

Report of Examination of

Farmers Insurance of Columbus, Inc.
Columbus, Ohio

As of December 31, 2013

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Columbus, Ohio
May 22, 2015

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

Dear Lt. Governor/Director:

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, 2009. The Department’s current examination covers the period of January 1, 2010 through December 31, 2013.

Representatives of the California Department of Insurance, as the Coordinating State regulator of Farmers Insurance Exchange and its affiliated property and casualty insurers, led the multi-state coordinated examination. The examination was conducted 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 corporate governance, identify and assess current and prospective risks, and evaluate the Company’s system of 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 Statements of 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 each year under examination, the certified public accounting firm of PricewaterhouseCoopers LLP provided an unqualified opinion on the combined statutory financial statements of Farmers Insurance Exchange and its affiliated property and casualty insurers. Representatives of the Department reviewed the independent auditors’ reports and supporting work papers 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
Kenneth W. Bentley	Vice President, Community Affairs and Education, Nestle' USA, Inc.
Peter D. Kaplan	Retired
David W. Louie	First Vice President, CB Richard Ellis, Inc.
David A. Travers	Chief Operations Officer, Farmers Group Inc.
Dale Anne Marlin	Retired
Ronald G. Myhan	Chief Financial Officer, Farmers Insurance Exchange
Donald E. Rodriguez	Executive Director, Boys and Girls Club of Long Beach, CA
John T. Wuo	President, Golden Apple Group International, Inc.

Officers

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

Name	Title
Julia K. Krouse	President
Ronald G. Myhan	Vice President and Treasurer
Bryan F. Murphy	Vice President
Jeffrey M. Sauls	Vice President
Karyn L. Williams	Vice President
James L. Nutting	Vice President
Doren E. Hohl	Secretary

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company is a wholly owned subsidiary of Farmers Insurance Exchange, an inter-insurance exchange owned by its policyholders and organized under the laws of the State of California. Through its direct stock ownership interest in the Company, Farmers Insurance Exchange is an Ultimate Controlling Person.

Farmers Group, Inc. ("FGI") is a Nevada corporation and the attorney-in fact for Farmers Insurance Exchange. FGI provides certain non-claims administrative services for Farmers Insurance Exchange pursuant to a power of attorney provided by Farmers Insurance Exchange policyholders, and therefore, FGI is also considered an Ultimate Controlling Person.

FGI is an indirect wholly owned subsidiary of Zurich Insurance Group Ltd. ("Zurich"), a Swiss company. Neither FGI nor Zurich holds any ownership interest in Farmers Insurance Exchange, and Farmers Insurance Exchange does not hold any ownership interest in FGI or Zurich. Farmers Insurance Exchange and FGI are separate and distinct Ultimate Controlling Persons.

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.

On March 1, 2010, Farmers Insurance Exchange and the Company entered into a Service Agreement pursuant to which Farmers Insurance Exchange provides various services, including claims adjustment services, accounting and financial reporting services, investment management services, preparation of insurance policies, billing and collections, and other administrative services to the Company at cost. The Service Agreement was filed with, and approved by, the Department.

The following schedule illustrates the Company's premium written in 2013 by line of business, reported in thousands:

Line of Business	Direct	Assumed	Ceded	Net	Percent of Net
Private passenger auto liability	\$ 60,786	\$ 48,317	\$ 60,786	\$ 48,317	35.4%
Homeowners multiple peril	20,228	39,209	20,228	39,209	28.8%
Auto physical damage	43,833	22,157	43,833	22,157	16.3%
Commercial multiple peril	2,490	12,479	2,490	12,479	9.2%
Fire	0	3,680	0	3,680	2.7%
Workers' compensation	0	3,470	0	3,470	2.5%
All other	<u>966</u>	<u>7,057</u>	<u>966</u>	<u>7,057</u>	<u>5.1%</u>
Total	<u>\$128,303</u>	<u>\$136,369</u>	<u>\$128,303</u>	<u>\$136,369</u>	<u>100.0%</u>

The Company reported the following underwriting results during the examination period:

	2013	2012	2011	2010
Loss ratio	67.1	71.2	73.0	65.0
Expense ratio	34.7	32.6	35.4	34.1
Policyholder dividend ratio	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Combined ratio	<u>101.8</u>	<u>103.8</u>	<u>108.4</u>	<u>99.1</u>

Reinsurance

Farmers Insurance Exchange is the lead insurer in the Inter-Company Reinsurance Agreement (“Pooling Agreement”) under which the Company and its affiliated insurers listed below pool their risks and obtain a proportional share of the underwriting results of the pooled business. The Pooling Agreement participation percentages are as follows:

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%
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>100.0%</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, 2013

