

Report of Examination of

Farmers Insurance of Columbus, Inc.
Columbus, Ohio

As of December 31, 2009

Table of Contents

Subject	Page
Salutation	1
Description of Company	1
Scope of Examination	1
Management and Control:	
Board of Directors	2
Officers	2
Insurance Holding Company System	3
Territory and Plan of Operations	3
Reinsurance	3
Significant Operating Results	4
Financial Statements:	
Statement of Assets, Liabilities, Capital and Surplus	6
Statement of Income	7
Statement of Changes in the Capital and Surplus Account	8
Notes to Financial Statements:	
Investments	8
Loss and Loss Adjustment Expense Reserves	8
Conclusion	9
Subsequent Events	9
Acknowledgement	9

Columbus, Ohio
May 20, 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

Farmers Insurance of Columbus, Inc.

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, 2006. The Department’s current examination covers the period of January 1, 2007 through December 31, 2009. Concurrently, the California Department of Insurance conducted an examination of certain of the Farmers Property and Casualty Companies (“Farmers P&C Companies”), including Farmers Insurance Exchange (“FIE”), 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 all years under examination, the Certified Public Accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the combined financial statements of the Farmers P&C Companies based on Statutory Accounting Principles. The audited financial reports were 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
Steven K. Andersen	State Executive Director, Farmers Insurance Exchange
Jeffery J. Dailey	President, Personal Lines, Farmers Group, Inc.
Ronald G. Myhan	Executive Vice President, Finance and Treasurer, Farmers Insurance Exchange
Mhayse G. Samalya	Executive Vice President, Farmers Group, Inc.
Frank R. Woudstra	President and Chief Executive Officer, Farmers Group, Inc.

Officers

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

Name	Title
Steven K. Andersen	President
Ronald G. Myhan	Vice President and Treasurer
Doren E. Hohl	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system with separate controlling entities, FIE and Zurich Financial Services Ltd. (“ZFS”), as described below.

FIE, a California domiciled inter-insurance exchange owned by its policyholders, holds 100% of the outstanding shares of the Company. Through its ownership interest in the Company, FIE is an ultimate controlling person of the Company.

ZFS is a publicly traded Swiss holding company listed on the SWX Swiss Exchange. Farmers Group, Inc. (“FGI”), a Nevada corporation and an indirect wholly owned subsidiary of ZFS, or one of its wholly owned subsidiaries, provides certain administrative services to FIE as the attorney-in-fact. Thus ZFS, as the parent of FGI, is an ultimate controlling person of the Company.

Territory and Plan of Operations

The Company is licensed in Ohio and Michigan, however, all direct business during the exam period was written in the State of Ohio. The Company primarily markets personal lines of insurance through exclusive agents and independent agents.

Reinsurance

Certain members of the Farmers P&C Companies participate in an Intercompany Pooling Agreement (“Pooling Agreement”) with FIE as the lead company. Each participant assumes a proportionate share of the Farmers P&C Companies’ results from FIE based on the following participation percentages:

Name of Company	Domicile	Participation
Farmers Insurance Exchange	California	51.75%
Mid-Century Insurance Company	California	16.00%
Truck Insurance Exchange	California	7.75%
Fire Insurance Exchange	California	7.50%
Farmers Insurance Company of Oregon	Oregon	7.00%
Farmers Insurance Company of Washington	Washington	2.00%
Civic Property and Casualty Company	California	1.00%
Exact Property and Casualty Company	California	1.00%
Farmers Insurance of Columbus, Inc.	Ohio	1.00%
Neighborhood Spirit Property and Casualty Company	California	1.00%
Texas Farmers Insurance Company	Texas	1.00%
Farmers Insurance Company, Inc.	Kansas	0.75%

Name of Company	Domicile	Participation
Farmers Insurance Company of Idaho	Idaho	0.75%
Farmers New Century Insurance Company	Illinois	0.75%
Illinois Farmers Insurance Company	Illinois	<u>0.75%</u>
Total		<u>100.00%</u>

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	\$ 45,823	\$ 39,134	\$ 45,823	\$ 39,134
Homeowners multiple peril	25,528	22,121	25,528	22,121
Auto physical damage	35,119	18,429	35,119	18,429
Commercial multiple peril	2,683	9,828	2,683	9,828
Workers' compensation	0	2,543	0	2,543
Commercial auto liability	0	1,895	0	1,895
All other lines	<u>1,081</u>	<u>3,071</u>	<u>1,081</u>	<u>3,071</u>
	<u>\$110,234</u>	<u>\$97,021</u>	<u>\$110,234</u>	<u>\$97,021</u>

Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands.

