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FILED

OCT 27 2005

Department of Insurance
State of Idaho

BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE

STATE OF IDAHO

IN THE MATTER OF:	
FARMERS INSURANCE COMPANY OF IDAHO	ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2003
Idaho Certificate of Authority: 901 NAIC Company Code: 21601	Docket No. 18-2319-05

The above described Report of Examination of Farmers Insurance Company of Idaho (Company) was completed by examiners of the Idaho Department of Insurance (Department), signed the 23rd day of September 2005 by the examiner-in-charge, Lois

Haley, CFE, CPA, and a verified copy was filed with the Department effective September 23, 2005.

WAIVER

Based upon the Waiver signed by Barry P. Waggener, President, dated October 17, 2005, this is a final order, and the Company has also waived its rights to reconsideration and appeal / judicial review of this order.

RESPONSE

Farmers Insurance Company of Idaho responded to the report by letter from Barry P. Waggener, dated October 17, 2005, which response is not made a part of the report by this reference.

ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto and incorporated herein 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.

DATED and EFFECTIVE at Boise, Idaho this 27 day of October 2005.

Gary L. Smith

Gary L. Smith, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 27 day of October, 2005, I caused to be served the foregoing document on the following parties in the manner set forth below:

Barry Paul Waggener, President Farmers Insurance Company of Idaho 2500 South Fifth Avenue Pocatello, Idaho 83204-1923	X X	certified mail first class mail hand delivery facsimile e-mail
Rick John Brown, Treasurer Farmers Insurance Company of Idaho 2500 South Fifth Avenue Pocatello, Idaho 83204-1923	X X	certified mail first class mail hand delivery facsimile e-mail
Georgia Hill, Bureau Chief / Chief Examiner Idaho Department of Insurance 700 W. State St., 3rd Floor Boise, Idaho 83720-0043	 X X	certified mail first class mail hand delivery facsimile e-mail
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, VA 23218	 X 	certified mail first class mail hand delivery facsimile e-mail
The Honorable Linda Hall Director, Alaska Division of Insurance NAIC Secretary, Western Zone 550 West 7th Avenue, Suite 1560 Anchorage, AK 99501-3567	 X 	certified mail first class mail hand delivery facsimile e-mail

William R. Michels
Examinations Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO

REPORT OF EXAMINATION

of

FARMERS INSURANCE COMPANY OF IDAHO
(a domestic stock insurer)
(NAIC Company Code 21601)

as of

December 31, 2003

FILED 9/23/05 ah
date initial

ADOPTED 10/27/05 ah
date initial

STATE OF IDAHO
Department of Insurance

EXHIBIT
A

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State of Idaho
DEPARTMENT OF INSURANCE
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FAX # (208)334-4398

DIRK KEMPTHORNE
Governor

GARY L. SMITH
Director

Pocatello, Idaho
September 23, 2005

The Honorable Gary L. Smith
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, VA 23218

The Honorable Linda Hall
Director, Alaska Division of Insurance
NAIC Secretary, Western Zone
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Directors and Commissioner:

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, 2003, 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. Certain procedures were performed at the Company's parent office in Los Angeles, California. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period January 1, 2000, through December 31, 2003, 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 conjunction with and 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 conducted by the California Department of Insurance as of December 31, 2003. 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.*

The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, and the NAIC *Accounting Practices and Procedures Manual.* Verification and valuation of assets, determination of liabilities and reserves, and an analysis and review of such other accounts and records appropriate to the examination were also performed.

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, 1997 through December 31, 1999. Recommendations contained in the prior examination report and management's responses to those recommendations were as follows:

It was noted, during the review of the auto line of business, the Company took an excessive amount of recognition time from the date received to the date of acknowledgment on three sample claims. It was recommended that the Company recognize and acknowledge claims in a timely manner.

In a letter to the Department of Insurance dated May 23, 2003, management stated:

The issue of Claim's acknowledgement delays, with the specific claim information supplied in the supplemental correspondence dated March 27, 2003, was reviewed. We confirm that in these instances a delay was present because of a communication failure between the companies; Agency force and Claims Department. Within the next month, a Field Bulletin will be sent to the Agency force emphasizing the importance of prompt claims notification.

Farmers Insurance Company of Idaho has taken an aggressive position in eliminating delays in claims reporting by reorganization in its structure a National Call Center whereby claims are reported directed by the use of a toll free number which is open 24 hours 7 days a week. The adoption of Farmers' National Call Center was in response to the customer's demands and Farmer's desire to provide more accessible claims reporting options.

It is recommended that the Company maintain a detailed transaction level for policies for the net written premium amount as shown in the Annual Statement at year-end.

It is recommended that the changes on the new accounting system be monitored so as to Company transaction level of detail for expenditures stated in Section 41-2840, Idaho Code.

The Company's parent office in Los Angeles, California is currently working towards providing written premium transaction level detail for policies by year-end. This information will be available in the SAP accounting system. The Company's Home office will monitor the changes so as to comply with the detail as prescribed in the Idaho Code as recommended.

It is recommended that access be restricted to authorized personnel. Individual access should be periodically reviewed.

