REPORT OF EXAMINATION OF THE

MID-CENTURY INSURANCE COMPANY

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 28, 2011

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Los Angeles, California
May 9, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Rhode Island Business
Regulation, Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV – Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

MID-CENTURY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its statutory home office and main administrative office located at 4680 Wilshire Boulevard, Los Angeles, California 90010.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances. This examination was conducted concurrently with the Company's California subsidiaries and affiliates, namely: Farmers Insurance Exchange, Fire

Insurance Exchange, Truck Insurance Exchange, Civic Property and Casualty Company, Exact Property and Casualty Company, Neighborhood Spirit Property and Casualty Company, and Farmers Reinsurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

COMPANY HISTORY

The Company was incorporated in the State of California on December 3, 1949, for the purpose of transacting property and casualty insurance business. Business commenced on February 17, 1953.

On September 30, 2008, Farmers Insurance Exchange (Farmers) sold 5% of its ownership interest in the Company to Truck Insurance Exchange (Truck) for $34.9 million. As of December 31, 2009, the outstanding shares of the Company were owned by Farmers (80%), Fire Insurance Exchange (12.5%), and Truck (7.5%).

Bristol West Holdings, Inc.

On July 3, 2007, Farmers Group, Inc. (FGI) completed the acquisition of Bristol West Holdings, Inc. (BWH), a Delaware corporation, including its two directly-owned insurance company subsidiaries; Security National Insurance Company, a Florida company, Bristol West Preferred Insurance Company, a Michigan company. Also included in the acquisition were certain insurance services companies and BWH's directly owned insurance holding company; Coast National Holding Company, a California company, and its insurance company subsidiary Coast National Insurance Company (CNIC), a California company, which in turn owned Bristol West Insurance Company, an Ohio company, and Bristol West Casualty Insurance Company, an Ohio company. Concurrent with the acquisition, FGI sold BWH and its subsidiaries and underlying insurance business to the Company, Farmers, Fire, and Truck.

BWH, via its insurance subsidiaries, had licenses in 38 states plus the District of Columbia, and operated in 22 states as a provider of liability and physical damage insurance, specializing in non-standard private passenger auto.

FGI paid $713.5 million and assumed $100 million of debt obligations as consideration for the acquisition of BWH. Additional consideration for the transaction included the "commutation of certain existing affiliated reinsurance arrangements" between BWH's insurance subsidiaries, and the execution of a 90% quota share cession agreement between CNIC and Farmers, effective January 1, 2007. This quota share treaty was replaced with a 100% quota share agreement effective July 1, 2008. The 100% CNIC quota share agreement was approved by the California Department of Insurance (CDI) August 15, 2008.

The acquisition of BWH resulted in changes in the ultimate control of BWH's subsidiary, CNIC. Farmers and Zurich Financial Services Ltd. (ZFS), a Swiss company and FGI's ultimate parent corporation, filed a joint Form A application pursuant to California Insurance Code (CIC) Section 1215.2. Additionally, Form D applications were filed pursuant to CIC Section 1215.5. The CDI approved the transactions on June 28, 2007.

FGI sold BWH's and its subsidiaries and underlying insurance business to the Company, Farmers, Truck, and Fire, for $420 million, which represented an equity value of $370 million plus $50 million of debt assumption. The Company, Farmers, Truck and Fire, incurred additional transaction fees of $13.8 million. FGI retained certain of BWH's employees, the operational systems, and the management servicing rights. The acquisition was recorded using the statutory purchase method of accounting. The following schedule depicts the Company's, and each exchange's, share of the costs, fees, and goodwill for the acquisition of the BWH insurance business at the time acquired:

Entity	Cost and Fees (in millions)	Goodwill	Percentage
Farmers Insurance Exchange	$162.7	$38.2	37.50%
Truck Insurance Exchange	38.0	8.9	8.75%
Fire Insurance Exchange	16.3	3.8	3.75%
Mid-Century Insurance Company	216.8	51.0	50.00%
Totals	$433.8	$101.9	100.00%

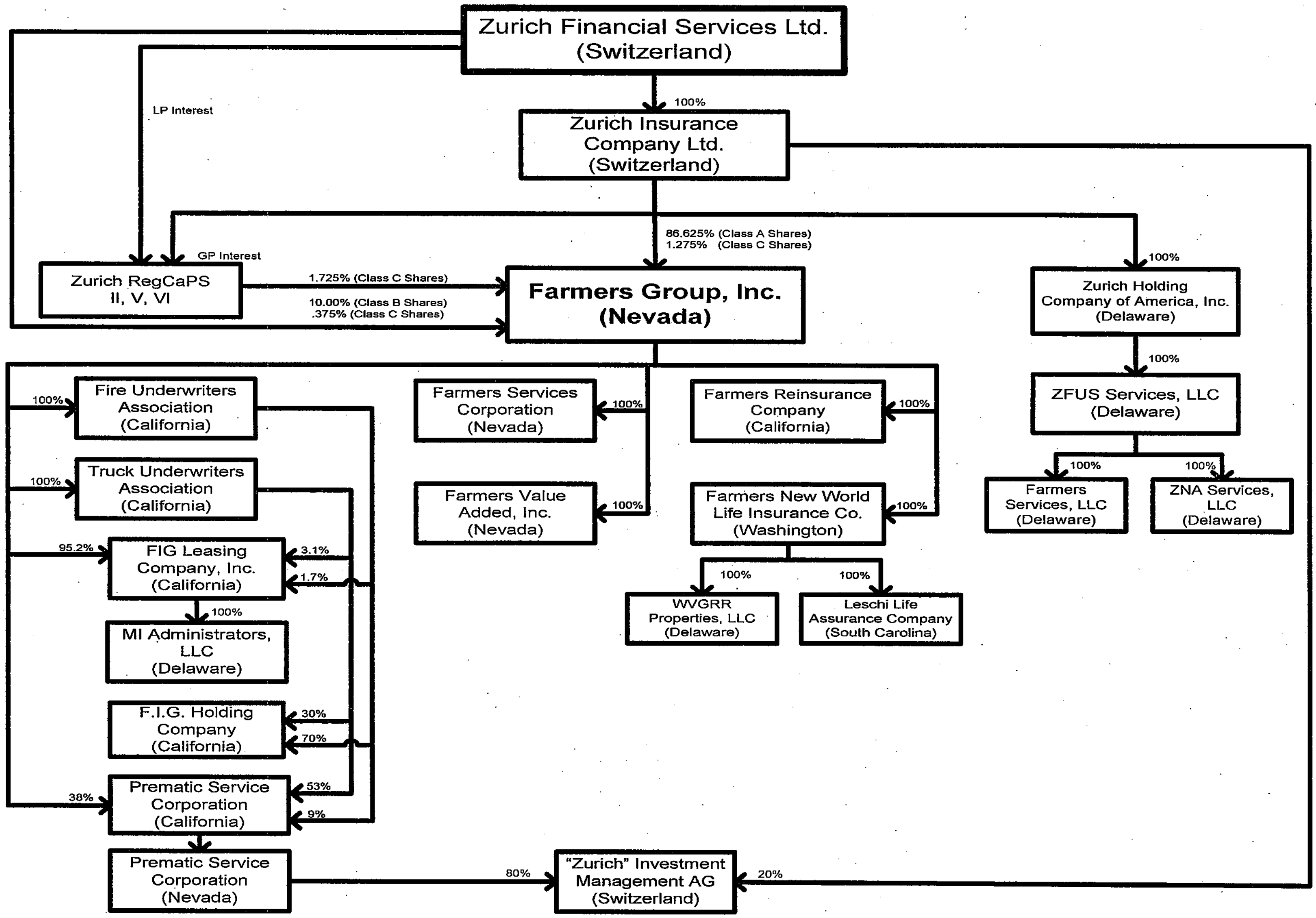
On September 30, 2008, the following additional transactions were made between the Company and the Exchanges:

