

Company electronically (PDF file, via e-mail) on May 29, 2008 to Mr. Barry Waggener, President. Pursuant to Idaho Code § 41-227(4), the Company was afforded a reasonable opportunity to review the examination report and to make written submissions regarding relevant matters contained within the Report. The final verified Report is attached hereto and incorporated herein as Exhibit A.

WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver executed by Mr. Waggener on June 24, 2008 and received at the Department via e-mail (PDF file) on June 24, 2008. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order as well as its right to provide a written submission or rebuttal pursuant to Idaho Code § 41-227(4), prior to the entry of this order.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor, it is hereby ordered that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 26TH day of June 2008.



William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 26TH day of June 2008, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Barry Waggener, President	<u> X </u>	certified mail
Farmers Insurance Company of Idaho	<u> </u>	first class mail
2500 South Fifth Avenue	<u> </u>	hand delivery
Pocatello, Idaho 83204-1923	<u> </u>	Facsimile
Barry_Waggener@FarmersInsurance.com	<u> X </u>	e-mail

Mr. Thomas George Powell, Financial Analyst	<u> </u>	certified mail
Farmers Insurance Company of Idaho	<u> </u>	first class mail
2500 South Fifth Avenue	<u> </u>	hand delivery
Pocatello, Idaho 83204-1923	<u> </u>	Facsimile
Tom.Powell@FarmersInsurance.com	<u> X </u>	e-mail

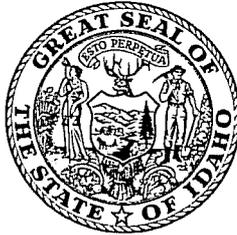
Georgia Siehl, CPA, CFE	<u> </u>	certified mail
Bureau Chief / Chief Examiner	<u> </u>	first class mail
Idaho Department of Insurance	<u> X </u>	hand delivery
700 W. State St., 3 rd Floor	<u> </u>	facsimile
Boise, Idaho 83720-0043	<u> </u>	
e-mail: Georgia.Siehl@doi.idaho.gov	<u> X </u>	e-mail



William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

FARMERS INSURANCE COMPANY OF IDAHO
(a stock insurance company)

as of

December 31, 2006

FILED	<u>5/28/08</u>	<u>GS</u>	by <u>WRM</u>
	date	initial	
ADOPTED	<u>6/26/08</u>	<u>GS</u>	by <u>WRM</u>
	date	initial	
STATE OF IDAHO Department of Insurance			

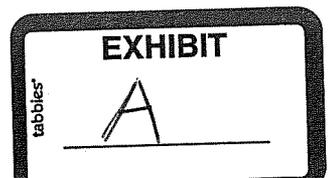


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State of Idaho
DEPARTMENT OF INSURANCE

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Governor

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WILLIAM W. DEAL
Director

Pocatello, Idaho
May 28, 2008

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

The Honorable Alfred W. Gross
Commissioner
Chair, NAIC Financial Condition (E) Committee
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P. O. Box 1157
Richmond, Virginia 23218

The Honorable Morris J. Chavez
Superintendent of Insurance, Insurance Division of New Mexico
NAIC Secretary, Western Zone
Public Regulation Commission
State of New Mexico
PO Box 1269
Santa Fe, New Mexico 87504-1269

Dear Director, Commissioner and Superintendent:

Pursuant to your instructions, in compliance with Section 41-219(1), Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2006, of the financial condition and corporate affairs of:

Farmers Insurance Company of Idaho
2500 South Fifth Avenue
Pocatello, Idaho 83204-1923

hereinafter referred to as the "Company," at its offices in Pocatello, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2004, through December 31, 2006, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation Handbook*, and the NAIC *Accounting Practices and Procedures Manual*. We performed our testing in order to achieve a confidence level commensurate with the risk assessed through utilization of the NAIC *Financial Condition Examiners Handbook*. Verification and valuation of assets, liabilities, and surplus as regards policyholders, and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

The examination was conducted in conjunction with and concurrently with the examination of the Company's parent entities, Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange. The examination of the Exchanges was conducted by the California Department of Insurance as of December 31, 2006. There was some reliance on the work performed by the California Department of Insurance.

As part of its examination, the California Department of Insurance examined Farmers Insurance Exchange's liability for loss and loss adjustment expenses on an aggregate basis (i.e., on a pooled basis before business was retroceded back to the pooling agreement participants, including the Company). The intercompany reinsurance agreement and the reinsurance pool are described in detail under the captions, *MANAGEMENT AND CONTROL* and *REINSURANCE*.

A letter of representation attesting to the Company's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2000 through December 31, 2003.

A review was made to ascertain what action was taken by the Company with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the Company.

HISTORY AND DESCRIPTION

General

The Company was organized and incorporated on October 29, 1969 as a stock casualty insurance company under the name of Farmers Insurance Company of Idaho. The Company commenced operations on December 31, 1969 conducting multi-line insurance business in Idaho.

The Company was licensed to write business in the State of Idaho. The classes of insurance authorized to be written were disability, property, marine & transportation, and casualty. Effective January 1, 2004, the Company was authorized to write Workers' Compensation business. The Company has accredited reinsurer status in the States of California and Oregon.

Effective January 1, 1999, the Company became a percent participant in an Intercompany Reinsurance Pooling Agreement with fourteen other affiliated members of Farmers Insurance Group, Inc. The Company's portion of pooled premiums and losses under the agreement is .75 percent. The intercompany reinsurance agreement and the reinsurance pool are described in more detail under the captions, *MANAGEMENT AND CONTROL* and *REINSURANCE*.

Capital Stock and Paid in Surplus

At December 31, 2006, the Company had 20,000 authorized shares of common stock at \$100 par value each, with 15,040 shares of capital stock issued and outstanding for a total capital of \$1,504,000. The issued and outstanding shares were reconciled to Company capital stock records, with only minor differences noted. The issued and outstanding shares at December 31, 2006 were as follows:

<u>Shareholder</u>	<u>Issued Shares</u>	<u>Percent of Issued Stock</u>
Farmers Insurance Exchange	12,032	80.00
Truck Insurance Exchange	2,000	13.30
Fire Insurance Exchange	1,000	6.65
Directors' shares	7	0.05
Difference noted	<u>1</u>	<u>0.00</u>
Totals	<u>15,040</u>	<u>100.00</u>

During 2004 and 2005, each director was a shareholder of the Company in accordance with Article VIII of the Articles of Incorporation and Section 11 of the Bylaws, as amended November 1, 1989. However, at December 31, 2006, not all directors were shareholders of the Company and in 2007, all outstanding shares issued to directors were transferred to Farmers Insurance Exchange. It is recommended that the Company update

its Articles of Incorporation and Bylaws to eliminate the requirement that all directors be shareholders.