This recommendation was regarding physical security at the Los Angeles data center computer room. Programs have been instituted, effective April 15, 2003, to ensure that all personnel with access to the data center have a defined and approved need to be in the data center at least two (2) days per week. Others who periodically need to enter the center will be granted access by the on duty supervisor/manager after the need has been determined. However, these individuals will not be granted key card access and they will be required to sign in and out.

In addition, new requests for data center access now require the requestor's manager approval along with an explanation as to why the access is needed via email. This request is reviewed by Data Center manager who makes the decision to approve or disapprove based on the material and information submitted. Once approved the request is forwarded via email to the Building Security. Building Security updates the information in their computer system, and access is granted.

It is recommended that management review RACF user profiles to ensure that employees' access to the mainframe system remains current. It is also recommended that the Company consider evaluating its current procedures to ensure all user ID's belonging to terminated employees are disabled and removed in a timely manner.

It is recommended that management periodically review RACF user ID's with access to Endevor profiles to ensure that user access is current and authorized.

The RACF user profiles have been reviewed and programs have been implemented to ensure that employees' access to the mainframe datasets are current based on job function. The UACCTING group has also been updated and no longer has inactive users. Additionally, the responsibility for managing this file has been moved from the SAP Development group to the SAP Security group within the functional team of the SAP Program Office. This group is now receiving an employee list from Human Resource and removing terminated employees as appropriate. The SAP Security group periodically reviews RACF user ID's with access to Endevor profiles to ensure that user access is current and authorized.

It is recommended that management review the current procedures for requesting and approving mainframe access. Security administrators should be able to determine whether the request has come from an authorized source.

It is recommended that the Company consider formalizing and documenting its IT policies and procedures.

Beginning June 30, 2003, the IT Operations management personnel will be implementing procedures that call for the Quarterly review of all personnel with access to the Data Center. Changes to the list will be made accordingly based on end user requirements. New procedures now in place also requires IT Operations to maintain a hard copy record of all requests for access control changes (printouts of email requests). Also, our IT Operations is working with Building Construction and Management on establishing a new access control system that will provide additional reporting and audit controls in 2004.

It was recommended that the Company keep a backup tape for claims data for recovery purposes.

During the course of the examination, the Company installed a procedure for the maintenance and storage of a back up tape in the event the original is destroyed or lost. The Company has established a data recovery system program for all operations including claims. This system is reviewed periodically and changes are made as deemed necessary.

It was recommended that the Company and its parent review the access control procedures and refine the security procedures for levels of accessibility given to individuals requesting access to the Company's information systems.

The Company continues to review its security procedures to ensure that only authorized personnel are granted access to the Company's information systems.

It was recommended that the Company bring the Ada and Canyon County Bond total back to the Section 41-706 (1), Idaho Code limit of 10 percent.

In October 2000, the Company reduced the Ada and Canyon County bonds total to $6,244,681, 5.66%, of the Company's net admitted assets. This put the Company in compliance with Idaho Code Section 41-706(1) limit of 10 percent. A control has been established to monitor compliance with this code.

It was recommended that the money market funds, of $1,896,755, be reclassified from short-term investments into common stock for Annual Statement purposes, as per NAIC Instructions, and shown on Schedule D-Part 2.

The Wells Fargo Stagecoach money market fund in effect during the examination was closed in July 2002 and replaced with the JP Morgan Prime money market fund. The NAIC Purposes and Procedures manual lists the JP Morgan Prime money market fund as a Class 1 fund and is filed with the SVO. Per NAIC guidelines, this qualified the fund as an exception and reportable on Schedule DA as a short-term investment.

It is recommended that the Company recognize short-term accrued interest on Schedule DA - Part 1 in the future.

A management decision was made not to accrue income on the Vista/JP Morgan accounts for all of the companies within the Farmers Insurance Group of Companies. This decision was made for two reasons:

- *The account balance changes daily, as does the rate that the account earns. To produce an accurate accrual, the securities accounting system would have to update the interest rate daily and run an accrual for this account every day of the month.*

- *The income in question on this account is immaterial in relation to the asset balance and the amount of labor required to produce the accrual.*

To maintain consistency within the group of companies, it would be preferable to continue our current method of reporting.

It is recommended that the Company review the assets on the Quarterly or Annual Statements for line items with negative amounts and, if applicable, properly reclassify the amounts as a liability for future quarterly or annual statements.

It was noted that the receivable to parent, subsidiaries and affiliates amount of $(1,045,273) was determined by examination to be a liability and reclassified as a payable to parent, subsidiaries and affiliates.

The Receivable or Payable amounts from Parent, Subsidiaries and Affiliates have been properly classified on our quarterly and annual statements beginning with the third quarter, 2001.

It was noted that the contract actuary suggested that, "..it would be more appropriate to monitor the (parent) company's homeowners' line, the workers' compensation line, and the runoff of the remaining earthquake claims over time. These lines have shown stress in recent periods, but there is also evidence that the (parent) company has taken actions to improve the results. This is not to say that no attention should be paid to the auto line. Clearly it is a very large portion of the (parent) company's business."

This recommendation does not request any action on the part of the Company; however, the comments are duly noted.

Except for the recognition of short-term accrued interest on Schedule DA – Part 1, all of the recommendations contained in the prior examination report were addressed by the Company. See Note (1) to the Financial Statements for additional comments relative to accrued interest.

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 10, 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, casualty – excluding Workers' Compensation, and surety. The Company has accredited reinsurer status in the States of California and Oregon.