(1) Farmers purchased an additional 4.5% ownership interest in BWH with 2.5% purchased from the Company for $12.3 million and 2.0% from Truck for $9.8 million;

(2) Farmers sold 5% and 10% of its ownership interest in the Company and Farmers Insurance Company of Oregon to Truck for $34.9 million and $43.0 million, respectively.

MANAGEMENT AND CONTROL

The following abridged organizational charts depict the Company's relationship within the holding company system as of December 31, 2009:


Zurich Financial Services Ltd. (Switzerland)
100%
LP Interest
Zurich Insurance Company Ltd. (Switzerland)
GP Interest
86.625% (Class A Shares)
1.275% (Class C Shares)
100%
Zurich RegCaPS II, V, VI
1.725% (Class C Shares)
10.00% (Class B Shares)
.375% (Class C Shares)
Farmers Group, Inc. (Nevada)
Zurich Holding Company of America, Inc. (Delaware)
100%
ZFUS Services, LLC (Delaware)
100%
100%
Farmers Services, LLC (Delaware)
ZNA Services, LLC (Delaware)
Fire Underwriters Association (California)
Truck Underwriters Association (California)
FIG Leasing Company, Inc. (California)
MI Administrators, LLC (Delaware)
F.I.G. Holding Company (California)
Prematic Service Corporation (California)
Prematic Service Corporation (Nevada)
100%
100%
95.2%
3.1%
1.7%
100%
30%
70%
38%
53%
9%
Farmers Services Corporation (Nevada)
Farmers Value Added, Inc. (Nevada)
Farmers Reinsurance Company (California)
Farmers New World Life Insurance Co. (Washington)
WGRR Properties, LLC (Delaware)
Leschi Life Assurance Company (South Carolina)
"Zurich" Investment Management AG (Switzerland)
80%
20%