Subsequent to the examination date, the Company amended its Articles of Incorporation and Bylaws whereby Directors, may, but are no longer required to be shareholders of the Company.

The following exhibit reflects the activity in the capital structure of the Company during the examination period:

<u>Year</u>	<u>Shares Issued/ (Redeemed)</u>	<u>Common Capital Stock</u>	<u>Gross Paid In & Contributed Surplus</u>	<u>Total Capital & Paid in and Contributed Surplus</u>
2003	15,040	\$1,504,000	\$33,162,448	\$34,666,448
2004	15,040	1,504,000	33,162,448	34,666,448
2005	15,040	1,504,000	33,162,448	34,666,448
2006	<u>15,040</u>	<u>1,504,000</u>	<u>33,162,448</u>	<u>34,666,448</u>
Total	<u>15,040</u>	<u>\$1,504,000</u>	<u>\$33,162,448</u>	<u>\$34,666,448</u>

Dividends to Stockholders

During the period January 1, 2004 through December 31, 2006 and subsequent thereto, no dividends were declared or paid to the Company's stockholders.

MANAGEMENT AND CONTROL

Insurance Holding Company System

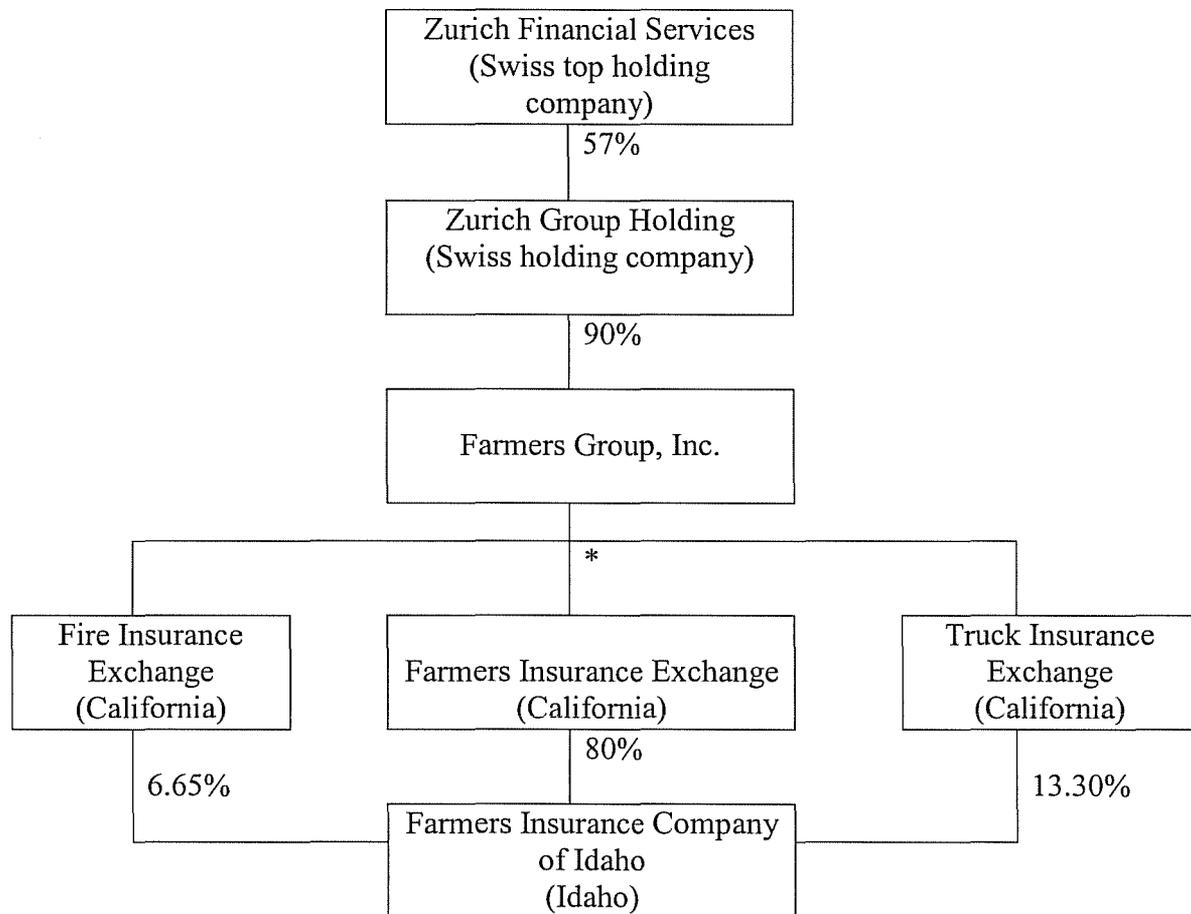
In December 1988, B.A.T Industries p.l.c. (B.A.T) acquired 100 percent ownership of the Company through its wholly owned subsidiary, BATUS Financial Services. BATUS Financial Services was then merged into the Company's current parent, Farmers Group, Inc.

The financial services businesses of B.A.T, which included the Company, were merged with Zurich Insurance Company in September 1998. The businesses of Zurich Insurance Company and the financial services businesses of B.A.T were transferred to ZGH, a Swiss holding company located in Zurich, Switzerland.

In 2000, the ownership structure of the ultimate controlling person, Zurich Financial Services, was simplified by unification of its dual holding company structure under a unification plan. The Company notified the Department of the Unification Plan and requested a determination pursuant to Sections 41-3802(1) and 41-3805(5), Idaho Code.

In a letter dated June 8, 2000, the Department determined that a Form A was not required to be filed with respect to the Unification Plan for Zurich Financial Services, Zurich Allied and Allied Zurich.

The Company was a member of an insurance holding company system as defined in Section 41-3801, Idaho Code. The *Ultimate Controlling Persons* within the holding company system were Zurich Financial Services and Farmers Insurance Exchange as shown in the following abridged organizational chart:



*Farmers Group, Inc. has a management relationship with Fire Insurance Exchange, Farmers Insurance Exchange, and Truck Insurance Exchange.

Zurich Financial Services is a publicly traded Swiss holding company listed on the Swiss Exchange. Farmers Insurance Exchange is a California domiciled inter-insurance exchange owned by its policyholders.

Company records indicated no one person or entity had the power to direct the management of the ultimate parent noted in the previous chart.

