effective September 22, 2008, the Company became party to an existing agreement between LMHC and its taxable subsidiaries. There were approximately 131 subsidiaries, five of which either merged or dissolved during 2009. 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. Estimated federal tax payments shall be settled on the 12<sup>th</sup> day of April, June, September, December and March. 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.

### **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.

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

At December 31, 2009, Liberty Mutual Holding Company, Inc., was covered for up to \$15,000,000 single loss limit, after a \$25,000,000 deductible, against losses from acts of dishonesty and fraud by its employees. An endorsement of the policy defined any subsidiary of Liberty Mutual Holding Company to be an insured. However, since the surplus of the Company is less than the deductible amount, the Company was essentially self-insured for fidelity coverage. All other insurance coverages in force at December 31, 2009, were determined to be adequate, and include the following:

Commercial general liability	Professional liability
Umbrella excess liability	Directors & officers liability
Property	Automobile liability
Workers' compensation	

### **EMPLOYEE RETIREMENT PLANS AND POST-RETIREMENT BENEFITS**

The Company does not have any direct employees. All services are provided by the employees of its affiliates pursuant to the terms of the service agreement described above. As a result, the Company maintains no liabilities for retirement benefits.

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

As of December 31, 2009, the Company was authorized to write property and casualty excluding workers' compensation business in Oregon. The Company was also authorized to write business in Washington. Direct premiums written in 2009 were:

Oregon	\$170,827,720
Washington	<u>0</u>
Total Direct Premium	<u>\$170,827,720</u>

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

	<u>Direct Premium</u>	<u>Percentage</u>
Personal automobile	\$ 79,538,284	46.6%
Auto physical damage	39,029,556	22.8%
Homeowners	37,792,812	22.1%
Other lines	<u>14,467,068</u>	<u>8.5%</u>
Total	<u>\$170,827,720</u>	<u>100.0%</u>

The Company is part of the Reinsurance Pooling Agreement between Peerless Insurance Company and other affiliated insurers. The reinsurance participants and their respective participation percentages (14 companies) are as follows:

Peerless Insurance Company (PIC)	25.20%
The Ohio Casualty Insurance Company (OCIC)	20.40%
Safeco Insurance Company of America (SICA)	15.20%
General Insurance Company of America (GICA)	9.20%
American States Insurance Company (ASIC)	7.60%
American Economy Insurance Company (AEIC)	5.60%
Indiana Insurance Company (IIC)	4.80%
Golden Eagle Insurance Corporation (GEIC)	3.00%
Peerless Indemnity Insurance Company (PIIC)	3.00%
Safeco Insurance Company of Illinois (SICIL)	2.00%
The Netherlands Insurance Company (NIC)	1.80%
American States Preferred Insurance Company (ASPCO)	0.80%
First National Insurance Company of America (FNICA)	0.80%
American Fire and Casualty Insurance Company (AFLIC)	<u>0.60%</u>
Total	<u>100.00%</u>

The pool companies, consisting of approximately 40 insurers, share in the net underwriting results for all lines of business. Peerless then records 100% of its external assumed and ceded reinsurance activity after recording the assumed affiliate transactions, and then retrocedes to the above pool members in accordance with each company's pooling percentage. The Company is one of the 26 insurers that ceded 100% of its business directly to Peerless Insurance Company under the intercompany reinsurance agreement, but did not participate in any retrocession, and as a result, it reported no reserves or other policy-related liabilities.

## **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 filed annual statements, except in those years where a report of examination was published by the Oregon Insurance Division.

<b><u>Year</u></b>	<b><u>Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Capital and Surplus</u></b>	<b><u>Net Income (Loss)</u></b>
2005*	\$20,313,667	\$13,260,784	\$7,052,883	\$458,423
2006	20,474,257	13,243,214	7,231,043	251,666
2007	20,151,380	12,591,164	7,560,216	334,829
2008	21,375,395	13,559,631	7,815,764	257,204
2009*	19,613,339	11,592,492	8,020,847	229,604

\*Per examination

## **REINSURANCE**

Prior to 2009, the Company participated in a pooling arrangement with insurers in the Safeco Group, with SICA being the lead insurer. Effective January 1, 2009, all of the Company's reinsurance is transacted through a pooling agreement with Peerless Insurance Company (PIC), which now contains approximately 40 insurers. Under the terms of the pooling agreement, PIC assumes 100% of the business written by various members of the Liberty Mutual Group, and retrocedes to fourteen participating insurers according to their respective participating percentages. The Company's share of the assumed pool business was 0% 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. 62R, paragraphs 10 to 17.

