Report of Examination of

Bristol West Casualty Insurance Company
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio
March 10, 2011

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Honorable Joseph Torti III
Chairman, NAIC Financial Condition (E) Committee
Deputy Director and Superintendent
Insurance and Banking
State of Rhode Island
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Directors:

In accordance with Section 3901.07 of the Ohio Revised Code ("ORC"), the Ohio Department of Insurance ("Department") conducted an examination of

Bristol West Casualty Insurance Company

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the "Company."

Scope of Examination

The Department last examined the Company as of December 31, 2008. The current examination covers the period of January 1, 2009 through December 31, 2009. Concurrently, the California Department of Insurance conducted an examination of Coast National Insurance Company, the Company's direct parent.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the Department plan and perform the examination to evaluate the Company's financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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.

For the year ended December 31, 2009, the Certified Public Accounting firm of PricewaterhouseCoopers, LLP provided an unqualified opinion on the financial statements based on Statutory Accounting Principles. The audited financial report was reviewed during the examination.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
Jeffrey J. Dailey	President, Personal Insurance, Farmers Group, Inc.
Ronald G. Myhan	Executive Vice President, Finance, Farmers Insurance Exchange
Robert D. Sadler	President, Bristol West Holdings, Inc.
Edward J. Steinman	Chief Financial Officer, Bristol West Holdings, Inc.
F. Robert Woudstra	Chief Executive Officer, Farmers Group, Inc.

Officers

As of the examination date, the following officers were serving in the designated position:

Name	Title
Robert D. Sadler	President
Edward J. Steinman	Vice President and Treasurer
Gregory J. Hammond	Secretary

Insurance Holding Company System

The Company is a member of two insurance holding company systems with separate controlling entities, Zurich Financial Services Ltd. and Farmers Insurance Exchange, as described below.

Zurich Financial Services Ltd. is a publicly traded Swiss holding company listed on the SWX Swiss Exchange. Farmers Group, Inc. is an indirect wholly owned subsidiary of Zurich Financial Services Ltd.

Farmers Insurance Exchange, a California domiciled inter-insurance exchange owned by its policyholders, along with affiliates Fire Insurance Exchange and Truck Insurance Exchange, acquired Bristol West Holdings, Inc. ("BWH") on July 3, 2007. The Company is a wholly-owned subsidiary of Coast National Insurance Company, an indirect subsidiary of BWH.

Farmers Group, Inc. provides insurance management services. It acts under the dba Farmers Underwriters Association. 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. However, the Farmers Group, Inc. management company is not an owner of these reciprocal inter-insurance exchanges. In addition to BWH, the exchanges own several other insurance companies and insurance holding companies, including Mid-Century Insurance Company and Foremost Insurance Company, as well as Farmers Financial Solutions, LLC, a registered broker-dealer. In this structure, the exchanges hold the insurance risk, while Farmers Group, Inc. earns management fees by running the exchanges' affairs.

Territory and Plan of Operations

The Company is licensed in Minnesota, Ohio, Virginia and Wyoming and is represented by independent agents and Farmer's Exclusive Agents. The Company reported direct premium written, during 2009, in the following states: Virginia, $14.4 million (43.2%); Minnesota, $12.4 million (37.1%); Wyoming, $5.9 million (17.7%); and Ohio $0.7 million (2.0%).

The following schedule illustrates the Company's premium written in 2009 by line of business, reported in thousands:

Line of Business	Direct	Assumed	Ceded	Net
Private passenger auto liability	$22,699	$0	$20,429	$2,270
Auto physical damage	10,676	0	9,611	1,065
Totals	$33,375	$0	$30,040	$3,335

Reinsurance

On July 3, 2007, the Company entered into a Quota Share Reinsurance Agreement with Farmers Insurance Exchange, a California inter-insurance exchange and affiliated company, effective January 1, 2007. Under this agreement, the Company agreed to cede 90% of its net business, as well as 90% of its net unearned premium reserves as of January 1, 2007.