Effective January 1, 1999, the Company became a 0.75 percent participant in an Intercompany Reinsurance Pooling Agreement with fourteen other affiliated members of Farmers Insurance Group. The intercompany reinsurance agreement and the reinsurance pool are described in more detail under the captions, *MANAGEMENT AND CONTROL* and *REINSURANCE.*

Subsequent to the examination date, the Department of Insurance approved the addition of Workers' Compensation to the Company's Idaho Certificate of Authority. The Idaho Industrial Commission approved the Company's application for authority to write Workers' Compensation insurance in Idaho effective January 1, 2004.

Capital Stock and Paid in Surplus

At December 31, 2003, 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, 2003 were as follows:

	Issued and Outstanding Shares	Percent of Issued Stock
Farmers Insurance Exchange	12,032	80.00
Truck Insurance Exchange	2,000	13.30
Fire Insurance Exchange	1,000	6.65
Directors shares	8	0.05
Totals	15,040	100.00

During the examination period, each director was a stockholder of the Company, which met the requirements of Section 41-2845, Idaho Code and Article VII of the Articles of Incorporation. During 2003, Section 41-2835, Idaho Code was repealed. Therefore, directors of the Company were no longer required to be stockholders.

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

Year	Issued and Outstanding Shares	Common Capital Stock	Gross Paid In & Contributed Surplus	Total Capital & Paid in and Contributed Surplus
1999	15,040	$1,504,000	$33,162,448	$34,666,448
2000	15,040	1,504,000	33,162,448	34,666,448
2001	15,040	1,504,000	33,162,448	34,666,448
2002	15,040	1,504,000	33,162,448	34,666,448
2003	15,040	1,504,000	33,162,448	34,666,448
Totals	15,040	$1,504,000	$33,162,448	$34,666,448

Dividends to Stockholders

During the period January 1, 2000 through December 31, 2003, no dividends were declared or paid to the Company's stockholders.

MANAGEMENT AND CONTROL

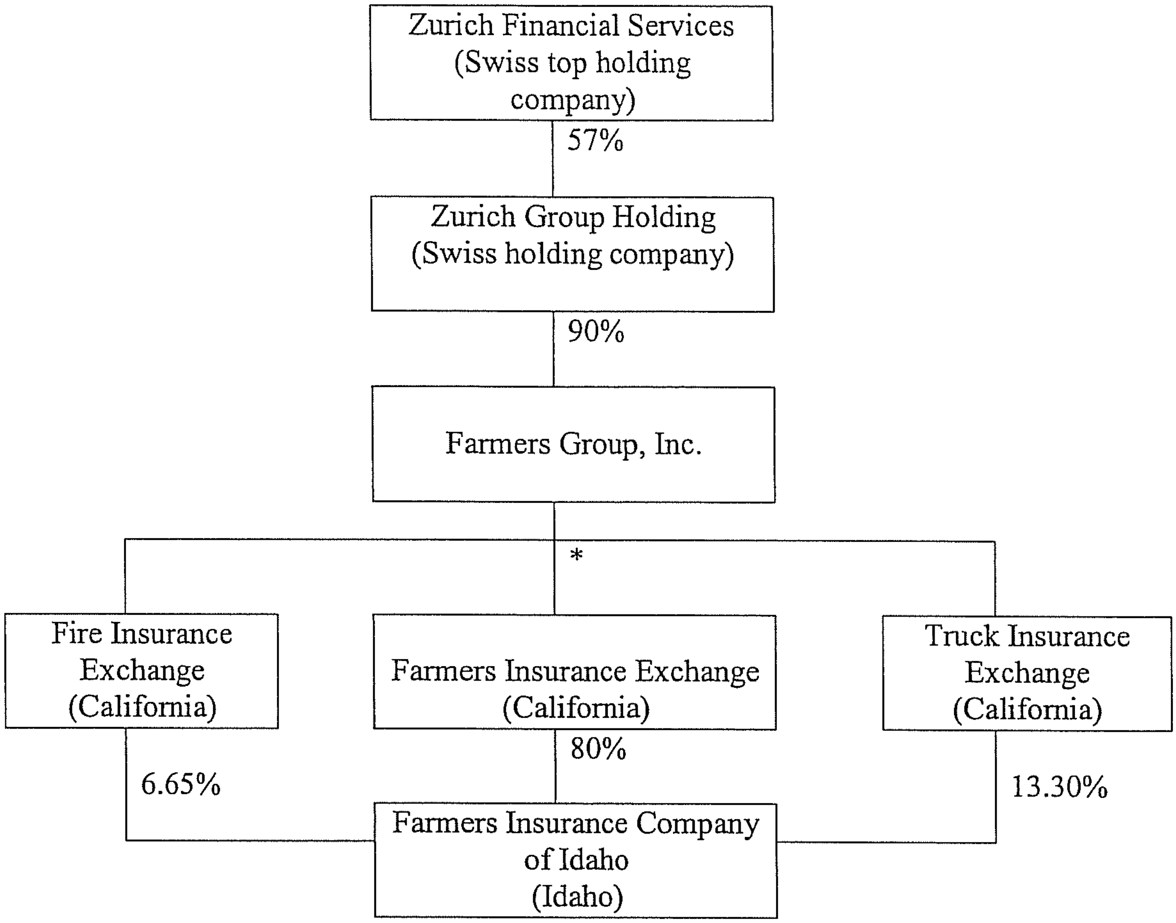
Insurance Holding Company System

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 was 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 2000 through 2003 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 April 1, 2004 and appeared to be current and valid.

Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2003:

Name and Business Address	Principal Occupation
Barry Paul Waggener Pocatello, Idaho	Executive Director, Pocatello Service Center
Terrance Conrad Mobilio Pocatello, Idaho	Personal Lines Operations Manager, Pocatello Service Center
Rick John Brown Pocatello, Idaho	Accounting Manager, Pocatello Service Center
James Anthony Ignozzitto Pocatello, Idaho	Executive Director, Idaho State Office
Kimberly Griffith Smith Pocatello, Idaho	Human Resources Manager, Pocatello Service Center
Martin Douglas Feinstein Los Angeles, California	Chairman of the Board and Chief Executive Officer, Farmers Group, Inc.
David John Maisch Pocatello, Idaho	Marketing Manager, Pocatello Service Center
Paul Norman Hopkins Los Angeles, California	President – Strategic Alliances, Farmers Group, Inc.

Officers:
The following persons were serving as officers of the Company at December 31, 2003:

Barry Paul Waggener	President
Rick John Brown	Treasurer
Terrance Conrad Mobilio	Secretary and Vice President
Martin Douglas Feinstein	Vice President
Leonard Howard Gelfand	Vice President
Laszlo George Heredy	Vice President
Paul Norman Hopkins	Vice President
James Anthony Ignozzitto	Vice President
Kevin Eugene Kelso	Vice President
David John Maisch	Vice President
Bryan Francis Murphy	Vice President
Gregory Ronald Myhan	Vice President
Keitha Tullos Schofield	Vice President
Stanley Ray Smith	Vice President
Warren Benjamin Tucker	Vice President
Pierre Christophe Wauthier	Vice President
Wayne Dee Wilson	Vice President

Subsequent to the examination date, Leonard Howard Gelfand and Laszlo George Heredy no longer served as officers of the Company. Their positions were not filled.

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

Committees

The Board annually appointed the Executive Committee and the Investment Committee members. Individuals serving on their respective committees at December 31, 2003 were as follows:

Executive Committee	Investment Committee
Barry Paul Waggener	Barry Paul Waggener
Terrance Conrad Mobilio	Terrance Conrad Mobilio
Rick John Brown	Rick John Brown

Conflict of Interest

The Company had a conflict of interest policy in place that required the directors, officers, and other key personnel to disclose annually, on a prescribed written form, any outside personal interests, activities or affiliations that conflicted or may potentially conflict with their official duties with the Company.

Conflict of interest statements that were completed for the period January 1, 1999, through December 31, 2003 and subsequent thereto appeared to appropriately disclose any possible conflicts of interest.

Contracts and Agreements

The Company had the following agreements in effect at December 31, 2003.

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:	100.00%

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 were 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 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 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.

Farmers Insurance Exchange staffed a claims department to adjust its own claims and to adjust the claims of the Company and certain of its affiliated insurance companies. As of the date of this examination, there was not a written claims adjustment services agreement between the Company and Farmers Insurance Exchange.

Under Section 41-3807(2)(d), Idaho Code, the Company is required to notify the director in writing of its intention to enter into all management agreements, service contracts and cost sharing arrangements at least thirty days prior thereto. Therefore, it is recommended that a management services agreement between the Company and Farmers Insurance Exchange be drafted and submitted to the Department for review. The agreement should set forth management services, claims adjustments services, and any other services provided.

Subsequent to the examination date, a proposed service agreement between the Company and Farmers Insurance Exchange was submitted to the Department of Insurance. At the date of this report, the agreement is pending review by the Department.

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.

During the current examination period, 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.

The revised tax sharing agreement was not submitted to the Department for review. Although Section 41-3807(2), Idaho Code does not specifically name tax sharing agreements, it is the Department's position that they should be filed as they are a form of cost sharing arrangement. Therefore, it is recommended that any future agreements be submitted to the Idaho Department of Insurance.

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, 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.

Minutes of Meetings

A review of the minutes of the meetings of the Stockholders, the Board of Directors, and the various committees for the period January 1, 1999 through December 31, 2003 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 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, 1999 Report of Examination and April 1, 2003 Order Adopting the Report of Examination.

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.

Non Contributory Retirement Plans

Farmers Insurance Exchange and certain of the Farmers Property and Casualty companies participated in two non-contributory retirement plans, the Regular Plan and the Restoration Plan, sponsored by Farmers Group, Inc. The Regular Plan covered substantially all employees of the Farmers Property and Casualty companies and Farmers Group, Inc. and its subsidiaries who have reached age 21 and have rendered one year of service. Benefits were based on years of service and the employee's compensation during the last five years of employment.

The Restoration Plan provided 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 Restorations Plan's funded status was not developed separately. The Company has no legal obligation for benefits under this plan. For the 2003-2002 and 2002-2001 plan years, the minimum required contribution did not exceed the full funding limitation under the Internal Revenue Code. As a result, the Farmers Property and Casualty companies and Farmers Group, Inc. made contributions of $52.3 million and $70.0 million to the Plans in 2003 and 2002, respectively. The Company's share of these contributions was $203,553 in 2003 and $263,396 in 2002.