The Form B Insurance Holding Company System Registration Statements for the years 2004 through 2006 were examined. A review of the Company's latest Form B

Registration Statement showed it had been filed with the Idaho Department of Insurance on May 22, 2007 and appeared to be current and valid.

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2006:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Barry Paul Waggener Pocatello, Idaho	President Executive Director, Pocatello Service Center
Thomas George Powell Pocatello, Idaho	Treasurer, Financial Analyst
James Anthony Ignozzitto Pocatello, Idaho	Vice President Executive Director, Idaho State Office
Chanda Andreasen Sperry Pocatello, Idaho	Secretary, Personal Lines Operations Manager
Pierre Christophe Wauthier Los Angeles, California	Vice President, Chief Financial Officer, Farmers Group, Inc.
Paul Norman Hopkins Los Angeles, California	Vice President, Chief Executive Officer, Farmers Group, Inc., and President – Strategic Alliances, Farmers Insurance Group

Subsequent to the examination date, James Anthony Ignozzitto and Chanda Andreasen Sperry accepted other positions within the Farmers organization. Kris Ueland Pacey was elected to serve as a Director and Vice President while Frank Robert Woudstra was elected as Director in 2007. In addition, David Shawn Price was elected to the Board of Directors subsequent to the examination date.

Officers:

The following persons were serving as officers of the Company at December 31, 2006:

Barry Paul Waggener	President Executive Director, Pocatello Service Center
Thomas George Powell	Treasurer, Financial Analyst
Chanda Andreasen Sperry	Secretary, Personal Lines Operations Manager
Paul Norman Hopkins	Vice President, Chief Executive Officer, Farmers Group, Inc., and President – Strategic Alliances, Farmers Insurance Group
James Anthony Ignozzitto	Vice President and Executive Director, Idaho State Office
Kevin Eugene Kelso	Vice President, Property and Casualty Operations
Bryan Francis Murphy	Vice President, Chief Claims Officer
Ronald Gregory Myhan	Vice President and Exchange Finance
Mhayse Gokul Samalya	Vice President, President, Farmers Business Insurance
Keitha Tullos Schofield	Vice President, Support Services
Stanley Ray Smith	Vice President, and President of Personal Lines
Warren Benjamin Tucker	Vice President, Chief Actuary
Pierre Christophe Wauthier	Vice President, Chief Financial Officer, Farmers Group, Inc.
Frank Robert Woudstra	Vice President, President and Chief Operating Officer, Farmers Group, Inc.

Subsequent to the examination date, Ronald Gregory Myhan and Doren Eugene Hohl were named as Treasurer and Secretary, respectively.

The Company does not have any employees. All officers are employees of Farmers Group, Inc.

Committees

The Board annually appointed the Executive Committee. The Company also maintained an Investment Committee. Individuals serving on their respective committees at December 31, 2006 were as follows:

<u>Executive Committee</u>	<u>Investment Committee</u>
Barry Paul Waggener	Barry Paul Waggener
Thomas George Powell	Thomas George Powell

Conflict of Interest

The Company has a conflict of interest policy in place that requires directors, officers, and key employees to annually complete a conflict of interest statement. The statements completed during the period January 1, 2004, through December 31, 2006 appeared to appropriately disclose any possible conflicts of interest.

Contracts and Agreements

The Company had the following agreements in effect at December 31, 2006.

Intercompany Reinsurance Pooling Agreement

The Company, along with fourteen of its affiliates, participated in an intercompany reinsurance pooling agreement whereby a fixed percentage of the Reinsurance Portfolio and related expenses were pooled in the following percentages:

Farmers Insurance Exchange	51.75%
Truck Insurance Exchange	7.75%
Fire Insurance Exchange	7.5%
Farmers Insurance Company of Oregon	7.0%
Farmers Insurance Company of Washington	2.0%
Mid-Century Insurance Company	16.0%
Texas Farmers Insurance Company	1.0%
Farmers Insurance of Columbus, Inc.	1.0%
Civic Property and Casualty Company	1.0%
Exact Property and Casualty Company	1.0%
Neighborhood Spirit Property and Casualty Company	1.0%
Farmers Insurance Company, Inc.	.75%
Illinois Farmers Insurance Company	.75%
Farmers New Century Insurance Company	.75%
Farmers Insurance Company of Idaho	.75%
Total:	<u>100.00%</u>

The agreement has been in existence since 1985, and was last amended in 1999. However, the Company did not join the pool and assume business, until January 1, 1999. Terms of the agreement call for all premiums and losses of the subsidiaries in the pool to be ceded to Farmers Insurance Exchange; then, premium earned, unearned premium, losses and loss adjustment expenses are retroceded back to the subsidiaries in the respective percentages as noted above. The agreement also called for the Company to bear its percentage of the pool for expenses applicable to all covered risks including, but not limited to, loss adjustment expenses, taxes, the cost of reinsurance and all other underwriting expenses.

The agreement also provided for settlement of intercompany balances between pool members on a not less than monthly basis within thirty days of the closing date. Examination of the Company's practices revealed that balances were being settled on a monthly basis.

As previously stated, the Company does not have its own employees, but instead is a party to the intercompany reinsurance agreement with Farmers Insurance Exchange, as described above. Under this agreement, Farmers Insurance Exchange assumed 100 percent of the Company's direct business. Rather than utilizing separate written service agreements, the services and related fees arising under the reinsurance pooling agreement were anticipated and covered under the broader *due to the reinsurer category* of the intercompany reinsurance pooling agreement. Currently Farmers Insurance Exchange provides the claims adjusting services and outsources the remaining management services, including staffing and occupancy to Farmers Group, Inc.

Farmers Group, Inc., the Attorney-In-Fact for the Exchanges, provided all operating services, except claims adjustment services, to Farmers Insurance Exchange and the two affiliated Exchanges (Fire Insurance Exchange and Truck Insurance Exchange) pursuant to the *subscription agreements* signed by each individual policyholder of the Exchange(s). There were no such subscription agreement forms applicable between the Company's policyholders and Farmers Group, Inc., as the Company's relationship is with Farmers Insurance Exchange and not Farmers Group, Inc.

Services Agreement

Farmers Insurance Exchange provided or agreed to provide services on behalf of the Company under the terms of a service agreement. Services covered under the agreement included preparation of insurance policies, calculation of required premiums and commissions; receipt of applications for insurance; maintenance of policyholder and agent records; policyholder billing and accounting for monies received; preparation of forms to properly administer the Company; claims adjustment services; and such other services required by the Company. In addition, Farmers Insurance Exchange agreed to provide or arrange for third party advisors to provide investment services to the Company.

