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JUN 24 2011

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 )

Idaho Certificate of Authority: 901 )  
NAIC Company Code: 21601 )

**ORDER ADOPTING  
REPORT OF EXAMINATION  
AS OF DECEMBER 31, 2009**

Docket No. 18-2694-11 )  
)  
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The Report of Examination as of December 31, 2009 (Report) of *Farmers Insurance Company of Idaho* (Company) was completed by examiners of the Idaho Department of Insurance (Department) and signed the 27<sup>th</sup> day of May 2011 by the Examiner-in-Charge, David W. Emery, CFE, FLMI. The verified (attested) copy of the Report was filed with the Department effective May 27, 2011. The verified Report was transmitted to the Company electronically (PDF file, via e-mail) on May 27, 2011, to Mr.

Barry Waggener, President. Another copy of the Report (which included minor revisions and corrections) was subsequently transmitted electronically (via e-mail) to Mr. Waggener on June 13, 2011. The final Report, identical to the modified version sent to the Company on June 13, 2011, and bearing the original May 27, 2011 verification (examiner affidavit), is attached hereto and incorporated herein in full and identified as Exhibit A.

Pursuant to Idaho Code § 41-227(4), the Company was afforded a reasonable opportunity to review the examination report and to make written submissions regarding relevant matters contained within the Report.

#### WAIVER

Attached hereto and incorporated herein as Exhibit B, is a Waiver executed by Mr. Waggener on June 14, 2011, and received by the Department via first-class mail June 16, 2011. Based upon the Waiver/Exhibit B, this is a final order, and the Company has waived its rights to seek reconsideration and judicial review of this order as well as its right to provide a written submission or rebuttal pursuant to Idaho Code § 41-227(4), prior to the entry of this order.

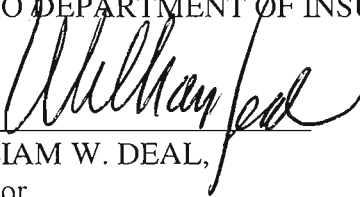
#### ORDER

NOW THEREFORE, after carefully reviewing the above described Report of Examination, attached hereto as Exhibit A, and good cause appearing therefor:

IT IS HEREBY ORDERED that the above described report, which includes the findings, conclusions, comments and recommendations supporting this order, is hereby ADOPTED as the final examination report and as an official record of the Department under Idaho Code § 41-227(5)(a).

DATED and EFFECTIVE at Boise, Idaho this 24<sup>TH</sup> day of June 2011.

IDAHO DEPARTMENT OF INSURANCE

  
WILLIAM W. DEAL,  
Director

**CERTIFICATE OF SERVICE**

I hereby certify that on this 24<sup>TH</sup> day of June 2011, I caused to be served the foregoing document on the following parties in the manner set forth below:

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

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

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

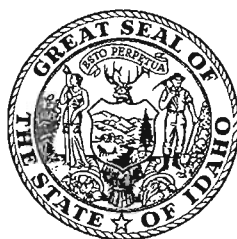


William R. Michels, MBA, CPA, CFE  
Examination Supervisor  
IDAHO DEPARTMENT OF INSURANCE

## **EXHIBIT A**

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of the

FARMERS INSURANCE COMPANY OF IDAHO

(NAIC Company Code 21601)

as of

December 31, 2009

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*State of Idaho*  
**DEPARTMENT OF INSURANCE**

C. L. "BUTCH" OTTER  
Governor

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WILLIAM W. DEAL  
Director

Pocatello, Idaho  
May 27, 2011

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

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

The Honorable Christina Urias  
Director of Insurance  
NAIC Secretary, Western Zone  
Arizona Department of Insurance  
Phoenix, Arizona

Dear Director, Commissioner and Director:

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, 2009, of the financial condition and corporate affairs of:

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

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

## SCOPE OF EXAMINATION

This examination covered the period January 1, 2007, through December 31, 2009. The examination was conducted at the Pocatello, Idaho office of the Company by examiners from the State of Idaho. The examination was conducted in accordance with Section 41-219(1), Idaho Code, the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*, the NAIC *Market Regulation Handbook*, and the NAIC *Accounting Practices and Procedures Manual*.

All accounts and activities of the Company were considered in accordance with the NAIC's risk-focused examination process. The Financial Examiners Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions as governed and prescribed by Idaho law.