FARMERS EXCHANGES ORGANIZATION

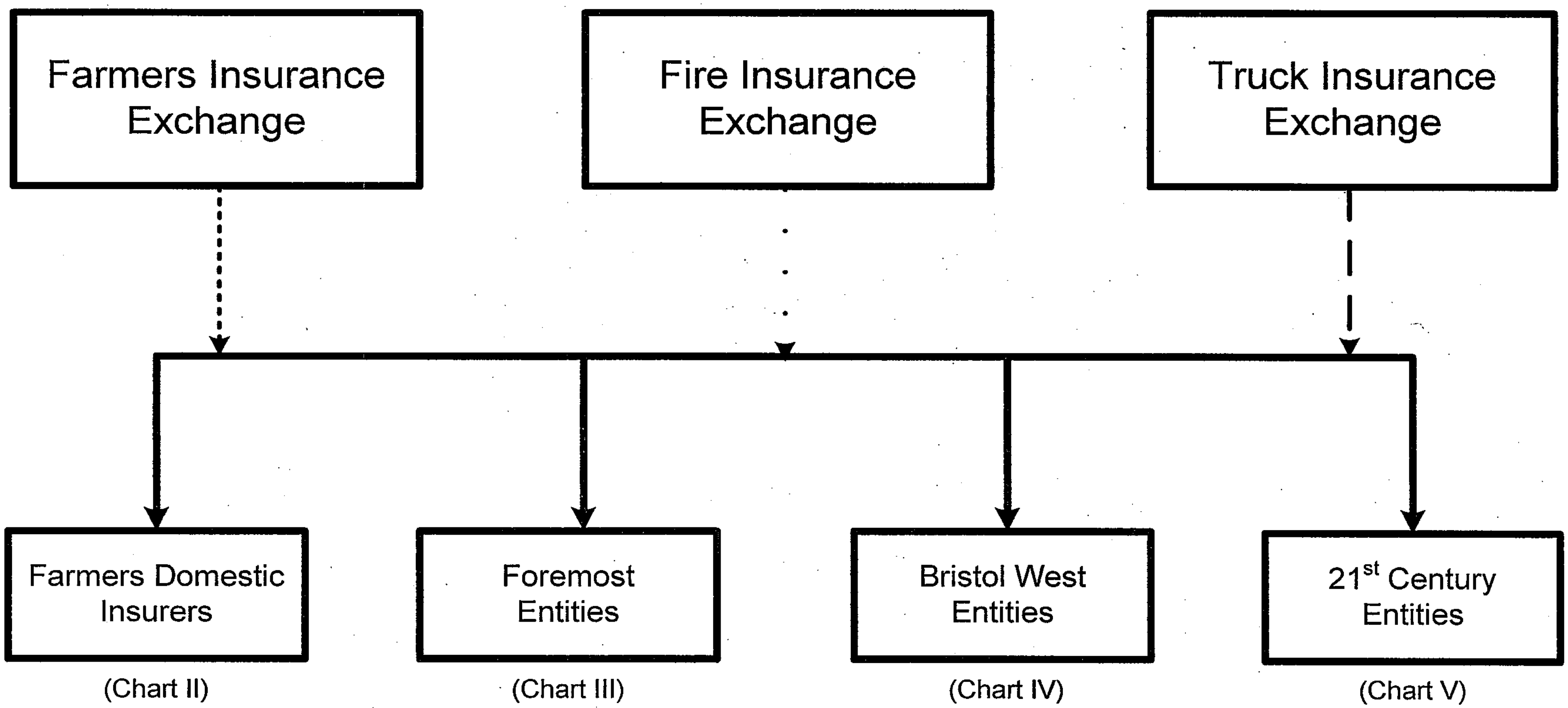


CHART II: EXCHANGES/FARMERS ENTITIES ORGANIZATION

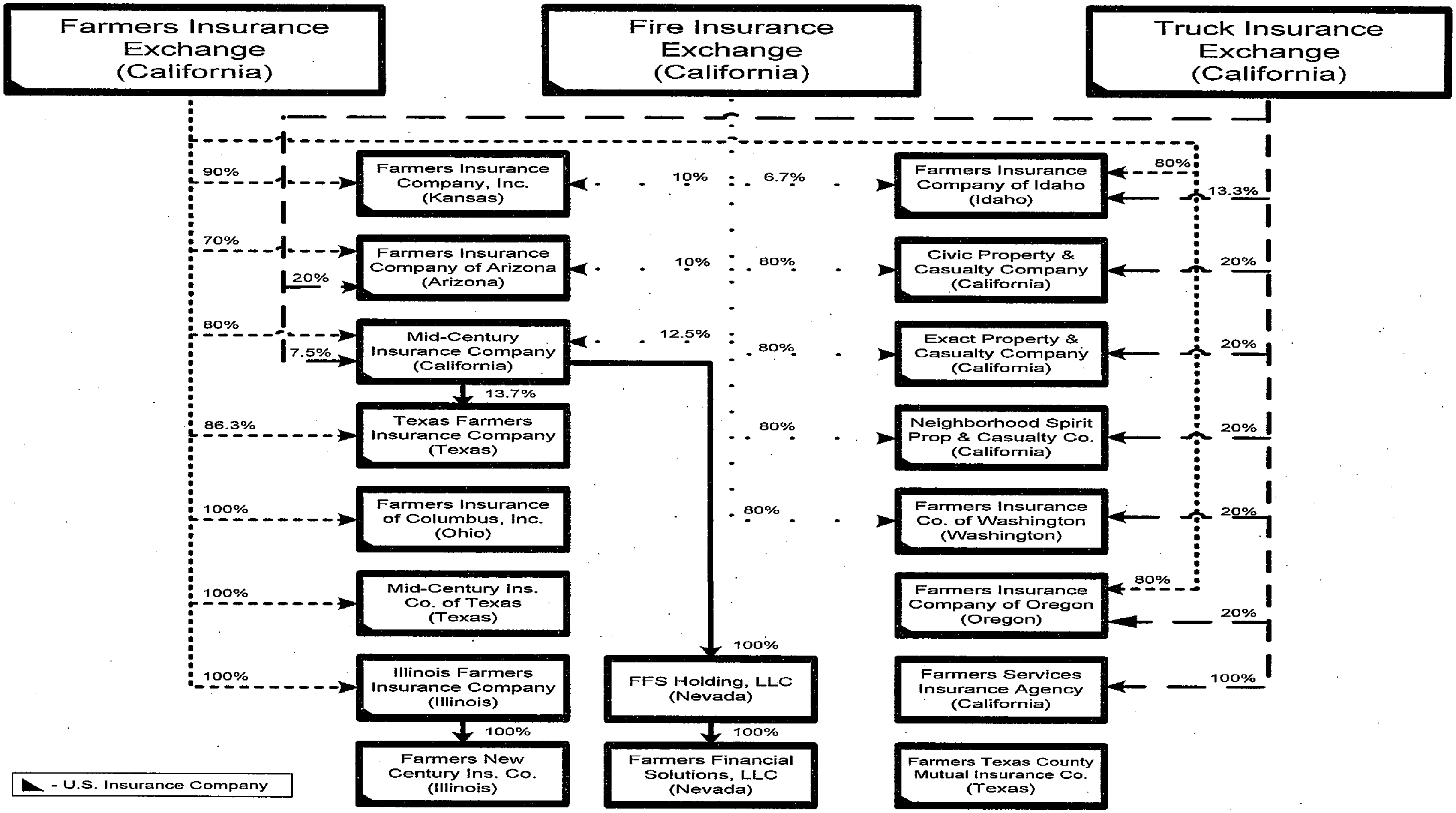
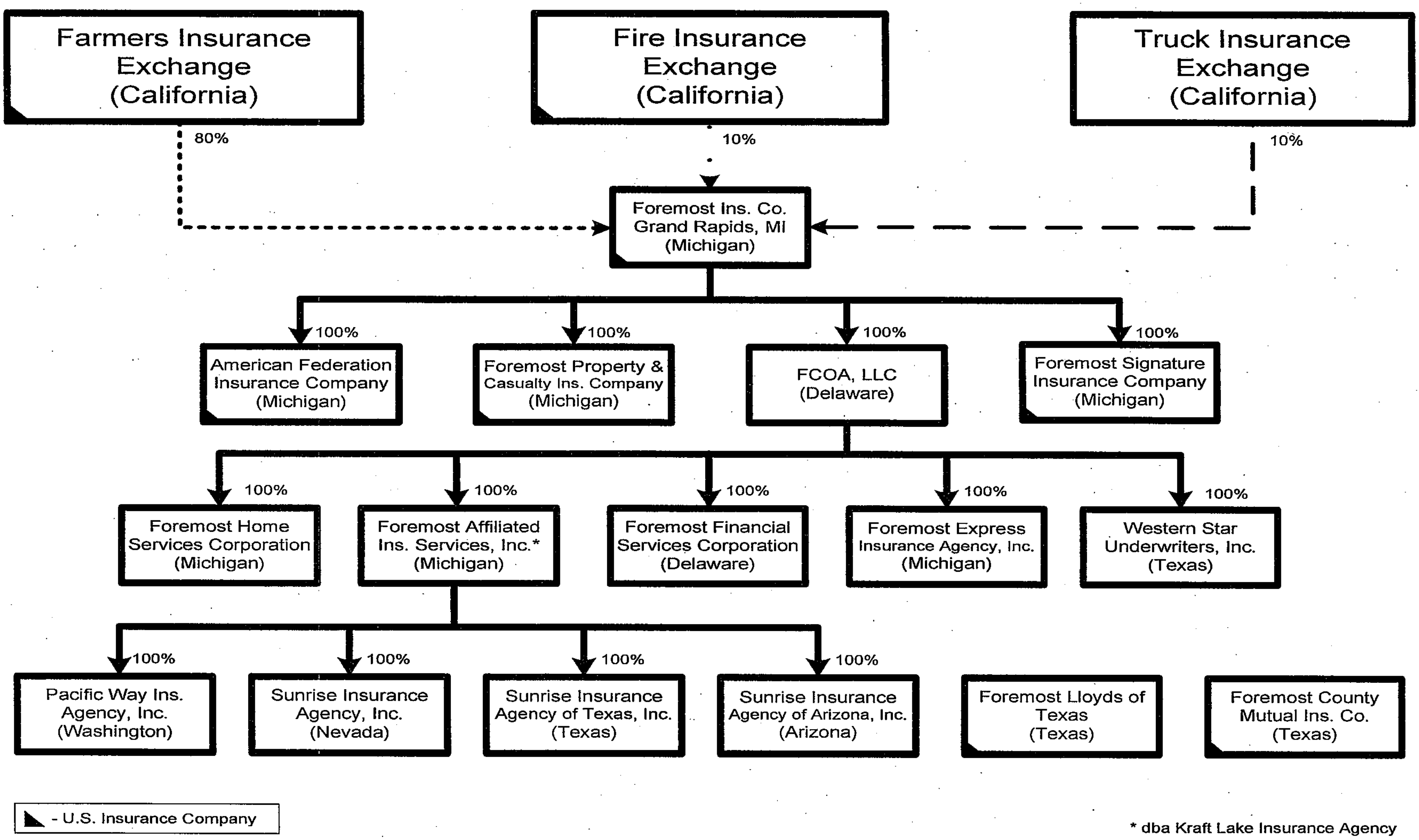