The agreement was effective March 1, 2005 and remains in force continuously for five years unless terminated by either party with ninety days prior written notice. The agreement shall renew automatically upon every fifth anniversary under the same terms and conditions unless written notice not to renew is otherwise provided.

The agreement was submitted to the Department of Insurance as required by Section 41-3807(2)(d), Idaho Code. In a letter to the Company dated July 5, 2005, the Department determined, that based on information provided, it had no objections to the proposed agreement. However, the Department requested that a signed and dated copy of the agreement be provided on or before July 22, 2005.

According to management, the Board of Directors has not yet approved the agreement and it has not been executed. Management further indicated that the Form B Insurance Holding Company System Registration Statement will indicate that the California Department has yet to approve the agreement.

Tax Sharing Agreement

Effective February 9, 1997, a tax sharing agreement was executed between Farmers Insurance Exchange and its subsidiaries of which the Company was included. Under the agreement, the tax liability was computed on a separate return basis. When the Group benefited from losses or tax credits from a particular member, that member was compensated accordingly. Compensation was made the month following the accrual period based upon the amounts reflected in the monthly tax accruals or related schedules. However, the final settlement shall be made forty-five days after the filing date of the consolidated return.

The tax sharing agreement was revised to include Foremost Group of Companies joining the consolidated group and to change the name of Farmers Direct Insurance Company to Farmers New Century Insurance Company. The revised agreement, which was executed on July 25, 2000, was substantially similar to the agreement described above.

Subsequent to the examination date, the tax sharing agreement was amended to include Bristol West Holdings, Inc., and all of its subsidiaries and two companies owned by Foremost Corporation of America. The California Department of Insurance approved the agreement in January 2008. The amended agreement was also filed with the Idaho Department of Insurance in accordance with Section 41-3807(2)(d), Idaho Code.

Investment Management and Services Agreements

Effective July 1, 1998, Scudder Kemper Investments, Inc. was appointed by Farmers Group, Inc. as the investment manager of portfolios for Farmers, Fire and Truck Insurance Exchanges, including Farmers Group, Inc. All investments were held for safekeeping in accordance with the terms of the Custody Agreement with JP Morgan. A report on the performance of each portfolio was furnished to Farmers Group, Inc. within 15 days of the end of each month. The investment manager maintained full records of all transactions effected for each portfolio.

The agreement may be terminated by Farmers Group, Inc. or the investment manager upon ninety days notice, subject to completion and settlement of any transactions already initiated in the portfolio, and payment by Farmers Group, Inc. within ten days following the termination date of all fees remaining unpaid. Farmers Group, Inc. may terminate this agreement immediately if, in the reasonable opinion of Farmers Group, Inc., the investment manager's performance under this agreement is not consistent with Farmers Group, Inc.'s performance of its obligations.

Effective November 4, 1998, Scudder Kemper Investments, Inc. entered into a Service Level Agreement with its affiliate, Zurich Investment Services Limited (formerly Centre Investment Services Limited) to provide accounting and reporting services in connection with Farmers Group, Inc. investment portfolio's including Securities Valuation Office reporting. Scudder Kemper Investments, Inc. was given the authority to vote the proxies of the common stock for Farmers Group, Inc.

In 2001, Centre Investment Services Limited changed its name to Zurich Investment Services Limited. All Farmers related entities continued to receive the investment services from Zurich Investment Services Limited.

In 2002, Scudder Kemper Investments, Inc. was acquired by Deutsche Bank and thereby joined with Deutsche Asset Management, a division of Deutsche Bank. Subsequently, Deutsche Asset Management has been providing investment management services to Farmers, Fire, and Truck Insurance Exchanges along with Farmers Group, Inc.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company's Articles of Incorporation and Bylaws were not amended during the examination period. However, subsequent to the examination date, the Articles of Incorporation and Bylaws were amended to conform with current Idaho law. Under the amended Articles and Bylaws, Directors, may, but are no longer required to be shareholders of the Company.

Minutes of Meetings

A review of the minutes of the meetings of the Shareholders, the Board of Directors, and the various committees for the period January 1, 2004 through December 31, 2006 and subsequent thereto, indicated compliance with the Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers, and the election or appointment of Committee members.

This review of the minutes also indicated that a quorum was present at all Shareholders' and Board of Directors' meetings held during the examination period and that significant Company transactions and events were properly authorized.

Investment transactions were approved in compliance with Section 41-704, Idaho Code. Furthermore, the Company maintained records of its investments in conformity with Section 41-705, Idaho Code.

The Board of Directors certified that they had received a copy of the Company's December 31, 2003 Report of Examination and Order Adopting the Report of Examination dated October 27, 2005.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Company was maintained throughout the period under examination.

The Company was included as an insured under the financial institution bond maintained by Farmers Group, Inc. The bond provided up to \$15,000,000 per occurrence with a \$30,000,000 aggregate limit of liability against losses from acts of dishonesty and fraud by Farmers' employees. The protection of the financial institution bond met the suggested minimum limits recommended by the NAIC *Financial Condition Examiners Handbook*.

The Company was also included under various insurance policies issued to Farmers Group, Inc. for automobile/general liability and supplemental automobile; umbrella liability; employee fidelity insurance; mortgage impairment insurance; investment property insurance; fiduciary/employee benefit liability insurance; operating property insurance; directors and officers insurance; and workers' compensation insurance.

The insurance carriers providing coverage to the Company were licensed or otherwise authorized in the State of Idaho.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As previously stated, the Company does not have any employees, and therefore has no direct liability for employee benefits. However, the Company was charged its allocable share of contributions in the following plans sponsored by its parent through the intercompany reinsurance agreement.

Pension Plan

Farmers Insurance Exchange and certain of the Farmers Property and Casualty Companies participate in two non-contributory retirement plans: the Regular Plan and the Restoration Plan sponsored by Farmers Group, Inc.

The Regular Plan covers substantially all employees of the Farmers Property and Casualty Companies and Farmers Group Inc. and its subsidiaries who have reached age

twenty-one and have rendered one year of service. Benefits are based on years of service and the employees' compensation during the last five years of employment.

The Restoration Plan provides supplemental retirement benefits for certain key employees of the Farmers Property and Casualty Companies and Farmers Group Inc. and its subsidiaries.