Profit Sharing Plan

Farmers Insurance Exchange and certain of the Farmers Property and Casualty companies participated in two profit sharing plans sponsored by Farmers Group, Inc. that provided 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, provided for a maximum aggregate expense of 15 percent (16.25 percent in 2002) 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 was based on the achievement of certain Farmers Property and Casualty companies' goals. Payments under the plans were 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 10 percent of pretax earnings, as adjusted, or 15 percent of the salary or wage paid or accrued to the eligible employee, provided 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 Dash for Cash Program, which replaced the Quest for Gold Program in 2003, provided for annual cash distributions to eligible employees.

The Cash Profit Sharing Plan was limited to 5 percent of pretax earnings, as adjusted, or 5 percent of employee salaries or wages paid or accrued. Under the Dash for Cash program, each employee may potentially earn up to $500 annually. The Quest for Gold Program was limited to 1.25 percent of pretax earnings, as adjusted, or 6 percent of eligible employee salaries or wages paid or accrued. The Company's share of expense under these plans was $567,338 and $532,575 in 2003 and 2002, respectively.

Post-employment Benefits and Compensated Absences

Farmers Insurance Exchange and certain of the Farmers Property and Casualty companies provided certain postretirement benefits to retired employees. The postretirement medical benefits plan was a contributory defined benefit plan for employees who were retried or who were eligible for early retirement as of January 1, 1991, and was a contributory defined dollar plan for all other employees retiring after January 1, 1991. Health benefits were 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 was provided at no cost to retirees who maintained supplemental life insurance coverage for 10 years immediately preceding retirement at age 55 or later. There were no assets allocated to this plan.

In 1993, the Farmers Property and Casualty companies elected to amortize its portion of the transition obligation of $26.2 million over a 20 year period. The unrecognized transition obligation of $11.8 million in 2003 and $13.1 million in 2002 represented the remaining transition obligation of the Farmers Property and Casualty companies. The Company's share of the postretirement benefit obligation was $375,843 and $302,712 at December 31, 2003 and 2002, respectively. The Company's share of the net periodic benefit cost recognized by the Farmers Property and Casualty companies was $78,207 in 2003 and $64,000 in 2002.

The weighted average assumed discount rate used in the above benefit computations was 6.06 percent in 2003 and 7.00 percent in 2002. The weighted average rate of increase in future compensation levels used in determining the actuarial present value of the accumulated benefit obligation was 4.30 percent in 2003 and 4.80 percent in 2002. The health care cost trend rate for participants eligible to retire on January 1, 1991 was 10 percent during 2004, graded down to 5 percent by 2009 at 1 percent per year.

Compensated Absences

The Company did not accrue for compensated absences due to immateriality.

TERRITORY AND PLAN OF OPERATION

The Company was authorized to transact disability, property, marine & transportation, casualty – excluding Workers' Compensation, and surety business in the State of Idaho. The Company had accredited reinsurer status in the States of California and Oregon. As previously reported, the Company became authorized to write Workers' Compensation insurance in Idaho effective January 1, 2004. The majority of the Company's business was marketed through a captive agency force.

A sample of terminated agents indicated that the reasons for termination were maintained in the SIRCON system, which could be accessed on-line. However, hard copies of SIRCON terminations contained in the agents' files did not include reasons for termination. To facilitate the examination process, it is recommended the Company notate the reason for termination on the file copy.

STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2003, 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 Office of the State Treasurer.

Description	Par Value	Statement Value	Market Value
Idaho Department of Insurance:			
Boise ID Indpd School Dist., 5%, due 7/30/12	$1,000,000	$1,063,797	$1,063,797
Idaho Industrial Commission			

Canyon Cnty Idaho, 4.75%, due 7/30/11	250,000	273,473	273,473
Totals	$1,250,000	$1,337,270	$1,337,270

The above securities were held in compliance with Sections 41-316A, 41-317, and 41-811, Idaho Code.

GROWTH OF THE COMPANY

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

Year	Admitted Assets	Liabilities	Capital & Surplus	Net Income(Loss)
1999*	$104,886,764	$63,380,799	$39,505,965	$(2,278,739)
2000	110,376,617	73,987,495	36,389,125	(3,455,572)
2001	118,100,000	84,496,180	33,603,820	(5,238,811)
2002	120,322,739	83,661,188	36,661,550	2,708,933
2003*	121,065,579	85,912,724	35,152,855	(1,374,280)

*As determined by Examination.

LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 1999. The amounts were derived from the Company's filed Annual Statements, and the current and previous examination reports, as indicated:

Year	Premium Earned	Loss Incurred and LAE Incurred	Other Underwriting Expenses Incurred	Ratio
1999*	$72,368,135	58,573,742	$21,662,904	90.10%
2000	73,720,010	63,088,356	21,915,924	86.70%
2001	73,969,112	66,355,605	21,869,309	83.80%
2002	77,332,710	60,371,901	20,326,062	95.80%
2003*	63,277,444	53,870,305	15,078,146	91.77%

*As determined by Examination.

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. Underlying data was also validated during the limited scope Market Conduct Examination.