CHART III: EXCHANGES/FOREMOST ORGANIZATION



* dba Kraft Lake Insurance Agency

CHART IV: EXCHANGES/BRISTOL WEST ORGANIZATION

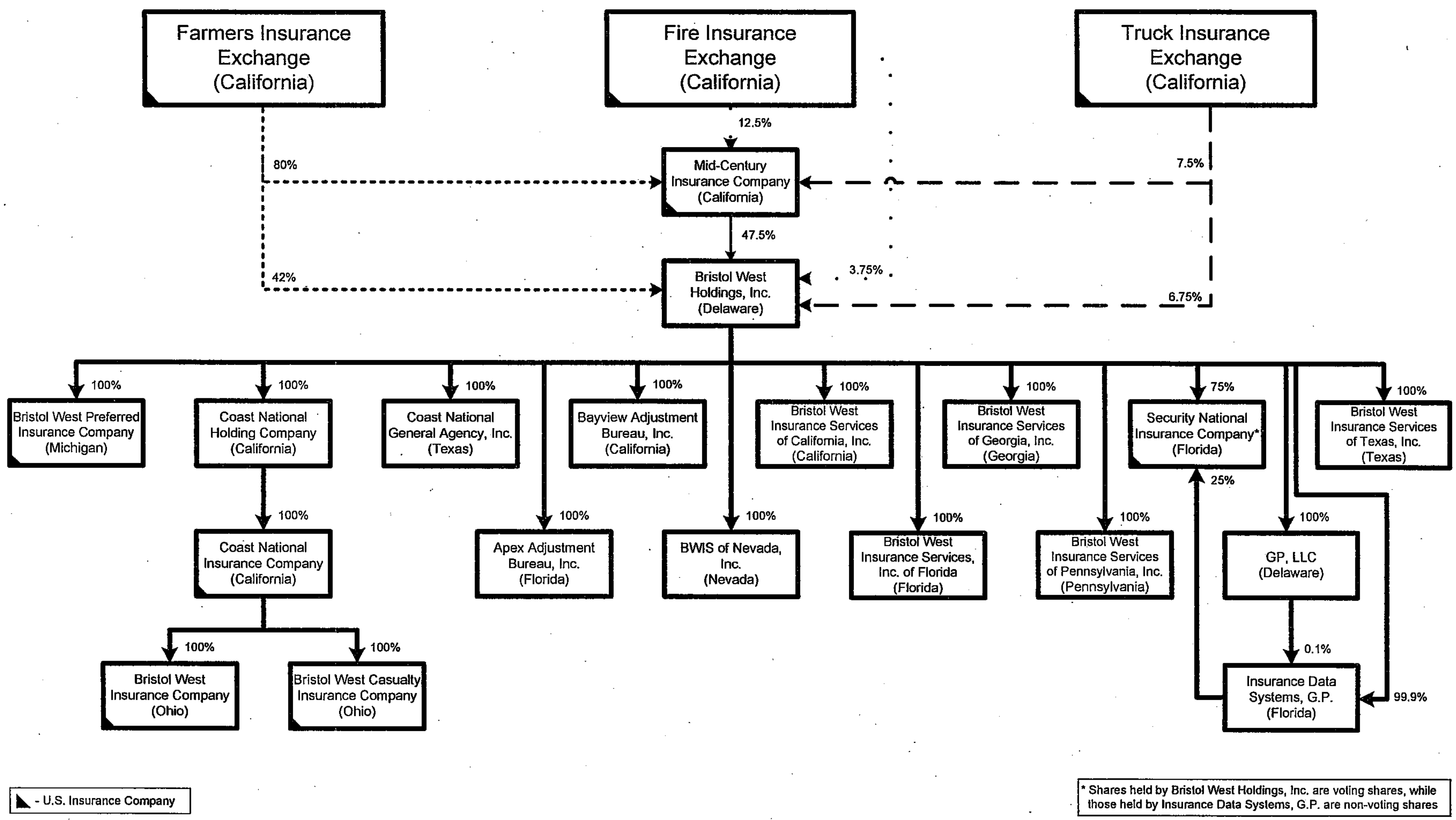
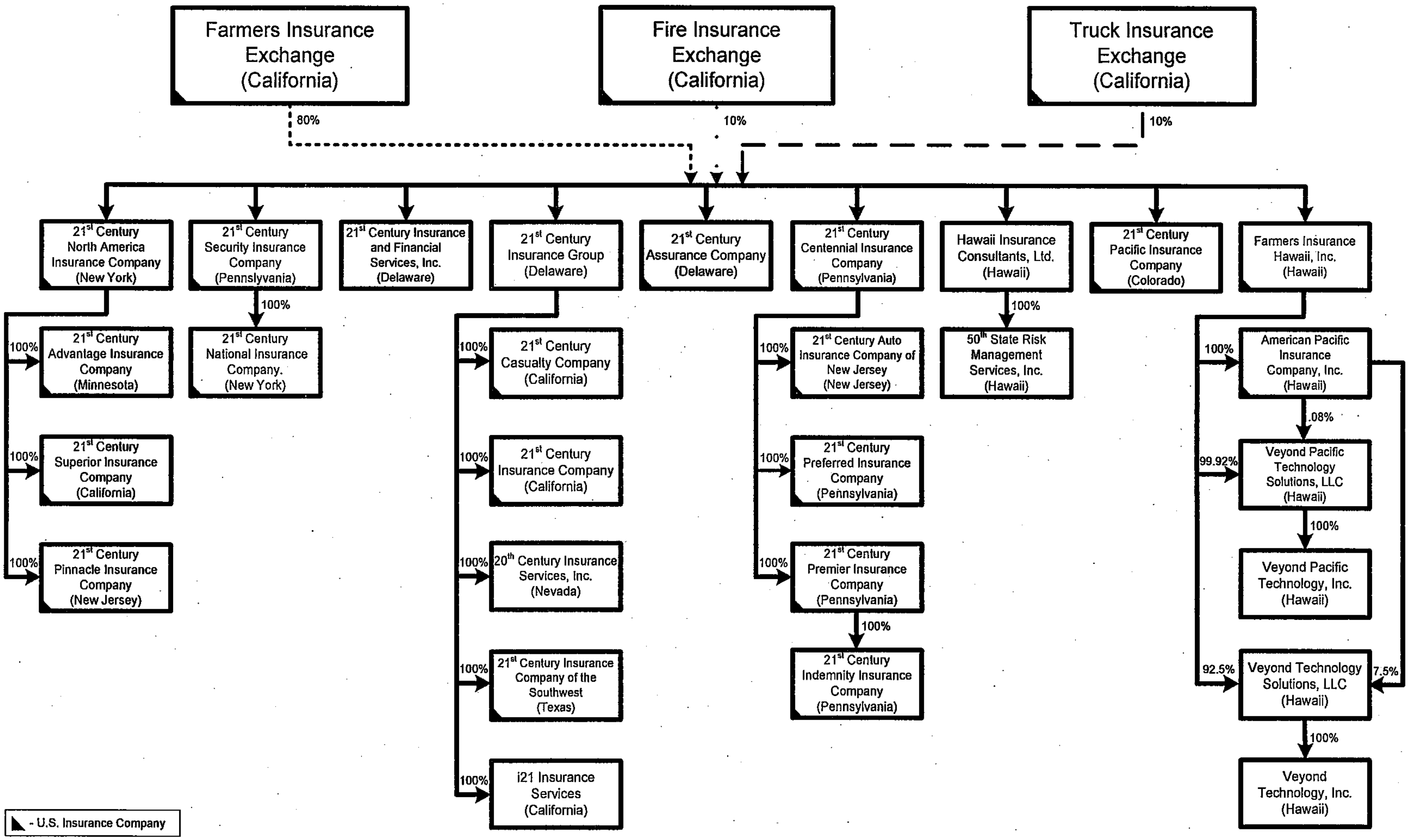