The examination was conducted in conjunction with and concurrently with the examination of the Company's parent entities, Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange. The examination of the Exchanges was conducted by the California Department of Insurance as of December 31, 2009. There was some reliance on the work performed by the California Department of Insurance.

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

A letter of representation was signed by the Company attesting to its ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities.

The actuarial review of reserves, related liabilities, and other actuarial items was performed by American Actuarial Consultants, consulting actuaries, and a risk assessment review of the Company's information technology systems and controls was performed by Ernst & Young for the California Department of Insurance.

## PRIOR EXAMINATION

The prior financial examination was conducted by the Idaho Department of Insurance covering the period January 1, 2004 through December 31, 2006.

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



## HISTORY AND DESCRIPTION

### General

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

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

### Capital Stock and Paid in Surplus

At December 31, 2009, the Company had 20,000 authorized shares of common stock at \$100 par value each, with 15,040 shares of capital stock issued and outstanding for a total capital of \$1,504,000. The issued and outstanding shares were reconciled to Company capital stock records, with only minor differences noted. The issued and outstanding shares at December 31, 2006 were as follows:

	<u>Issued Shares</u>	<u>Percent of Issued Stock</u>
Farmers Insurance Exchange	12,040	80.05
Truck Insurance Exchange	2,000	13.30
Fire Insurance Exchange	<u>1,000</u>	<u>6.65</u>
Totals	<u>15,040</u>	<u>100.00</u>

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

Year	Shares Issued/ (Redeemed)	Common Capital Stock	Gross Paid In & Contributed <u>Surplus</u>	Total Capital & Paid in and Contributed Surplus
2006	15,040	\$1,504,000	\$33,162,448	\$34,666,448
2007	15,040	1,504,000	33,162,448	34,666,448
2008	15,040	1,504,000	33,162,448	34,666,448
2009	15,040	1,504,000	33,162,448	34,666,448

### Dividends to Stockholders

During the period January 1, 2007 through December 31, 2009 and subsequent thereto, no dividends were declared or paid to the Company's stockholders.