Although the Peerless 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.

### **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**

There were no recommendations made in the 2005 report of examination. A formal follow-up report was not prepared.

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of Safeco 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

**SAFECO INSURANCE COMPANY OF OREGON**  
**STATEMENT OF ASSETS**  
**As of December 31, 2009**

<u>ASSETS</u>	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
Bonds	\$ 5,579,118	\$ -	\$ 5,579,118	1
Cash, cash equivalents and short-term investments	2,531,285	-	2,531,285	1
Aggregate write-ins for invested assets	<u>-</u>	<u>-</u>	<u>-</u>	
Subtotal, cash and invested assets	<u>\$ 8,110,403</u>	<u>\$ -</u>	<u>\$ 8,110,403</u>	
Investment income due and accrued	82,836	-	82,836	
Reinsurance				
Amounts recoverable from reinsurers	10,650,831	-	10,650,831	
Receivable from parent, subsidiaries and affiliates	769,269	-	769,269	
From separate accounts, segregated accounts and protected cell accounts	<u>-</u>	<u>-</u>	<u>-</u>	
Total Assets	<u>\$19,613,339</u>	<u>\$ -</u>	<u>\$19,613,339</u>	

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

<b>LIABILITIES, SURPLUS AND OTHER FUNDS</b>	<b>Balance per <u>Company</u></b>	<b>Examination <u>Adjustments</u></b>	<b>Balance per <u>Examination</u></b>	<b><u>Notes</u></b>
Losses	\$ -	\$ -	\$ -	2
Reinsurance payable on paid loss and loss adjustment expenses	-	-	-	
Loss adjustment expenses	-	-	-	2
Current federal income taxes	28,962	-	28,962	
Net deferred tax liability	143,200	-	143,200	
Unearned premiums	-	-	-	
Advanced premium	-	-	-	
Ceded reinsurance premiums payable	11,341,490	-	11,341,490	
Payable to parent, subsidiaries and affiliates	78,840	-	78,840	
Aggregate write-ins for liabilities	-	-	-	
Protected cells liabilities	-	-	-	
Total Liabilities	<u>\$11,592,492</u>	<u>\$ -</u>	<u>\$11,592,492</u>	
Common capital stock	2,000,000	-	2,000,000	
Surplus notes	-	-	-	
Gross paid in and contributed surplus	4,100,000	-	4,100,000	
Unassigned funds (surplus)	<u>1,920,847</u>	<u>-</u>	<u>1,920,847</u>	
Surplus as regards policyholders	<u>8,020,847</u>	<u>-</u>	<u>8,020,847</u>	
Total Liabilities, Surplus and other Funds	<u>\$19,613,339</u>	<u>\$ -</u>	<u>\$19,613,339</u>	

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

	<u>Balance per Company</u>	<u>Examination Adjustments</u>	<u>Balance per Examination</u>	<u>Notes</u>
<b>Underwriting Income</b>				
Premiums earned	\$ -	\$ -	\$ -	
<b>Deductions</b>				
Losses incurred	-	-	-	
Loss expenses incurred	-	-	-	
Other underwriting expenses incurred	-	-	-	
Aggregate write-ins for underwriting deductions	-	-	-	
Total underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	
Net underwriting gain or (loss)	-	-	-	
<b>Investment Income</b>				
Net investment income earned	259,731	-	259,731	
Net realized capital gains or (losses)	<u>(2,520)</u>	<u>-</u>	<u>(2,520)</u>	
Net investment gain or (loss)	<u>257,211</u>	<u>-</u>	<u>257,211</u>	
<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	<u>-</u>	<u>-</u>	<u>-</u>	
Dividends to policyholders	-	-	-	
Federal and foreign income taxes incurred	<u>27,607</u>	<u>-</u>	<u>27,607</u>	
Net income	<u>\$229,604</u>	<u>\$ -</u>	<u>\$229,604</u>	