CHART V: EXCHANGES/21st CENTURY ORGANIZATION



Management of the Company is vested in a six member board of directors, elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Board of Directors

Name and Residence	Principal Business Affiliation
Frank Joseph Ceglar, Jr. * Palos Verdes Peninsula, California	Executive Vice President and General Counsel Farmers Group, Inc.
Jeffrey John Dailey Los Angeles, California	Executive Vice President Farmers Group, Inc.
Ronald Gregory Myhan Laguna Beach, California	Executive Vice President and Treasurer Farmers Insurance Exchange
Mhayse Gokul Samalya Topanga, California	Executive Vice President Farmers Group, Inc.
Mark Bailey Smith Calabasas, California	Senior Vice President Farmers Group, Inc.
F. Robert Woudstra Los Angeles, California	President, Chief Executive Officer, and Director Farmers Group, Inc.

(*) Replaced by David Anthony Travers on March 19, 2010.

Principal Officers

Name	Title
F. Robert Woudstra	President and Chief Executive Officer
Ronald Gregory Myhan	Vice President and Treasurer
Doren Eugene Hohl	Secretary
Frank Joseph Ceglar, Jr.	Vice President
Jeffrey John Dailey	Vice President
Dan Curtis Dunmoyer *	Vice President
Scott Robert Lindquist	Vice President
Bryan Francis Murphy	Vice President
James Leslie Nutting	Vice President

Principal Officers

Name	Title
Mhayse Gokul Samalya	Vice President
Mark Bailey Smith	Vice President

(*) Replaced by Denise Elaine Ruggiero on March 19, 2010.

Management Agreements

Management Services Arrangement

Farmers Group, Inc. (FGI), as the Attorney-In-Fact for Farmers Insurance Exchange (Farmers), provides operating services (including staffing and occupancy) except claims adjustment services to the Company. There was no existing written management services agreement between the Company and FGI. The Company's service personnel have indicated that, rather than utilizing separate written services agreements, the services and related fees are anticipated and covered under the broader "due to the reinsurer category" of the intercompany reinsurance pooling agreement with Farmers. It was recommended in the previous examination that a separate management services agreement between the Company and the appropriate management services provider(s) be filed with the California Department of Insurance (CDI) under California Insurance Code (CIC) Section 1215.5 to clearly define the roles and responsibilities in the provision of such services. During 2007, 2008, and 2009, net management services fees allocable to the Company and paid by Farmers to FGI as a result of the Company's participation in the intercompany reinsurance agreement were $274,097,557, $300,498,328, and $335,881,113, respectively. See the following related comments regarding the new agreement under the heading "Management Services Agreement".

Claims Adjustment Services Arrangement

The Farmers staffs a claims department for the adjustment of its own claims and to adjust certain of its affiliated insurance companies' claims, including the Company. The claims adjustment services arrangement in place between Farmers and certain of its affiliates (the pooled companies including the Company), with Farmers providing all of their claims adjustment services, was not in written form. During 2007, 2008, and 2009, net claims adjustment service fees paid by the Company to Farmers as a result of its participation in the intercompany reinsurance pooling agreement were $173,523,000, $173,095,000, and $143,132,000, respectively.

It was recommended in the previous examination that the Company enter into a written claims adjustment services agreement and submit it to the CDI pursuant to CIC Section 1215.5 for approval. See the following related comments regarding the new agreement under the heading "Management Services Agreement".

Management Services Agreement

Effective May 15, 2009, Farmers entered into a management services agreement with the Company. Farmers provides or arranges for the provision of management services and claims adjusting services via this agreement which was approved by the CDI on April 30, 2009. The amounts paid under this new agreement during 2009 are included in the above summaries of the management services arrangement and the claims adjustment services arrangement.

Managed Care Services Agreement

The Company is a party to a managed care services agreement, effective October 1, 1998, with Zurich Services Corporation (ZSC), an affiliate. ZSC provides certain bill review and medical management services for the Company's workers' compensation claims. It was recommended in the previous examination that the Company submit the managed care services agreement to the CDI pursuant to CIC Section 1215.5 for approval. The submission of the ZSC managed care services agreement was still pending as of this examination date, December 31, 2009. The Company and ZSC have, via amendment, terminated the agreement (except for case management services), effective July 15, 2010. A replacement managed care services agreement with Corvel Healthcare Corporation (unaffiliated) is currently near completion.