## MANAGEMENT AND CONTROL

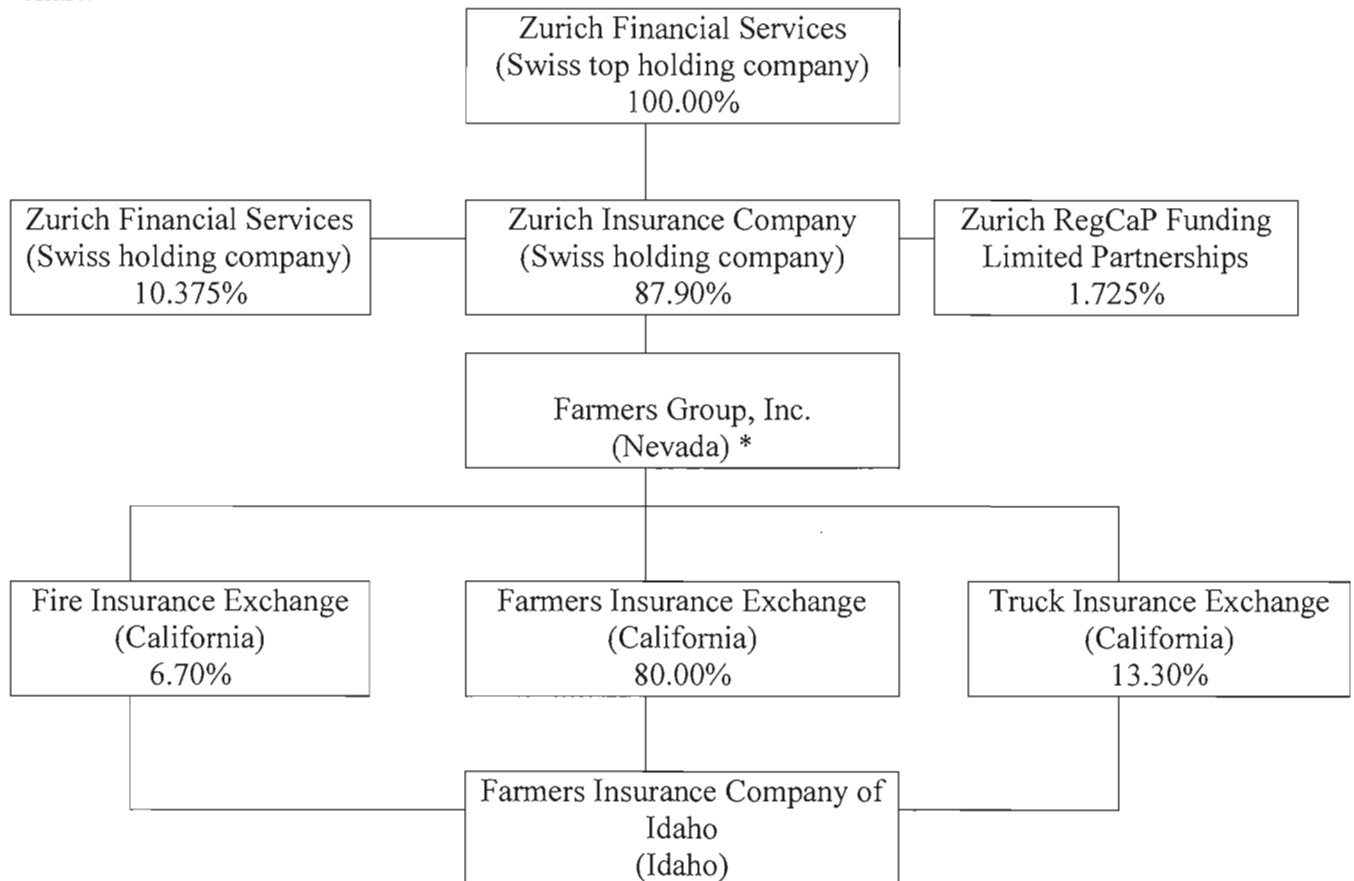
### Insurance Holding Company System

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

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

In 2000, the ownership structure of the ultimate controlling person, Zurich Financial Services, was simplified by unification of its dual holding company structure under a unification plan. The Company notified the Department of the Unification Plan and requested a determination pursuant to Sections 41-3802(1) and 41-3805(5), Idaho Code. In a letter dated June 8, 2000, the Department determined that a Form A was not required to be filed with respect to the Unification Plan for Zurich Financial Services, Zurich Allied and Allied Zurich.

The Company was a member of an insurance holding company system as defined in Section 41-3801, Idaho Code. The *Ultimate Controlling Persons* within the holding company system 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 2007 through 2009 were examined. A review of the Company's latest Form B Registration Statement showed it had been filed with the Idaho Department of Insurance on May 26, 2010 and appeared to be current and valid.

### Directors

The following persons were the duly elected members of the Board of Directors at December 31, 2009:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Barry Paul Waggener Pocatello, Idaho	President Executive Director, Pocatello Service Center
Thomas George Powell Pocatello, Idaho	Financial Analyst
Kris Ueland Pacey Boise, Idaho	Vice President Executive Director, Idaho State Office
David Shawn Price Pocatello, Idaho	Executive Director
Jeffery John Dailey Los Angeles, California	Vice President, Chief Financial Officer, Farmers Group, Inc.
Ronald Gregory Myhan Los Angeles, California	Executive Vice President and Treasurer Officer, Farmers Group, Inc.
Frank Robert Woudstra Los Angeles, California	President, Chief Executive Officer Farmers Group, Inc.

Officers:

The following persons were serving as officers of the Company at December 31, 2009:

Barry Paul Waggener	President Executive Director, Pocatello Service Center
Ronald Gregory Myhan	Executive Vice President and Treasurer
Doren Eugene Hohl	Secretary
Frank Robert Woudstra	Vice President, Chief Executive Officer, Farmers Group, Inc.
Kris Ueland Pacey	Vice President and Executive Director, Idaho State Office
Frank Joseph Ceglar, Jr.	Vice President
Bryan Francis Murphy	Vice President, Chief Claims Officer
Jeffery John Dailey	Vice President
Mhayse Gokul Samalya	Vice President, President Farmers Business Insurance
Dan Curtis Dunmoyer	Vice President
James Leslie Nutting	Vice President
Scott Robert Lindquist	Vice President, Chief Financial Officer, Farmers Group, Inc.