Significant Operating Results

The Company reported the following net underwriting results during the last three years, reported in thousands:

	2009	2008	2007
Premiums earned	$ 2,951	$ 1,377	$ 268
Losses incurred	2,081	854	168
Loss adjustment expenses incurred	250	103	94
Underwriting expenses incurred	446	287	43
Net underwriting gain (loss)	$ 174	$ 133	$ (37)
Pure loss ratio	70.5	62.0	62.7
Loss adjustment expense ratio	8.5	7.5	35.0
Loss ratio	79.0	69.5	97.7
Underwriting expense ratio	13.4	15.4	14.4
Combined ratio	92.4	84.9	112.1

Financial Statements

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

Statement of Assets, Liabilities, Capital and Surplus
December 31, 2009

Bonds	$ 2,847,133
Cash and short term investments	12,414,436
Subtotal, cash and invested assets	15,261,569
Investment income due and accrued	20,663
Uncollected premiums in course of collection	750,119
Deferred premiums and installments booked, but not yet due	7,671,860
Amounts recoverable from reinsurers	3,580,554
Net deferred tax asset	109,147
Receivables from parent, subsidiaries, and affiliates	21,980
Miscellaneous assets	101
Total admitted assets	$27,415,993
Losses	$ 1,016,924
Loss adjustment expenses	122,409
Commissions payable	507,021
Other expenses	119,199
Taxes, licenses and fees	285,557
Current federal income taxes	8,382
Unearned premiums	1,041,696
Advance premium	93,577
Ceded reinsurance premiums payable (net of ceding commissions)	13,833,177
Funds held by Company under reinsurance treaties	101
Payable to parent, subsidiaries and affiliates	1,385,573
Miscellaneous liabilities	245,633
Total liabilities	18,659,249
Common capital stock	2,000,000
Gross paid in and contributed surplus	4,250,000
Unassigned funds	2,506,744
Total capital and surplus	8,756,744
Total liabilities, capital and surplus	$27,415,993

Statement of Income
As of December 31, 2009

Premiums earned	$ 2,951,992
Losses incurred	2,080,944
Loss adjustment expenses incurred	250,208
Other underwriting expenses incurred	446,390
Total underwriting deductions	2,777,542
Net underwriting gain	174,450
Net investment income earned	177,222
Net realized capital gains	6,245
Net investment gain	183,467
Net gain (loss) from premium balances charged off	(654,724)
Finance and service charges not included in premiums	1,251,107
Aggregate miscellaneous income	(534,594)
Total other income	61,789
Income before federal income taxes	419,706
Federal income taxes incurred	173,692
Net income	$ 246,014

Statement of Changes in the Capital and Surplus Account

Capital and surplus, December 31, 2008	$8,464,414
Net income	246,014
Change in net deferred income tax	45,609
Change in non-admitted assets	(704)
Change in provision for reinsurance	1,411
Net change in capital and surplus	292,330
Capital and surplus, December 31, 2009	$8,756,744

Notes to Financial Statements

Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Richard Moncher, FCAS, MAAA, Senior Corporate Actuary, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Moncher prepared an actuarial report supporting the Opinion in connection with the preparation of the Company's December 31, 2009 annual statement.

American Actuarial Consulting Group, LLC ("AACG") was appointed by the California Department of Insurance to provide a full actuarial evaluation of the loss and loss adjustment expense ("LAE") reserves in connection with the Department's examination of the Company.

Mary D. Miller, FCAS, MAAA, Assistant Director, Product Regulation and Actuarial Services, with the Department, reviewed the actuarial report provided by Mr. Moncher and the AACG reserve analysis. Based on her review, Ms. Miller determined the loss and LAE reserves presented in the Company's 2009 annual statement are reasonable.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Assets	$27,415,993
Liabilities	18,659,249
Capital and Surplus	8,756,744
Total Liabilities, Capital and Surplus	$27,415,993

Subsequent Events

On March 31, 2010, the Department approved the Company's Form D filing related to a Service Agreement between Farmers Insurance Exchange and the Company. Under the terms of the agreement, Farmers Insurance Exchange provides for the provision of management services to the Company at cost. Amounts payable related to the agreement are to be settled by the parties monthly.

On October 21, 2010, the Department approved the Company's Form D filing related to a Tax Sharing Agreement by, between and among Farmers Insurance Exchange and certain affiliates, effective July 1, 2009. The new Tax Sharing Agreement supersedes the agreement with an effective date of July 3, 2007.

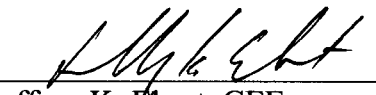
On December 21, 2010, the Department approved the Company's Form D filing that amends the Quota Share Reinsurance Agreement with Farmers Insurance Exchange by increasing the cession from 90% to 100%, effective January 1, 2010.

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, David Cook, CFE; Mary Miller, FCAS, MAAA; and Brad Schroer of the Department, participated in this examination.

Respectfully,



Jeffrey K. Ebert, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

Assistant Chief Examiner — Date: 3/14/11

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 14 day of March, 2011.

Elizabeth Chase
(Notary Public)

ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2012
My Commission Expires