Policy Forms and Underwriting

As previously reported, the Company wrote disability, property, marine & transportation, Casualty – excluding Workers' Compensation and surety lines of business within the State of Idaho. The Company utilized ISO policy rate forms that contained the usual standard provisions. The policy forms were filed with the Idaho Department of Insurance.

All policies were underwritten in the Company's field offices. Certain classes, coverages and premium amounts required consultation with and approval by the management within Pocatello's home office underwriting department.

A sample of policies was reviewed to determine compliance with the credit rating/scoring law that became effective January 1, 2003. Based on this review, it appears the Company's underwriting practices were in compliance with Section 41-1843, Idaho Code and IDAPA 18.01.19.

The Company did not share nonpublic personal information with nonaffiliated third parties for reasons other than those permitted by law. The various safeguards and methods of notification utilized by the Company to protect the privacy of its policyholder nonpublic personal information appeared to be reasonable and were in compliance with IDAPA 18.01.48.

Treatment of Policyholders

Claims

Samples of open, closed (paid), and claims without payment were reviewed. For general handling purposes, it appeared that all claims reviewed were processed and recorded accurately in the Company's claim systems. Reserves were established promptly for each type of coverage and adjusted appropriately. Claims closed without payment were in accordance with policy terms. No exceptions were noted as to the requirements of Section 41-1329, Idaho Code, unfair claim settlement practices.

Complaints

The Company maintained complaint handling procedures and a complaint register as required by Section 41-1330, Idaho Code. However, in the register used to log Department of Insurance complaints, the date of final disposition was considered the date of the last correspondence from the Company to the Department--despite correspondence indicating subsequent letters/contact with the complainant.

In addition, the format of the register containing complaints received directly from policyholders and complainants did not contain the number of days it took to process the complaint. Furthermore, information in the resolution column was sketchy.

Therefore, it is recommended that the actual date of final disposition should reflect the date of the last closing correspondence, whether it is with the Department or the complainant.

It is also recommended that the Company expand the format of its direct complaint register to include the number of days it took to process the complaint and to include a more explanatory decision under the resolution column.

The Company had established procedures to report fraudulent claims as required under Section 41-290, Idaho Code. During the examination period, the Company reported suspected fraudulent claims to the Department of Insurance in compliance with Idaho law.

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. used the ABC (Accounting, Budget and Cost) Accounting System to process its financial transactions. This system was developed by the Information System of America (ISA). Farmers installed this system in the early 1980's and continued to use it for most of its financial reporting. A single entry relating to two or more affiliated companies automatically generated accounts to balance the entries for each company's books of accounts.

The system also produced the general ledger data file. To assemble the general ledger accounts compatible with the annual statement classifications, the ABC system contained a report-writing module called *Finite Report Writer*.

Effective January 1, 2002, the Company began utilizing a new accounting system, known as 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. SAP maintained a detailed transaction level on a policyholder basis. 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. Deficiencies noted were subsequently addressed.

Although numerous records were maintained at the Company's statutory home office, a certain amount of the accounting records and supporting workpapers and documents for the annual statements were maintained at the Company's parent office located in Los Angeles, California. The following is a list of records not maintained in Idaho.

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

In the main, documents maintained at the Company's statutory home office were provided in a timely manner. However, documents maintained in Los Angeles were often provided weeks or months after the initial request for information was made. According to Section 41-247, Idaho Code, an insurer shall promptly furnish to the Director all requested information. Therefore, it is recommended that requested documents and records be provided in a timelier manner for future examinations.

Independent Accountants

The annual independent audit of the Company for the year 2000 was performed by Deliotte & Touche, Los Angeles, California. For the years 2001 through 2003, the annual independent audits 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, 2003 statement of opinion issued stated that the amounts carried in the balance sheet: (a) meet the insurance laws of the State of Idaho; (b) are computed in accordance with accepted actuarial reserving standards and principles; and (c) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under terms of its policies and agreements.

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

Reserve for unpaid losses (Page 3, Line 1)	$34,575,149
Reserve for unpaid loss adjustment expenses (Page, 3 Line 3)	10,583,385
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1, totals from Columns 13 and 15)	43,392,000
Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1, totals from Columns 17, 19, and 21)	11,418,000

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, 2003, the amount of the reduction was $3,236,000.

A tabular discount was included as a reduction to loss reserves as reported in Schedule P in the amount of $54,394.

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 $3,100,660, 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 $26,655 and $558,166, 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 extended loss and expense reserve 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, 2003

Underwriting and Investment Exhibit Statement of Income, for the Year Ended December 31, 2003

Reconciliation of the Examination Changes to the Balance Sheet, as of December 31, 2003

Capital and Surplus Account, Year 2003

Reconciliation of Capital and Surplus Account, December 31, 1999, through December 31, 2003.