Bonds	\$ 213,695,670
Cash, cash equivalents, and short term investments	<u>222,648</u>
Subtotal, cash and invested assets	213,918,318
Investment income due and accrued	1,325,508
Uncollected premiums	2,457,523
Deferred premiums booked but not yet due	21,826,306
Accrued retrospective premiums	23,911
Amounts recoverable from reinsurers	7,932,288
Net deferred tax assets	6,860,980
Business-owned life insurance – cash value	<u>407,667</u>
Total admitted assets	<u>\$ 254,752,501</u>

**Statement of Assets, Liabilities, Capital and Surplus
December 31, 2013**

Losses	\$ 62,157,532
Reinsurance payable on paid losses and loss adjustment expenses	8,146,578
Loss adjustment expenses	17,184,106
Other expenses	102,197
Taxes, licenses and fees	1,898,261
Unearned premiums	59,971,971
Advance premiums	1,479,237
Dividends declared and unpaid to policyholders	30,766
Ceded reinsurance premiums payable (net of ceding commissions)	5,868,364
Payable to parent, subsidiaries and affiliates	1,342,092
Aggregate write-ins for liabilities	
Accounts payable	600,113
Deferred Agent/DM compensation liability	462,380
Pooled share of unauthorized reinsurance	<u>91,348</u>
Total liabilities	<u>159,334,945</u>
Aggregate write-ins for special surplus funds:	
Increase due to SSAP No. 10 net deferred tax	774,016
Common capital stock	1,000,000
Gross paid in and contributed surplus	61,550,000
Unassigned funds	<u>32,093,540</u>
Total capital and surplus	<u>95,417,556</u>
Total liabilities, capital and surplus	<u>\$ 254,752,501</u>

Statement of Income
As of December 31, 2013

Premiums earned	<u>\$ 137,244,304</u>
Losses incurred	78,236,738
Loss adjustment expenses incurred	13,811,205
Other underwriting expenses incurred	<u>47,374,139</u>
Total underwriting deductions	<u>139,422,082</u>
Net underwriting gain (loss)	<u>(2,177,778)</u>
Net investment income earned	5,548,462
Net realized capital gains	<u>29,181</u>
Net investment gain	<u>5,577,643</u>
Net gain (loss) from agents' or premium balances charged off	(1,052,698)
Finance and service charges not included in premiums	2,372,769
Miscellaneous income (expense)	(472,556)
Premiums for business-owned life insurance	<u>(4,456)</u>
Total other income	<u>843,059</u>
Net income before dividends to policyholders and federal income taxes	4,242,924
Dividends to policyholders	<u>9,694</u>
Net income after dividends to policyholders, before federal income taxes	<u>4,233,230</u>
Federal and foreign income taxes incurred	<u>1,142,341</u>
Net income	<u>\$ 3,090,889</u>

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

Capital and surplus, December 31, 2009	<u>\$ 91,097</u>
Net income	2,465
Change in net unrealized capital gains	210
Change in non-admitted assets	577
Aggregate write-ins for gains and losses in surplus	826
Other gains to surplus	<u>243</u>
Change in surplus during the exam period	<u>4,321</u>
Capital and surplus, December 31, 2013	<u>\$ 95,418</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 Nutting, FCAS, MAAA, Senior Vice President and Chief Actuary, Farmers Group, Inc., to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Nutting prepared an Actuarial Report supporting the Opinion.

The California Department of Insurance appointed American Actuarial Consulting Group, LLC ("AACG") to perform an actuarial review of the loss and loss adjustment expense ("LAE") reserves of Farmers Insurance Exchange and its affiliated property and casualty insurers as of December 31, 2013. Based on the results of the analysis, AACG concluded the carried loss and LAE reserves fall within a range of reasonable estimates.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Assets	<u>\$254,752,501</u>
Liabilities	159,334,945
Capital and Surplus	<u>95,417,556</u>
Total Liabilities, Capital and Surplus	<u>\$254,752,501</u>

Subsequent Events

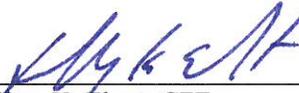
The Department is not aware of any events occurring subsequent to the examination date that would have a material impact on the financial position of the Company.

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, Thomas Botsko, ACAS, MAAA; Methuselah Nyangoro, AES, CISA, CFE, CPA; and Kim Somogyi, AFE, CPA (Inactive) 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, 2013.

[Signature] 6/17/15
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 17 day of June, 2015.

[Signature]
(Notary Public)
No expiration
My Commission Expires



Darcy A. Moulin
Attorney At Law
Notary Public, State of Ohio
My commission has no expiration date
Sec. 147.03 R.C.