Information regarding the Regular and Restoration Plans funded status is not developed separately. Farmers Insurance Exchange has no legal obligation for benefits under this plan. For the 2006-2005 plan years, the minimum required contribution did not exceed the full funding limitation under the Internal Revenue Code. As a result, in 2006, the Farmers Property and Casualty Companies and Farmers Group, Inc. and its subsidiaries made total contributions to the Plans of \$151.5 million, of which \$82.7 million came from the Farmers Property and Casualty Companies. The Company's share of the Farmers Property and Casualty Companies' contributions was \$620,250 ($\$82.7 \text{ million} \times .0075$) in 2006.

Profit Sharing Plan

Farmers Insurance Exchange and certain of the Farmers Property and Casualty Companies participate in two profit sharing plans sponsored by Farmers Group, Inc. that provide for cash payments to all eligible employees of the Farmers Property and Casualty Companies and Farmers Group, Inc. and its subsidiaries. The two plans, Deferred Profit Sharing and Cash Profit Sharing, provide for a maximum aggregate expense of 15 percent of Farmers Group, Inc. and its subsidiaries' consolidated annual pretax earnings, as adjusted. The amount paid to employees of the Farmers Property and Casualty Companies is based on the achievement of certain Farmers Property and Casualty Companies' goals. Payments under the plans are administered by Farmers Group Inc. with the Farmers Property and Casualty Companies reimbursing Farmers Group Inc. for their respective share.

The Deferred Profit Sharing Plan, limited to ten percent of pretax earnings, as adjusted, or 15 percent of the salary or wage paid or accrued to the eligible employee, provides for an annual contribution by the Farmers Property and Casualty Companies to a trust for eventual payment to employees as provided in the Plan document.

The Cash Profit Sharing Plan and Double Down on Growth Program which replaced the Dash for Cash Program in 2006, provide for annual cash distributions to eligible employees. The Cash Profit Sharing Plan is limited to 5 percent of pretax earnings, as adjusted, or 5 percent of employee salaries or wages paid or accrued. Under the Double Down on Growth Program, each employee may potentially earn up to \$500 annually. The Company's share of expense under these plans was \$708,135 and \$663,416 in 2006.

Postretirement Benefits

Farmers Insurance Exchange and certain of the Farmers Property and Casualty Companies provide certain postretirement benefits to retired employees. The postretirement medical benefits plan is a contributory defined benefit plan for employees

who were retired or who were eligible for early retirement as of January 1, 1991, and is a contributory defined dollar plan for all other employees retiring after January 1, 1991. Health benefits are provided for all employees who participated in the group medical benefits plan for 10 years immediately preceding early retirement at age 55 or later. A life insurance benefit of \$5,000 is provided at no cost to retirees who maintained supplemental life insurance coverage for 10 years immediately preceding retirement at age 55 or later. There are no assets allocated to this plan.

The following plans are offered to agents and district managers:

Farmers Agency Force Deferred Compensation Plan

On June 1, 2004, Farmers Insurance Exchange and certain of the Farmers Property and Casualty Companies implemented a tax-deferred savings plan for its agents and district managers which allowed eligible participants to defer up to 50 percent of their auto new commissions into a deferred compensation program. To be eligible to participate in the plan, a full-time agent must have completed six months of service and qualifying participants are vested 100 percent on their accrued benefit at all times. This Plan is not subject to ERISA and is not intended to be a qualified plan.

The program is administered by TBG Financial, a third party administrator, and the maximum qualifying deferred amount allowed in any plan year per each participating sponsor is \$5 million. Fund balances are monitored monthly and investment earnings in the deferred compensation liability account are credited (or debited) to the account balances.

In conjunction with the Farmers Agency Force Deferred Compensation Plan, Farmers Insurance Exchange and certain of the Farmers Property and Casualty Companies purchased a Variable Group Life insurance policy for certain employees, with the Company named as beneficiary. The policy provides a life insurance benefit of \$50,000 at no cost to those qualifying officers and employees who voluntarily chose to become insured. There are no cash surrender values for the participating employees. The cash surrender value of the policy was reported as an asset on the balance sheet of the Company. For the year ended December 31, 2006, the investment earning and insurance expense were \$27,690 and \$2,421.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact disability, property, marine & transportation, casualty, Workers' Compensation, and surety business in the State of Idaho. The Company had accredited reinsurer status in the States of California and Oregon.

The Company's business was marketed through a captive agency force of approximately 268 agents and/or agencies. Review of the active producer documentation indicated that all producers marketing auto and fire policies through the Company were properly

licensed and appointed. It was also determined that the Department was notified within the prescribed time required by statute.

Review of the terminated producer files indicated that the Company failed to timely notify the Department of two appointments in not more than fifteen days pursuant to Section 41-1018(2), Idaho Code. The Company also failed to notify the Department of two terminations in not more than thirty days pursuant to Section 41-1019(2), Idaho Code. Five terminated producers were not properly notified of their termination in not more than fifteen days pursuant to Section 41-1019 (4), Idaho Code. It is recommended that the Company notify: 1) the Department of all producer appointments and terminations in compliance with Idaho Code; and 2) all terminated producers in compliance with Idaho Code.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2006, the Company had provided the following statutory and special deposits. The statutory deposit was held in trust for the protection of all of the Company's policyholders and/or creditors through the office of the Director of Insurance. The workers' compensation deposit was not held for the benefit of all policyholders. This deposit was maintained for the Idaho Industrial Commission and was on deposit with the State of Idaho Treasury Department.

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<u>Idaho Department of Insurance</u>			
Boise Idaho Independent School District., 5%, due 7/30/2012, CUSIP Number 097437LU9	\$1,000,000	\$1,043,911	\$1,069,570
<u>Idaho Industrial Commission</u>			
Canyon County Idaho SC, 4.75% due 7/30/2011, CUSIP Number 138789FE7	<u>250,000</u>	<u>264,880</u>	<u>261,800</u>
Totals:	<u>\$1,250,000</u>	<u>\$1,308,791</u>	<u>\$1,331,370</u>

The above securities were held in compliance with Sections 41-316A and 41-811, Idaho Code.

GROWTH OF THE COMPANY

The Company's growth for the years indicated, as taken from the prior examination report and its Annual Statements, is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Net Income(Loss)</u>
2003*	121,065,579	85,912,724	35,152,855	(1,374,280)
2004	128,343,145	83,929,753	44,413,392	3,758,370
2005	146,314,229	97,289,575	49,024,654	5,172,817
2006*	157,517,658	102,585,788	54,931,870	5,509,941

*As determined by Examination.