During 2007, 2008, and 2009, service fees paid by the Company to ZSC as a result of its participation in the existing managed care services agreement were $1,000,000, $1,000,000, and $1,300,000, respectively.

Tax Sharing Agreement

The Company's federal income tax return was consolidated with various insurance and non-insurance affiliates and subsidiaries. Farmers is the lead company in the consolidation. A long-standing written tax sharing agreement in place was amended on July 25, 2000 to add Foremost Corporation of America (Foremost) and certain of its subsidiaries. A subsequent amendment, effective July 3, 2007, added Bristol West Holdings, Inc. and all of its subsidiaries, plus two companies owned by Foremost. The tax allocation was based on separate return calculations with current credit for net losses. On January 3, 2008, the CDI approved the July 3, 2007, amendment. A revised tax sharing agreement is pending, with an effective date of July 1, 2009, to include the recently acquired eighteen Personal Auto Group companies. The recently CDI approved (August 17, 2010) tax sharing agreement between Fire Insurance Exchange and an affiliate was used as a template for the new agreement for Farmers which includes the Company. The CDI indicated no separate approval of this additional agreement was necessary. The latest tax sharing agreement tax allocation is also based on separate return calculations. The Company's portion of the federal income taxes paid or recovered for 2007, 2008, and 2009, was $52,942,000, ($34,748,000), and $53,238,000, respectively.

Investment Management Agreements

Farmers Group, Inc. (FGI), acting on behalf of Farmers, Fire, and Truck Insurance Exchange (Truck), and the subsidiaries of these three exchanges, including the Company, entered into an Investment Management Agreement dated July 1, 1998 with its affiliate, Scudder Kemper Investments Inc. (Scudder). In 2002, Scudder was acquired and replaced by Deutsche Asset Management (DeAM), a division of Deutsche Bank, AG. DeAM, a non-affiliate, managed fixed income and equity asset portfolios for Farmers, Fire, Truck and their subsidiaries', including the Company. The terms of the agreement have otherwise not been altered.

FGI was also a party to the Service Level Agreement dated November 4, 1998 with Scudder, which was replaced in 2002 by DeAM. DeAM, a non-affiliate, provided accounting and reporting services in connection with Farmers, Fire, Truck, and the stock subsidiaries', including the Company, investment portfolios, including Securities Valuation Office reporting. DeAM was given the authority to vote the proxies of the common stock. The terms of the agreement were left unchanged except for the replacement of parties.

Securities Lending Agreement

In 1999 the three Exchanges and their subsidiaries, including the Company, filed with the CDI a securities lending agreement with their affiliate, Zurich Capital Markets Trust Company (Zurich).

In December 2001, the securities lending agent was changed from Zurich to the Bank of New York Western Trust (BNY), a non-affiliate, as Zurich exited the securities lending business. "Collateral" is defined in the securities lending agreement as government securities and cash. The agreement also stipulated that BNY establish a "custodial custody account" in the name of the companies for the purpose of holding collateral and approved investments pertaining to securities lending transactions. The custodian was Wall Street Portfolio Advisors, a division of BNY. The agreement was amended and restated effective May 24, 2005. The agreements conformed to the securities lending limits specified in CDI Bulletin 82-2.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to transact insurance business in the District of Columbia and the following 47 states:

Alabama	Indiana	Nebraska	South Carolina
Arizona	Iowa	Nevada	South Dakota
Arkansas	Kansas	New Hampshire	Tennessee
California	Kentucky	New Jersey	Texas
Colorado	Louisiana	New Mexico	Utah
Connecticut	Maryland	North Carolina	Vermont
Delaware	Massachusetts	North Dakota	Virginia
Florida	Michigan	Ohio	Washington
Georgia	Minnesota	Oklahoma	West Virginia
Hawaii	Mississippi	Oregon	Wisconsin
Idaho	Missouri	Pennsylvania	Wyoming
Illinois	Montana	Rhode Island	

Major Lines of Business:

The Company writes most of the property and casualty lines of business with a heavy emphasis on personal lines. The principal personal lines written or assumed by Farmers Insurance Exchange (Farmers), the lead pooling entity in the reinsurance pooling arrangement, were private passenger auto liability, auto physical damage, and homeowners multiple peril. By volume, commercial multiple peril and, to a lesser extent, workers' compensation writings were the more material of the commercial lines being written.

In 2009, the Company wrote $2.6 billion of direct premiums. Approximately two-thirds of the Company's direct business was written in California, with the remaining third broadly distributed in various states.

Personal and commercial business is produced for Farmers, Fire Insurance Exchange, Truck Insurance Exchange, and affiliated property and casualty companies (including the Company) by an exclusive agency force of about 15,000 agents and was supported by 28 state executive offices, 7 service centers, and about 270 branch offices responsible for handling claims.

REINSURANCE

Intercompany Reinsurance Pooling Agreement

The Company and certain affiliated companies, participated in an intercompany reinsurance pooling agreement. Under this agreement, the affiliated participants ceded all of their business, net of reinsurance, to Farmers Insurance Exchange (Farmers), the lead company. Farmers then retroceded a share of the business back to certain participants (including the Company) based on percentages prescribed under the pooling agreement. The last amendment to this long-standing agreement was approved by the California Department of Insurance (CDI) on January 12, 1999.

The participants in the intercompany reinsurance pooling agreement, and their respective participation percentages as of December 31, 2009, were as follows:

Pool Participant	Percentage
Farmers Insurance Exchange	51.75
Mid-Century Insurance Company	16.00
Truck Insurance Exchange	7.75
Fire Insurance Exchange	7.50
Farmers Insurance Company of Oregon	7.00
Farmers Insurance Company of Washington	2.00
Civic Property and Casualty Company	1.00
Exact Property and Casualty Company	1.00
Neighborhood Spirit Property and Casualty Company	1.00
Texas Farmers Insurance Company	1.00
Farmers Insurance of Columbus, Inc.	1.00
Farmers Insurance Company, Inc.	0.75
Illinois Farmers Insurance Company	0.75
Farmers New Century Insurance Company	0.75
Farmers Insurance Company of Idaho	0.75
Total	100.00

Assumed

Other than a participation in the aforementioned reinsurance pool, the Company has no reinsurance assumed.

Ceded

Affiliated

Treaties ceding quota share risks to affiliated reinsurers were written with Farmers as the cedents and remained in effect at December 31, 2009:

These included an auto physical damage (APD agreement) 100% quota share agreement effective January 1, 2006, with two participants: the affiliated Zurich Insurance Company (Zurich) and the affiliated Farmers Reinsurance Company (Farmers Re). The premium for this APD agreement was $1 billion annually with Zurich assuming an 80% participation and Farmers Re assuming a 20% participation. The CDI approved this agreement on December 28, 2005. This 2006 APD agreement was renewed with the same terms, effective January 1, 2009, for a three-year term. The CDI approved this latest APD agreement on April 27, 2009.