	2009	2008	2007
Premiums earned	<u>\$101,669</u>	<u>\$122,160</u>	<u>\$123,438</u>
Losses incurred	54,954	76,865	70,794
Loss adjustment expenses incurred	11,414	14,501	13,391
Underwriting expenses incurred	<u>31,657</u>	<u>36,408</u>	<u>38,023</u>
Total underwriting deductions	<u>98,025</u>	<u>127,774</u>	<u>122,208</u>
Net underwriting gain (loss)	<u>\$3,644</u>	<u>\$(5,614)</u>	<u>\$1,230</u>
Pure loss ratio	54.1%	62.9%	57.4%
Loss adjustment expense ratio	<u>11.2%</u>	<u>11.9%</u>	<u>10.8%</u>
Loss ratio	65.3%	74.8%	68.2%
Underwriting expense ratio	<u>32.6%</u>	<u>30.9%</u>	<u>29.7%</u>
Combined ratio	<u>97.9%</u>	<u>105.7%</u>	<u>97.9%</u>

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	\$ 178,167,058
Cash, cash equivalents, and short term investments	<u>9,296,970</u>
Subtotal, cash and invested assets	<u>187,464,028</u>
Investment income due and accrued	1,768,421
Premiums and agents' balances in course of collection	2,766,210
Deferred premiums and installments booked, but not yet due	21,102,872
Accrued retrospective premiums	38,015
Amounts recoverable from reinsurers	6,920,222
Net deferred tax asset	5,236,662
Miscellaneous assets	<u>252,136</u>
Total admitted assets	<u>\$ 225,548,566</u>
Losses	\$ 54,771,496
Reinsurance payable on paid losses and loss adjustment expenses	6,218,344
Loss adjustment expense	16,187,534
Taxes, licenses and fees	1,566,999
Unearned premiums	42,047,588
Advance premium	981,454
Dividends to policyholders declared and unpaid	30,766
Ceded reinsurance premiums payable (net of ceding commissions)	5,101,278
Payable to parent, subsidiaries and affiliates	6,316,717
Miscellaneous liabilities	<u>1,229,281</u>
Total liabilities	<u>134,451,457</u>
Common capital stock	1,000,000
Gross paid in and contributed surplus	61,550,000
Unassigned funds	<u>28,547,109</u>
Total capital and surplus	<u>91,097,109</u>
Total liabilities, capital and surplus	<u>\$ 225,548,566</u>

Statement of Income
As of December 31, 2009

Premiums earned	<u>\$ 101,669,104</u>
Losses incurred	54,953,980
Loss adjustment expenses incurred	11,413,976
Other underwriting expenses incurred	<u>31,657,542</u>
Total underwriting deductions	<u>98,025,498</u>
Net underwriting gain	<u>3,643,606</u>
Net investment income earned	6,884,134
Net realized capital gains	<u>188,538</u>
Net investment gain	<u>7,072,672</u>
Net gain (loss) from premium balances charged off	(1,034,937)
Finance and service charges not included in premiums	849,657
Miscellaneous income (expense)	<u>(1,100,949)</u>
Total other income	<u>(1,286,229)</u>
Income before dividends and federal income taxes	9,430,049
Dividends to policyholders	17,418
Federal income taxes incurred	<u>2,886,308</u>
Net income	<u>\$ 6,526,323</u>

Statement of Changes in the Capital and Surplus Account
(in thousands)

	2009	2008	2007
Capital and surplus, prior year end	<u>\$84,255</u>	<u>\$83,766</u>	<u>\$76,678</u>
Net income	6,526	1,215	6,449
Change in net unreal. cap. gains (losses)	(221)	0	0
Change in non-admitted assets	74	(56)	83
Aggregate write-ins for gains in surplus	312	(338)	88
Other gains (losses) to surplus	<u>151</u>	<u>(332)</u>	<u>468</u>
Change in surplus for the year	<u>6,842</u>	<u>489</u>	<u>7,088</u>
Capital and surplus, current year end	<u>\$91,097</u>	<u>\$84,255</u>	<u>\$83,766</u>

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 James L. Nutting, FCAS, MAAA, Chief Actuary, FIE, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Nutting 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 of the companies in the FIE Pooling Agreement 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. Nutting 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 appear to be reasonably stated.

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	<u>\$ 225,548,566</u>
Liabilities	134,451,457
Capital and Surplus	<u>91,097,109</u>
Total Liabilities, Capital and Surplus	<u>\$ 225,548,566</u>

Subsequent Events

On March 31, 2010, the Department approved the Company's Form D filing related to a Service Agreement between FIE and the Company. Under the terms of the agreement, FIE provides or arranges 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 FIE and certain affiliates, effective July 1, 2009. The new Tax Sharing Agreement supersedes the agreement with an effective date of July 3, 2007.

On January 1, 2011, Daniel M. Lewis replaced Steve Anderson as the State Executive Director for Ohio and was elected as the President of Farmers Insurance of Columbus Inc., at the Company's Board of Directors meeting held on May 20, 2011.

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 Finkler, CPA; 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.

J. K. Ebert 5/24/11
Assistant Chief Examiner Date

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 24 day of May, 2011.

Kimberly Ann Lowry
(Notary Public)

3-28-2016
My Commission Expires

KIMBERLY ANN LOWRY
NOTARY PUBLIC • STATE OF OHIO
Recorded in Franklin County
My commission expires Mar. 28, 2016