The net loss in 2003 was a result of statutory examination changes made to losses, the pooled contingent litigation adjustment, and the federal income tax effects thereon. Admitted assets, liabilities, and capital and surplus increased steadily during the examination period due to increased writings, premium increases, and positive net income.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 2003. The amounts were derived from the Company's filed Annual Statements and the current and prior examination reports, as indicated.

<u>Year</u>	<u>Premium Earned</u>	<u>Loss Incurred and LAE Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Ratio</u>
2003*	\$63,277,444	\$53,870,305	\$15,078,146	108.96%
2004	69,817,902	48,574,912	17,076,765	94.03%
2005	78,464,162	53,155,697	21,719,131	95.42%
2006*	85,431,724	57,024,406	24,715,362	95.67%

*As determined by examination.

The results in 2003 reflected examination changes made to losses, the pooled contingent litigation adjustment, and the federal income tax effects thereon.

REINSURANCE

All of the Company's reinsurance is transacted through an intercompany pooling agreement with its parent, Farmers Insurance Exchange. Farmers Insurance Exchange was designated as the lead company over the affiliates participating in the pool. Under the terms of the pooling agreement, Farmers Insurance Exchange assumed 100 percent of the business written by all members of the Farmers Property and Casualty Group, except for the business written by Farmers Reinsurance Company. The business was then retroceded to the participating insurers according to their respective participating percentages. The Company's share of the assumed pool business was 0.75 percent during the examination period.

The pooling agreement contained a satisfactory insolvency clause and provided for risk transfer in accordance with the requirements of SSAP No. 62.

Farmers Insurance Exchange had various reinsurance agreements with outside reinsurers and its affiliates; however, the Company was not a party to any other reinsurance agreements on a direct basis.

INSURANCE PRODUCTS AND RELATED PRACTICES

A limited scope Market Conduct Examination was conducted in conjunction with the examination of the administrative affairs, books, records, and financial condition of the Company.

Policy Forms and Underwriting

Statistical samples of new and renewal auto and fire policies were selected for detail testing. The review of the auto and fire new business samples determined that all policies were written by licensed and appointed agents; all coverage was issued per the application; Company underwriting guidelines were followed; and premiums charged were accurately calculated.

The auto and fire renewal business samples were reviewed to determine accurate calculation of premium based on base rate changes and other factor changes, including the Farmers Automobile Risk Assessment (FARA) or credit scoring factor. It was determined that renewal premiums were correctly calculated and that the FARA score did not account for more than a 50 percent change in the premium. See the sub-caption, Credit Scoring for additional details.

Review of the auto and fire declined business samples determined that all policies were declined based on the Company's underwriting guidelines, and no discriminatory practices were identified. It was determined that one auto refund was not paid timely pursuant to Department Bulletin 80-6 and Idaho Code, Chapter 13, Title 41. The Bulletin requires the proper return of premium within 30 days. The Company explained that the premium was collected by affiliate, Prematic Corporation, and due to an error was not refunded in a timely manner. No other exceptions were noted.

A review of the auto and fire cancelled/non-renewed business samples determined that all policies were cancelled based on the Company's underwriting guidelines or by the insured's request. It was determined that cancellation notices were sent out timely based on proof of mailing provided by the Company. All refunds were made timely pursuant to Department Bulletin 80-6 and Idaho Chapter 13, Title 41.

Gramm-Leach-Bliley Act

The Company annually sends out Privacy Notices informing policyholders of their rights, and explaining with whom information is shared and of their right to opt out. The Company was in compliance with IDAPA 18.01.48.

Credit Scoring

The Company developed a credit scoring model called Fire & Auto Combined Evaluation Tool (FACET). The Company's credit scoring model is used to develop the Farmers FARA and Farmers Property Risk Assessment (FPRA).

FARA and FRPA factors are assigned by head of household with the issuing of the first policy. The credit score will be re-run every time a new policy application is received for the household. The credit score used will be whichever provides the better discount for the household. An agent may run a credit score at any time on a head of household to improve the discount to be applied. If a household splits or combines resulting in a change of head of household, then the credit score applicable to the new head of household may result in a lower credit score being applied. Renewals are not affected by a changing credit score unless the head of household has changed.

Manual recalculations were performed on samples of new business and renewals to determine the realized impact of the credit score on the premium charged. The result of these reviews indicated there were no exceptions relative to the use of credit scores in determining premium discounts in compliance with Section 41-1843, Idaho Code and IDAPA 18.01.19.

A review of the declined and cancelled/non-renewed policy samples determined that policies were not declined or cancelled based on one's credit score.

Treatment of Policyholders

Claims

Statistical samples of paid auto and fire claims were reviewed to determine whether coverages were in-force at the date of loss, the claims were properly acknowledged and paid timely, among other things. It was noted that one auto claim was not paid in a timely manner (the period between receipt of the claim and payment of the claim exceeded thirty days). It is recommended that all future claims are promptly settled as prescribed by Section 41-1329(13), Idaho Code. The review of paid fire claims, however, indicated that all claims in this business line were properly paid in a timely manner.

A review of litigated auto claims was also performed which indicated the Company was properly investigating claims to determine liability.

The review of auto and fire claims closed without payment indicated that all claims were properly closed without payment based on policy coverage or other processes such as re-keying and settling under another claim number.

Complaints

The Company maintained complaint handling procedures and a complaint register as required by Section 41-1330, Idaho Code. No exceptions were found in the Company's handling of complaints.

The Company had established procedures to report fraudulent claims as required under Section 41-290, Idaho Code.

Advertising and Sales Material

The review of the Company's advertising and sales materials indicated that the materials and information on the Internet were not deceptive or misleading.

ACCOUNTS AND RECORDS

General Accounting

Farmers Group, Inc. and the Company utilized the accounting system, SAP, for general ledger transactions, accounts payable processing, asset accounting, and internal financial reporting. This package was customized and implemented with PricewaterhouseCoopers and IBM as consultants. The Company utilized Freedom software to compile its annual statements.

The California Department of Insurance engaged an independent auditing firm to review the parent company's information system department and controls. Although several control deficiencies were noted, there do not appear to be any significant control issues that have not been responded to by the parent company.

Various records were maintained at the Company's statutory home office; however, certain accounting records, supporting workpapers and documents for the annual statements were maintained at the Company's parent office located in Los Angeles, California. The following records were not maintained in Idaho during the current examination:

- SAS 70 Reports
- Detailed listing of privately placed securities
- Federal tax filing
- Intercompany tax agreement and supporting federal tax schedules

Independent Accountants

The annual independent audits of the Company for the years 2004 through 2006 were performed by PricewaterhouseCoopers LLP, Los Angeles, California. The financial statements in each report were on a statutory basis.