Farmers also was engaged in an "all-lines" quota share reinsurance agreement ceding business to Zurich and Farmers Re. The agreement as amended, effective December 31, 2005, ceded a 6% quota share (Zurich 4.8% and Farmers Re 1.2%). The CDI approved this 2005 amendment on December 28, 2005. The agreement was amended, effective December 31, 2007 to decrease the percentage to 5% (Zurich 4% and Farmers Re 1%) and extend the duration to December 31, 2010. The 2007 amendment was approved by the CDI on December 28, 2007. An amendment, effective September 30, 2008 increased the percentage to 25%. This 25% all lines quota share agreement was then terminated, effective June 30, 2009, and replaced with a new 37.5% all lines quota share agreement (Zurich 30% and Farmers Re 7.5%). An amendment, effective December 31, 2009, decreased the percentage ceded to 35%. The CDI approved the December 31, 2009, amendment on May 25, 2010.

Ceded

Non-affiliated

Treaties ceding risks to non-affiliated reinsurers were written with the Company, Farmers, Fire, and Truck (the parent Exchanges) as the cedents. The following is a summary of the principal non-affiliated ceded excess of loss reinsurance treaties inforce as of December 31, 2009:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Property Catastrophe Excess of Loss – 1st Layer	Lloyds of London (32.175%) Various reinsurers (59.28%)	$250 million per occurrence	91.445% of $200 million excess of $250 million retention per occurrence. Coverage for property located in all territory except Florida.
Property Catastrophe Excess of Loss – 2nd Layer	Various reinsurers (95%)	$450 million per occurrence	95% of $550 million excess of $450 million retention per occurrence.
Regional Property Catastrophe Excess of Loss	Lloyds of London (20.856%) Various reinsurers (74.144%)	$1 billion per occurrence	95% of $500 million excess of $1 billion retention per occurrence. Coverage for property located Texas, Louisiana, Arkansas, Oklahoma, and California.
Property Catastrophe Excess of Loss – 1st Layer Texas Only	Flagstone Reinsurance Limited (12%) Partner Reinsurance Company, Ltd. (11%) Various reinsurers (72%)	$1.5 billion per occurrence	95% of $300 million in excess of $1.5 billion per occurrence. Coverage for property located in Texas only.
Property Catastrophe Excess of Loss – 2nd Layer Texas Only	Flagstone Reinsurance Limited (12%) Partner Reinsurance Company, Ltd. (11%) Various reinsurers (77%)	$1.8 billion per occurrence	100% of $200 million in excess $1.8 billion retention per occurrence. Coverage for property located in Texas only.
Property Catastrophe Excess of Loss – Southeast region	DaVinci Reinsurance, Ltd. (17%) Renaissance Reinsurance, Ltd (17%)	$200 million per occurrence.	100% of $200 million in excess of $200 million retention per occurrence. Coverage for losses from Alabama, Florida, Georgia, North Carolina and South

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	Validus Reinsurance, Ltd. (15%) Lloyd's of London (33.5%) Various reinsurers (17.5%)		Carolina.
Property Catastrophe Excess of Loss	Lloyds of London (33.5%) Various reinsurers (67.5%)	$20 million per occurrence.	100% of $80 million in excess of $20 million in any one occurrence. Coverage for Zurich Small Business Solutions' losses from Florida only.
Property Catastrophe Umbrella Excess of Loss	Lloyds of London (23.33%) Various reinsurers (76.67%)	$1 billion per occurrence.	100% of $300 million in excess of $1 billion per occurrence. Coverage for losses from Alabama, Arkansas, Kentucky, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas.
Property Per Risk Excess of Loss – 1st Layer	Lloyds of London (47%) Various reinsurers (53%)	$3 million per risk	100% of $7 million in excess of $3 million per risk and $7 million in aggregate losses.
Property Per Risk Excess of Loss – 2nd Layer	Lloyds of London (50.9%) Various reinsurers (49.1%)	$10 million per risk	100% of $40 million in excess of $10 million per risk.
Property Per Risk Excess of Loss – 3rd Layer	Lloyds of London (58%) Various reinsurers (42%)	$50 million per risk	100% of $25 million in excess of $50 million per risk.
Casualty / Workers Compensation Catastrophe Excess of Loss – 1st Layer	Lloyds of London (32%) Aspen Insurance UK Limited (20%) Endurance Specialty Ins. Ltd. (25%) Various reinsurers (23%)	$10 million per occurrence	100% of $15 million in excess of $10 million per occurrence.
Casualty / Workers Compensation Catastrophe Excess of Loss – 2nd Layer	Lloyds of London (41%)	$25 million per occurrence.	100% of $25 million in excess of $25 million per occurrence.

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	Endurance Specialty Ins. Ltd. (26%) Various reinsurers (33%)		
Casualty / Workers Compensation Catastrophe Excess of Loss – 3rd Layer	Lloyds of London (24.69%) Aspen Insurance UK Limited (18.74%) Endurance Specialty Ins. Ltd. (26.15%) Various reinsurers (30.42%)	$50 million per occurrence.	100% of $50 million in excess of $50 million per occurrence.
Workers Compensation Catastrophe Excess of Loss	Lloyds of London (17%) Montpelier Reinsurance Ltd. (20%) Tokio Millennium Reinsurance Limited (25%) Validus Reinsurance, Ltd. (15%) Various reinsurers (13%)	$50 million per occurrence.	90% of $50 million in excess of $100 million per occurrence.
Marine Yacht Excess of Loss – 1st Layer	Swiss Reinsurance America Corp. (32.5%). Transatlantic Reinsurance Company (15%) Various reinsurers (52.5%)	$5 million per occurrence	100% of $5 million in excess of $5 million per occurrence.
Marine Yacht Excess of Loss – 2nd Layer	Swiss Reinsurance America Corp. (32.5%). Transatlantic Reinsurance Company (15%) Various reinsurers (52.5%)	$10 million per occurrence.	100% of $10 million in excess of $10 million per occurrence.
Marine Yacht Excess of Loss – 3rd Layer	Swiss Reinsurance America Corp.	$10 million per occurrence.	100% of $10 million in excess of $20 million per occurrence.