Balance Sheet

As of December 31, 2003

ASSETS

	Per Company Assets	Per Company Nonadmitted Assets	Examination Adjustments	Per Examination Net Admitted
Bonds	$ 98,343,289	$ 0	$ 0	$ 98,343,289
Cash, cash equivalents and short-term investments	1,308,816	0	0	1,308,816
Investment income due and accrued (Note 1)	1,468,675	0	0	1,468,675
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	3,991,621	118,073	0	3,873,548
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,007,970	325,010	0	8,682,961
Accrued retrospective premium	88,994	0	0	88,994
Current federal and foreign income tax recoverable and interest thereon (Note 2)	0	0	2,430,831	2,430,831
Net deferred tax asset	3,967,981	752,794	0	3,215,187
Guaranty funds receivable or on deposit	620,570	0	0	620,570
Receivables from parent, subsidiaries and affiliates	1,017,332	0	0	1,017,332
Other assets	15,377	0	0	15,377
Rounding	0	0	0	(1)
Totals	$119,830,625	$1,195,877	$2,430,831	$121,065,579

LIABILITIES, SURPLUS AND OTHER FUNDS

	Per Company	Examination Adjustments	Per Examination
Losses and loss adjustment expenses (Note 3)	$ 45,158,638	$ 5,939,000	$ 51,097,638
Reinsurance payable on paid loss and loss adjustment expenses	4,576,404	0	4,576,404
Taxes, licenses and fees	113,163	0	113,163
Unearned premiums	28,076,847	0	28,076,847
Dividends declared and unpaid: Policyholders	30,000	0	30,000
Aggregate write-ins for liabilities:			
Pooled share of post retirement benefit liability	392,125	0	392,125
Pooled share of unauthorized reinsurance	150,542	0	150,542
Pooled share of contingent litigation adjustment (Note 4)	0	1,476,005	1,476,005
Total liabilities	$ 78,497,719	$ 7,415,005	$ 85,912,724
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)	5,470,581	(4,984,174)	486,407
Surplus as regards policyholders	$ 40,137,029	$(4,984,174)	$ 35,152,855
Totals	$118,634,748	$ 2,430,831	$121,065,579

UNDERWRITING AND INVESTMENT EXHIBIT

For the Year Ending December 31, 2003

STATEMENT OF INCOME

UNDERWRITING INCOME	Per Company	Examination Adjustments	Per Examination
Premiums earned	$63,277,444	$ 0	$ 63,277,444
Deductions:			
Losses and loss expenses incurred (Note 3)	$47,931,305	$ 5,939,000	53,870,305
Other underwriting expenses incurred	15,082,762	0	15,082,762
Pooled share of NC 2002/2003 private passenger auto escrow	(4,616)	0	(4,616)
Total underwriting deductions	$63,009,452	$ 5,939,000	$ 68,948,452
Net underwriting gain	$ 267,992	$(5,939,000)	$(5,671,008)
INVESTMENT INCOME			
Net investment income earned	$ 4,596,459	$ 0	$ 4,596,459
Net realized capital losses	405,458	0	405,458
Net investment gain	$ 5,001,918	$ 0	$ 5,001,918
OTHER INCOME			
Net loss from agents' or premium balances charged off	$ (474,150)	$ 0	$ (474,150)
Aggregate write-ins for miscellaneous income			
Miscellaneous (expense)/income	(143,002)	0	(143,002)
Pooled share of contingent litigation adjustment (Note 4)	0	(1,476,005)	(1,476,005)
Total other income	$ (617,153)	$(1,476,005)	$(2,093,158)
Net income before dividends to policyholders and before federal and foreign income taxes	$ 4,652,757	(7,415,005)	$(2,762,248)
Dividends to policyholders	31,096	0	31,096
Net income after dividends to policyholders and before federal and foreign income taxes	$ 4,621,662	$(7,415,005)	$(2,793,343)
Federal and foreign income taxes incurred (Note 2)	1,011,768	(2,430,831)	(1,419,063)
Rounding	1	0	1
Net income (loss)	$ 3,609,894	$(4,984,174)	$(1,374,280)

RECONCILIATION OF EXAMINATION CHANGES

TO THE BALANCE SHEET

As of December 31, 2003

Surplus as regards policyholders per the Company $40,137,029

Account	Per Company	Per Examination	Increase/ (Decrease) in Surplus
Current federal and foreign income tax recoverable and interest thereon (Note 2)	$ 0	$ 2,430,831	$ 2,430,831
Losses and loss adjustment expenses (Note 3)	34,575,253	40,514,253	(5,939,000)
Pooled share of contingent litigation adjustment (Note 4)	0	1,476,005	(1,476,005)
Net increase (decrease) in surplus			$(4,984,174)

Surplus as regards policyholders per Examination $35,152,855

CAPITAL AND SURPLUS ACCOUNT

For the Year Ending December 31, 2003

	Per Company	Examination Changes	Per Examination
Surplus as regards policyholders, December 31, 2002	$36,661,550	$ 0	$36,661,550
GAINS AND (LOSSES) IN SURPLUS			
Net income	$ 3,609,894	$(4,984,174)	$(1,374,280)
Change in net deferred income tax	27,607	0	27,607
Change in nonadmitted assets and related items	(184,758)	0	(184,758)
Aggregate write-ins for gains and losses in surplus:			
Miscellaneous	92,514	0	92,514
Pooled share of unauthorized reinsurance	(69,778)	0	(69,778)
Change in surplus as regards policyholders for the year	$ 3,475,479	$(4,984,174)	$(1;508,695)
Surplus as regards policyholders, December 31, 2003	$40,137,029	$(4,984,174)	$ 35,152,855