Actuarial Opinion

The policy reserves and related actuarial items were calculated by the Company and reviewed by James L. Nutting, FCAS, MAAA, Corporate Actuary of the Company. The December 31, 2006 statement of opinion issued stated that the amounts carried in the balance sheet: (a) are computed in accordance with accepted actuarial standards and principles; (b) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under terms of its policies and agreements; and (c) meet the insurance laws of the state of Idaho.

The identified actuarial items in the Annual Statement were as follows:

Reserve for unpaid losses (Page 3, Line 1)	\$41,078,174
Reserve for unpaid loss adjustment expenses (Page, 3 Line 3)	11,627,160
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1, total of Columns 13 and 15)	46,699,000
Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1, total of Columns 17, 19, and 21)	12,534,000

As previously reported, the Company is part of an intercompany pooling arrangement with other affiliates of the Farmers Insurance Group of Companies. Premiums and losses were allocated to the Company based on its assigned percentage of the total pool. Analysis of the reserve items identified above has been performed by the actuary for all pool companies combined.

Anticipated net salvage and subrogation were included as a reduction to loss reserves shown above. As of December 31, 2006, the amount of the reduction was \$2,533,000.

A tabular discount for workers compensation claims was included as a reduction to loss reserves as reported in Schedule P in the amount of \$22,611.

The Company participated in various voluntary and involuntary underwriting pools and associations. The Company's share of the net reserves held for such pools was \$125,927, and was reflected in the reserves for unpaid losses and unpaid loss adjustment expenses noted above.

The net reserves for losses and loss adjustment expenses that the Company carried for asbestos liabilities and environmental liabilities were \$39,891 and \$855,362, respectively. Those reserves were included in the liability for unpaid losses and unpaid loss adjustment expenses and were disclosed in the Notes to Financial Statements.

The total reserves for losses and loss adjustment expenses that the Company carried for the claims-made extended loss and expense reserves and which were reported in the Schedule P Interrogatories were zero.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Balance Sheet as of December 31, 2006

Underwriting and Investment Exhibit Statement of Income, for the Year Ended December 31, 2006

Capital and Surplus Account, Year 2006

Reconciliation of Capital and Surplus Account, December 31, 2003, through December 31, 2006.

Balance Sheet

As of December 31, 2006

ASSETS

	<u>Per Company</u>		<u>Examination Adjustments</u>	<u>Per Examination Net Admitted</u>
	<u>Assets</u>	<u>Nonadmitted Assets</u>		
Bonds	\$115,806,148	\$ 0	\$ 0	\$115,806,148
Cash, cash equivalents and short-term investments	10,928,602	0	0	10,928,602
Investment income due and accrued	1,572,584	0	0	1,572,584
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	3,584,255	751,124	0	2,833,131
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,484,067	0	0	17,484,067
Accrued retrospective premium	55,222	0	0	55,222
Amounts recoverable from reinsurers	4,609,841	0	0	4,609,841
Net deferred tax asset	5,225,224	1,253,598	0	3,971,626
Business-owned life insurance – cash value	<u>256,437</u>	<u>0</u>	<u>0</u>	<u>256,437</u>
Totals	<u>\$159,522,380</u>	<u>\$2,004,722</u>	<u>\$ 0</u>	<u>\$157,517,658</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
	Losses (Note 1)	\$ 41,078,174	\$ 0
Reinsurance payable on paid losses and loss adjustment expenses	4,128,570	0	4,128,570
Loss adjustment expenses (Note 1)	11,627,160	0	11,627,160
Taxes, licenses and fees	113,372	0	113,372
Unearned premiums	34,707,116	0	34,707,116
Advance premium	833,561	0	833,561
Dividends declared and unpaid: Policyholders	22,500	0	22,500
Ceded reinsurance premiums payable (net of ceding commissions)	4,867,615	0	4,867,615
Payable to parent, subsidiaries and affiliates	3,714,879	0	3,714,879
Aggregate write-ins for liabilities:			
Accounts payable	665,561	0	665,561
Pooled share of post-retirement benefit liability	402,380	0	402,380
Deferred agent/DM compensation liability	272,186	0	272,186
Pooled share of unauthorized reinsurance	<u>152,714</u>	<u>0</u>	<u>152,714</u>
Total liabilities	<u>\$102,585,788</u>	<u>\$</u>	<u>\$102,585,788</u>
Common capital stock	\$ 1,504,000	\$ 0	\$ 1,504,000
Gross paid in and contributed surplus	33,162,448	0	33,162,448
Unassigned funds (surplus)	20,265,422	0	20,265,422
Surplus as regards policyholders	<u>\$ 54,931,870</u>	<u>\$ 0</u>	<u>\$ 54,931,870</u>
Totals	<u>\$157,517,658</u>	<u>\$ 0</u>	<u>\$157,517,658</u>

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ending December 31, 2006

STATEMENT OF INCOME

<u>UNDERWRITING INCOME</u>	<u>Per Company</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
Premiums earned	\$85,431,724	\$ 0	\$85,431,724
Deductions:			
Losses incurred	\$47,380,331	\$ 0	\$47,380,331
Loss expenses incurred	9,644,075	0	9,644,075
Other underwriting expenses incurred	24,715,362	0	24,715,362
Total underwriting deductions	<u>\$81,739,768</u>	<u>\$ 0</u>	<u>\$81,739,768</u>
Net underwriting gain	<u>\$ 3,691,956</u>	<u>\$ 0</u>	<u>\$ 3,691,956</u>
 <u>INVESTMENT INCOME</u>			
Net investment income earned	\$ 5,213,631	\$ 0	\$ 5,213,631
Net realized capital losses	380	0	380
Net investment gain	<u>\$ 5,214,011</u>	<u>\$ 0</u>	<u>\$ 5,214,011</u>
 <u>OTHER INCOME</u>			
Net loss from agents' or premium balances charged off	\$ (529,498)	\$ 0	\$ (529,498)
Finance and service charges not included in premiums	193,773	0	193,773
Aggregate write-ins for miscellaneous income:			
Miscellaneous (expense)/income	(239,968)	0	(239,968)
Pooled share of uncollectible/installment premium receivable balances charged off	<u>(32,773)</u>	<u>0</u>	<u>(32,773)</u>
Premiums for business-owned life insurance	<u>(2,421)</u>	<u>0</u>	<u>(2,421)</u>
Total other income	<u>\$ (610,887)</u>	<u>\$ 0</u>	<u>\$ (610,887)</u>
Net income before dividends to policyholders and before federal and foreign income taxes	\$ 8,295,080	0	\$ 8,295,080
Dividends to policyholders	39,025	0	39,025
Net income after dividends to policyholders and before federal and foreign income taxes	\$ 8,256,055	\$ 0	\$ 8,256,055
Federal and foreign income taxes incurred	<u>2,746,114</u>	<u>0</u>	<u>2,746,114</u>
Net income (loss)	<u>\$ 5,509,941</u>	<u>\$ 0</u>	<u>\$ 5,509,941</u>