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
	(32.5%). Transatlantic Reinsurance Company (15%) Various reinsurers (52.5%)		

As of December 31, 2009, reinsurance recoverables for all ceded reinsurance totaled $ 2.7 billion, or 350% of surplus as regards policyholders. Of the reinsurance recoverables 99.8% were from admitted affiliates resulting from the reinsurance pooling arrangement of which Farmers was the lead company.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$2,320,347,160	$	$2,320,347,160	
Stocks:				
Preferred stocks	255,115		255,115	
Common stocks	254,684,932		254,684,932	
Real Estate				
Properties held for the production of income	53,213,713		53,213,713	
Cash, cash equivalents and short-term investments	(187,314,612)		(187,314,612)	
Investment income due and accrued	28,306,907	3,000	28,303,907	
Premiums and consideration:				
Uncollected premiums and agents balances in the course of collection	139,145,740	16,070,366	123,075,374	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	369,837,390		369,837,390	
Accrued retrospective premiums	608,240		608,240	
Reinsurance:				
Amounts recoverable from reinsurers	153,482,702		153,482,702	
Current federal and foreign income tax recoverable and interest thereon	225		225	
Net deferred tax asset	111,066,791	21,574,777	89,492,014	
Guaranty funds receivable or on deposit	888,964		888,964	
Aggregate write-ins for other than invested assets	16,060,678		16,060,678	
Total assets	$3,260,583,945	$37,648,143	$3,222,935,802	

Statement of Financial Condition
as of December 31, 2009

(Continued)

Liabilities, Surplus and Other Funds

Losses		$1,046,846,700	(1)
Reinsurance payable on paid losses and loss adjustment expenses		102,387,127	
Loss adjustment expenses		336,208,140	(1)
Commissions payable, contingent commissions and other similar charges		7,801,582	
Taxes, licenses and fees		6,359,190	
Unearned premiums		672,761,406	
Advance premium		15,703,257	
Dividends declared and unpaid: Policyholders		492,251	
Ceded reinsurance premiums payable		141,200,594	
Amounts withheld or retained by company for account of others		2,401,740	
Provision for reinsurance		101,954	
Draft outstanding		371,777	
Payable to parent, subsidiaries and affiliates		104,418,197	
Aggregate write-ins for liabilities		8,201,039	
Total liabilities		2,445,254,954	
Common capital stock	4,800,000		
Gross paid in and contributed surplus	1,639,750,000		
Unassigned funds (surplus)	$ (866,869,152)		
Surplus as regards policyholders		777,680,848	
Total liabilities, surplus and other funds		$3,222,935,802	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income		
Premiums earned		$1,626,705,664
Deductions:		
Losses incurred	$837,380,392	
Loss adjustment expenses incurred	146,868,946	
Other underwriting expenses incurred	506,452,748	
Total underwriting deductions		1,490,702,086
Net underwriting gain		136,003,578
Investment Income		
Net investment income earned	$110,984,333	
Net realized capital loss	(2,372,294)	
Net investment gain		108,612,039
Other Income		
Net loss from agents' or premium balances charged off	$(16,558,987)	
Finance and service charges not included in premiums	13,594,515	
Aggregate write-ins for miscellaneous loss	(18,525,062)	
Total other loss		(21,489,534)
Net income before dividends to policyholders, and before all other federal and foreign income taxes		223,126,083
Dividends to policyholders		278,695
Federal and foreign income taxes incurred		54,670,653
Net income		$ 168,176,735

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 603,570,820
Net income	$168,176,735	
Change in net unrealized capital gains less capital gains tax	1,706,579	
Change in net deferred income tax	(3,305,240)	
Change in nonadmitted assets	1,282,254	
Change in provision for reinsurance	35,956	
Cumulative effect of changes in accounting principles	4,673,730	
Aggregate write-ins for gains and in surplus	1,540,014	
Change in surplus as regards policyholders		174,110,028
Surplus as regards policyholders, December 31, 2009		$ 777,680,848

Reconciliation of Surplus as Regards Policyholders
from December 31, 2006 through December 31, 2009

Surplus as regards policyholders, December 31, 2006, per Examination			$610,597,600
	Gain in Surplus	Loss in Surplus	
Net income	$237,903,523	$	
Change in net unrealized capital gain		47,123,047	
Change in net deferred income tax		12,710,951	
Change in nonadmitted assets		21,617,575	
Change in provision for reinsurance	1,538,722		
Cumulative effect of change in accounting principles	4,673,730		
Aggregate write-ins for gains in surplus	4,418,846		
Totals	$248,534,821	$ 81,451,573	
Net increase in surplus as regards policyholders for the examination			167,083,248
Surplus as regards policyholders, December 31, 2009, per Examination			$777,680,848

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company was directed by the California Department of Insurance (CDI), under California Insurance Code Section 733(g), to retain the American Actuarial Consulting Group, LLC, (AACG) for the purpose of assisting this examination in determining the reasonableness of the Company's loss and loss adjustment expense reserves. Because the business of the Farmers property and casualty companies was pooled, it was necessary to review the losses on a group-wide basis. Based on the analysis by AACG and the review of their work by a Casualty Actuary from the CDI, the Company's December 31, 2009 reserves for losses and loss adjustment expenses were determined to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None

Previous Report of Examination

Management and Control - Management Agreements (Page 9): Farmers Group, Inc. (FGI), as the Attorney-In-Fact for Farmers Insurance Exchange (Farmers), provided operating services (including staffing and occupancy) except claims adjustment services to the Company. There was no existing written management services agreement between the Company and FGI, the service provider. It was recommended that a separate management services agreement between the Company and the appropriate management services provider(s) be filed with the California Department of Insurance (CDI) under California Insurance Code (CIC) Section 1215.5 to clearly define FGI's roles and responsibilities in the provision of such services. Effective May 15, 2009, Farmers entered into a management services agreement with the Company to provide both management services and claims adjusting services via this agreement, which was approved by the CDI on April 30, 2009.

Management and Control - Claims Adjustment Services Arrangement (Page 10): The claims adjustment services arrangement in place between the Farmers and certain of its affiliates (including the Company), with Farmers providing all of their claims adjustment services was not in written form. It was recommended that the Company enter into a written claims adjustment services agreement and submit it to the CDI for approval pursuant to CIC Section 1215.5. Effective May 15, 2009, Farmers entered into a management services agreement with the Company to provide both management services and claims adjusting services via this agreement, which was approved by the CDI on April 30, 2009.

Management and Control - Managed Care Services Agreement (Page 10): Zurich Services Corporation (ZSC), an affiliate, provided certain bill review and medical management services for the Company's workers' compensation claims. It was recommended that the Company submit the managed care services agreement to the CDI for approval pursuant to CIC Section 1215.5. The submission of the ZSC managed care services agreement was still pending as of this examination date, December 31, 2009. The Company and ZSC have, via amendment, terminated this agreement (except for case management services), effective July 15, 2010. A replacement managed care services agreement with Corvel Healthcare Corporation (non-affiliated) is currently near completion.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

_______/S/______________

Gary W. McMurray, CFE
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