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT

December 31, 1999 Through December 31, 2003

	2000	2001	2002	2003
Surplus as regards policyholders, December 31, previous year	$39,505,965	$36,389,125	$33,603,820	$36,661,550
Net income	(3,455,572)	(5,238,811)	2,708,933	($1,374,280)
Net unrealized capital gains or (losses)	0	54,775	942	
Change in net deferred income tax	0	601,576	(360,114)	27,607
Change in nonadmitted assets and related items	208,083	(868,733)	774,786	(184,758)
Extraordinary amounts of taxes for prior years	18,892	0	0	0
Cumulative effect of changes in accounting principles	0	2,670,164	0	0
Aggregate write-ins for gains and losses in surplus:				
Miscellaneous	0	0	0	92,514
Pooled share of unauthorized reinsurance	111,755	(4,275)	(66,827)	(69,778)
Rounding	2	(1)	10	0
Change in surplus as regards policyholders for the year	$(3,116,840)	$(2,785,305)	$ 3,057,730	$(1,508,695)
Surplus as regards policyholders, December 31, current year	$36,389,125	$33,603,820	$36,661,550	$35,152,855

NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Investment income due and accrued $1,468,675

As previously stated, the prior examination report recommended that the Company recognize short-term accrued interest on Schedule DA - Part 1 in the future. The Company responded that a management decision was made not to accrue income on the Vista/JP Morgan accounts for all of the companies within the Farmers Insurance Group of Companies. The Company further stated that to maintain consistency within the group of companies, it would be preferable to continue its current method of reporting.

According to SSAP No. 34, paragraph 4, investment income due and accrued shall be recorded as an asset in accordance with SSAP No. 4 – Assets and Nonadmitted assets. Therefore, it is again recommended that the Company recognize short-term accrued interest on Schedule DA – Part 1 in future financial statements. Due to immateriality, an examination adjustment was not made to the financial statements of the examination report.

Note (2) – Current federal and foreign income tax recoverable and interest thereon	$2,430,831
Federal and foreign income taxes incurred	(1,419,063)

A tax benefit of $2,430,831 resulting from the adjustments detailed in Notes 3 and 5 below was posted to the 2003 results. The loss reserve adjustment was discounted per IRS regulations before applying the income tax rate of 35 percent, while the income tax rate was applied to the contingent litigation adjustment. It was concluded that the Company could expect to recover the $2,430,831 income tax recoverable and it was therefore included in the adjusted financial statements in accordance with SSAP No. 10.

Note (3) – Losses and loss adjustment expenses	$51,097,638
Losses and loss expenses incurred	53,870,305

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, 2003. 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 deficiency of $5,939,000 at December 31, 2003, an amount which has been adjusted in this examination report.

Note (4) – Pooled share of contingent litigation adjustment $1,476,005

Two legal cases, both related to long-standing litigation concerning overtime exemption issues of certain Farmers' claims adjuster employees, were accrued for as liabilities by the examination as of December 31, 2003. The *Bell vs. Farmers Insurance Exchange* class-action suit was specific to California-region employees. The second case was similar to the first but was the consolidation into a Federal Court in Oregon of similar cases (in various stages of development) for Farmers' claims adjuster employees within certain other claims regions.

Company personnel provided the examiners with a further breakdown of the group-wide total amount of $196,800,654 for these two cases that would be relevant to a December 31, 2003 accrual. This amount was net of a $30.3 million liability already carried group-wide for *Bell* as of December 31, 2003, and was then further rendered into a *by-company* liability utilizing the current reinsurance pooling participation percentages to determine the net increase for examination report purposes. The Company's pooled proportion of this additional liability accrual was $1,476,005.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of December 31, 2003, the Company had admitted assets of $121,065,579, liabilities of $85,912,724, and surplus as regards policyholders of $35,152,855. 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

13 It is recommended that a management services agreement between the Company and Farmers Insurance Exchange be drafted and submitted to the Department for review. Subsequent to the examination date, a proposed service agreement was filed with the Department of Insurance.

14 The revised tax sharing agreement was not submitted to the Department for review. Although Section 41-3807(2), Idaho Code does not specifically name tax sharing agreements, it is the Department's position that they should be filed as they are a form of cost sharing arrangement. Therefore, it is recommended that any future agreements be submitted to the Idaho Department of Insurance.

18 To facilitate the examination process, it is recommended the Company notate the reason for agent terminations on the file copy.

21 It is recommended that the actual date of final disposition of complaints should reflect the date of the last closing correspondence, whether it is with the Department or the complainant.

It is also recommended that the Company expand the format of its direct complaint register to include the number of days it took to process the complaint and to include a more explanatory decision under the resolution column.

22 It is recommended that requested documents and records be provided in a timelier manner for future examinations.

30 It is again recommended that the Company recognize short-term accrued interest on Schedule DA – Part 1 in future financial statements.

CONCLUSION

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

In addition to the undersigned, Claudia Schwartz, CIE of the Idaho Department of Insurance, participated in the examination.

Respectfully submitted,

Lois Haley

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

AFFIDAVIT OF EXAMINER

State of Idaho
County of Ada

Lois Haley, 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, 2000 through December 31, 2003, including subsequent events, and 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
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 23rd day of September, 2005, at Boise, Idaho

Cheryl Karnowski

Notary Public

CHERYL KARNOWSKI NOTARY PUBLIC STATE OF IDAHO

My commission Expires: 9/12/2009