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2006

	<u>Per</u> <u>Company</u>	<u>Examination</u> <u>Changes</u>	<u>Per</u> <u>Examination</u>
Surplus as regards policyholders, December 31, 2005	<u>\$49,024,654</u>	<u>\$ 0</u>	<u>\$49,024,654</u>
<u>GAINS AND (LOSSES) IN SURPLUS</u>			
Net income	\$ 5,509,941	\$ 0	\$ 5,509,941
Change in net deferred income tax	738,856	0	738,856
Change in nonadmitted assets	(503,758)	0	(503,758)
Aggregate write-ins for gains and losses in surplus			
Pooled share of California excess of statutory reserves over statement reserves	165,960	0	165,960
Pooled share of unauthorized reinsurance	(3,783)	0	(3,783)
Change in surplus as regards policyholders for the year	<u>\$ 5,907,216</u>	<u>\$ 0</u>	<u>\$ 5,907,216</u>
Surplus as regards policyholders, December 31, 2006	<u>\$54,931,870</u>	<u>\$ 0</u>	<u>\$54,931,870</u>

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 2003 Through December 31, 2006

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Surplus as regards policyholders, December 31, previous year	<u>\$40,137,029</u>	<u>\$44,413,392</u>	<u>\$49,024,654</u>
Net income	3,758,370	5,172,817	\$ 5,509,941
Net unrealized capital gains or (losses)	1	0	0
Change in net deferred income tax	687,496	(169,110)	738,856
Change in nonadmitted assets	(73,087)	(232,000)	(503,758)
Aggregate write-ins for gains and losses in surplus:			
Miscellaneous	(92,514)	0	0
Pooled share of California excess of statutory reserves over statement reserves	0	(165,960)	165,960
Pooled share of unauthorized reinsurance	(3,904)	5,515	(3,783)
Rounding	<u>1</u>	<u>0</u>	<u>0</u>
Change in surplus as regards policyholders for the year	<u>\$ 4,276,362</u>	<u>\$ 4,611,262</u>	<u>\$ 5,907,216</u>
Surplus as regards policyholders, December 31, current year	<u>\$44,413,392</u>	<u>\$49,024,654</u>	<u>\$54,931,870</u>

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Losses	\$41,078,174
<u>Loss adjustment expenses</u>	<u>11,627,160</u>

This examination of the Company was conducted concurrently with the examination of the Company's parents, Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange. The examination of the Exchanges was performed by the California Department of Insurance as of December 31, 2006. As part of California's examination, American Actuarial Consulting Group LLC reviewed Fire Insurance Exchange's liability for loss and loss adjustment expenses on an aggregate basis (i.e., on a pooled basis before business was retroceded back to the pooling agreement participants, including the Company). As a result, the examination of the Company did not include a direct review of loss reserves; rather, the Department of Insurance relied on the examination of Farmers Insurance Exchange's aggregate loss reserves. Based on the actuarial review, the Company had an indicated combined net loss and loss adjustment expense reserve redundancy at December 31, 2006.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2006, the Company had admitted assets of \$157,517,658, liabilities of \$102,585,788, and surplus as regards policyholders of \$54,931,870. Therefore, the Company's total capital and surplus exceeded the \$2,000,000 minimum prescribed by Section 41-313, Idaho Code.

Comments and Recommendations

Page

- 3 It is recommended that the Company update its Articles of Incorporation and Bylaws to eliminate the requirement that all directors be shareholders.

Subsequent to the examination date, the Company amended its Articles of Incorporation and Bylaws whereby Directors, may, but are no longer required to be shareholders of the Company.

- 15 The Company failed to timely notify the Department of two appointments in not more than fifteen days pursuant to Section 41-1018(2), Idaho Code.

The Company also failed to notify the Department of two terminations in not more than thirty days pursuant to Section 41-1019(2), Idaho Code.

Page Comments and Recommendations, continued

- 15 Five terminated producers were not properly notified of their termination in not more than fifteen days pursuant to Section 41-1019 (4), Idaho Code.

It is recommended that the Company notify: 1) the Department of all producer appointments and terminations in compliance with Idaho Code; and 2) all terminated producers in compliance with Idaho Code.

- 17 One auto refund was not paid timely pursuant to Department Bulletin 80-6 and, Chapter 13, Title 41, Idaho Code.

The Company explained that the premium was collected by affiliate, Prematic Corporation, and due to an error, was not refunded in a timely manner.

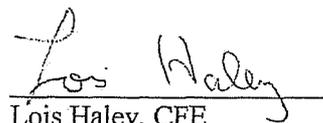
- 18 It is recommended that all future claims are promptly settled as prescribed by Section 41-1329(13), Idaho Code.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Company's officers and employees in conducting the examination.

In addition to the undersigned, Ann McClain, CIE, FLMI, FLHC, AIC, CCP, AIRC, AIAA, ARA, AIS, ACS, of the Idaho Department of Insurance, participated in the examination.

Respectfully submitted,



Lois Haley, CFE
Senior Insurance Examiner
State of Idaho
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, CFE being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of Farmers Insurance Company of Idaho for the period from January 1, 2004 through December 31, 2006, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

Lois Haley

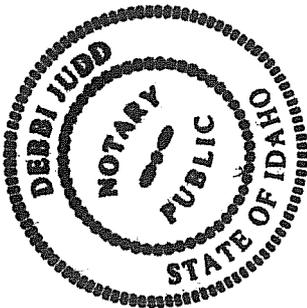
Lois Haley, CFE
Examiner-in-Charge
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 28th day of May, 2008 at Boise, Idaho

Debbi Judd

Notary Public

My commission Expires: 7/30/2010



State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of December 31, 2006, of:

**Farmers Insurance Company of Idaho
2500 South Fifth Avenue
Pocatello, Idaho 83204-1923**

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 28th day of May 2008, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Exchange also hereby waives:

1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 24 day of JUNE, 2008

BARRY P WAGGNER

Name (print)

Barry P Wagner

Name (signature)

President

Title

EXHIBIT

B