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

	2009	2008	2007	2006
Surplus as regards policyholders, December 31, previous year	<u>\$7,815,764</u>	<u>\$7,560,216</u>	<u>\$7,231,043</u>	<u>\$7,052,883</u>
Net income	229,604	257,204	334,829	251,666
Change in net unrealized capital gains or (losses)	-	-	-	-
Change in net deferred income tax	(24,521)	(1,656)	(5,656)	(73,506)
Change in nonadmitted assets	-	-	-	-
Change in provision for reinsurance	-	-	-	-
Change in surplus notes	-	-	-	-
Surplus (contributed to) withdrawn from protected cells	-	-	-	-
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	-	-	-	-
Net remittances from or (to) home office	-	-	-	-
Dividends to stockholders (cash)	-	-	-	-
Change in treasury stock	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	-
Change in surplus as regards policyholders for the year	<u>205,083</u>	<u>255,548</u>	<u>329,173</u>	<u>178,160</u>
Surplus as regards policyholders, December 31, current year	<u>\$8,020,847</u>	<u>\$7,815,764</u>	<u>\$7,560,216</u>	<u>\$7,231,043</u>

## NOTES TO FINANCIAL STATEMENTS

### Note 1 – Invested Assets

The Company's long-term bond investments were in US obligations and municipal obligations. The Company did not have any exposure to mortgage-backed and asset-backed securities at year-end 2009.

Short-term deposits consisted of funds on deposit with an affiliated investment advisor, Liberty Mutual Investment Advisors LLC, and with two money market funds held in the custodial account.

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	\$3,633,920	\$0	\$3,403,645	17.9%	0.0%	16.8%
2006*	7,062,302	0	0	34.5%	0.0%	0.0%
2007	5,900,142	0	1,084,491	29.3%	0.0%	5.4%
2008	5,738,194	0	1,902,640	26.8%	0.0%	8.9%
2009*	5,579,118	0	2,531,285	28.4%	0.0%	12.9%

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 \$5,054,980, representing 62% of the total invested assets, were invested in amply secured obligations of the United States, a state, or in FDIC insured cash deposits. The Company was in compliance with ORS 733.580.

On December 12, 2008, the Company entered into a custodial agreement with JP Morgan Bank, NA. The agreement contained all of the relevant protections described in OAR 836-027-0200(4)(a) through (l).

### 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.

The Indiana Department of Insurance retained David M. Shepherd, FCAS, MAAA, of the firm Merlinos & Associates, to evaluate the reserves of a portion of the Peerless Pool. Mr. Shepherd concluded that the controls in place were substantial and reasonable. He commented that the carried reserves of the Peerless Pool were somewhat above the selected estimate, but within a reasonable range. Based on this actuarial review, the Company would have no actuarial liabilities at December 31, 2009.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no adjustments made to the Company's surplus as a result of this examination, however, the examiners make one recommendation:

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- 5 I recommend the Company either reduce the value of its issued and outstanding capital stock or file amended Articles of Incorporation with the Oregon Insurance Division to allow the larger value. This recommendation is supported by ORS 732.095 and 60.047.

## CONCLUSION

During the five year period covered by this examination, the surplus of the Company has increased from \$7,052,883, as presented in the December 31, 2005, report of examination to \$8,020,847, as shown in this report. The comparative assets and liabilities are:

	<u>2009</u>	<u>December 31,</u>	<u>2005</u>	<u>Change</u>
Assets	\$19,613,339		\$20,313,667	\$ (700,328)
Liabilities	<u>11,592,492</u>		<u>13,260,784</u>	<u>(1,668,292)</u>
Surplus	<u>\$ 8,020,847</u>		<u>\$ 7,052,883</u>	<u>\$ 967,964</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,

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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 Safeco Insurance Company of Oregon, 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 Safeco 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: \_\_\_\_\_