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

Committees

The Board annually appointed the Executive Committee. Individuals serving on their respective committees at December 31, 2009 were as follows:

Executive Committee  
Barry Paul Waggener  
Thomas George Powell

Corporate Governance

The Company's corporate governance activity was evaluated in conjunction with examination planning. This activity is comprised of three major sub-components: organizational structure (includes assignment of authority and responsibility), assessment of the board of directors, and management assessment.

In order to better assess corporate governance, interviews were held with the following key Board and management personnel:

Name	Title
Barry Waggener	President and Director
Thomas Powell	Financial Analyst and Director
Frank Robert Woudstra	VP – President and CEO of Exchanges and Director
Ronald Myhan	VP & Treasurer and Director
Jeffery Dailey	VP – President Personal Lines and Director
Scott Lindquist	VP – CFO
Mhayse Samalya	VP – President Business (Commercial) Lines
Lazslo Heredy	VP – Chief Investment Officer
James Nutting	VP & Chief Actuary
Paula Garavaglia	Chief Risk Officer
Frank Ceglar, Jr.	VP & General Counsel
Bryan Murphy	VP – Chief Claims Officer
Mike McKenna	VP – Group Audit and Regional Audit
Frederick Kruse	Chairman – Board of Governors
John Tsu-Cha Wuo	Board of Governors Member
Derek Gullage	VP – Reinsurance
Deborah Aldredge	VP – HR Business Partners

Based on interviews of the above key management and Board members, it appears that the Company’s executive management is aware of and fully understands their responsibilities and duties. Job descriptions for key executives and management positions were also reviewed. Information learned in the corporate interviews correlated to the job descriptions of those interviewed in all material respects. Executive and upper management are aware of their duties and responsibilities, which correspond to job descriptions provided for review. The aforementioned duties and responsibilities appear to have been implemented by diligent and competent executive management.

Based on a review of the Company’s organizational chart, management interviews and discussions, and examination observations, it appears that the Company has a sound organizational structure in place. The structure is properly centralized, flexible and updated when needed, and facilitates the flow of information – both upstream and downstream.

At the functional level, it appears there is appropriate separation of duties. Furthermore, the organizational chart appears to be flexible and is periodically reviewed and modified, as appropriate, for changing conditions.

Overall, it appears that the Company's Board of Directors utilizes independent judgment and evaluation in their decision making and oversight functions. It also appears the Board meets the duty of care and duty of loyalty standards in fulfilling their corporate obligations. The examination concludes that the corporate governance structure in place at the Company is strong and enterprise-wide, and includes risk mitigation strategies for all key activities.

#### Conflict of Interest

The Company has a conflict of interest policy in place that requires directors, officers, and key employees to annually complete a conflict of interest statement. The statements completed during the period January 1, 2007, through December 31, 2009 appeared to appropriately disclose any possible conflicts of interest. Any conflicts noted are reviewed by the legal department of Farmers Group.

## Contracts and Agreements

The Company had the following agreement in effect at December 31, 2009:

### Intercompany Reinsurance Pooling Agreement

The Company, along with 14 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	7.50%
Farmers Insurance Company of Oregon	7.00%
Farmers Insurance Company of Washington	2.00%
Mid-Century Insurance Company	16.00%
Texas Farmers Insurance Company	1.00%
Farmers Insurance of Columbus, Inc.	1.00%
Civic Property and Casualty Company	1.00%
Exact Property and Casualty Company	1.00%
Neighborhood Spirit Property and Casualty Company	1.00%
Farmers Insurance Company, Inc.	.75%
Illinois Farmers Insurance Company	.75%
Farmers New Century Insurance Company	.75%
Farmers Insurance Company of Idaho	.75%
Total:	<u>100.00%</u>

The agreement has been in existence since 1985, and was last amended in 1999. However, the Company did not join the pool and assume business until January 1, 1999. Terms of the agreement call for all premiums and losses of the subsidiaries in the pool to be ceded to Farmers Insurance Exchange; then, premium earned, unearned premium, losses and loss adjustment expenses 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 and Truck Insurance Exchange) pursuant to the *subscription agreements* signed by each individual policyholder of the Exchange(s). There were no such subscription agreement forms applicable between the Company's policyholders and Farmers Group, Inc., as the Company's relationship is with Farmers Insurance Exchange and not Farmers Group, Inc.

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.

#### Service Agreement

The Company entered into a service agreement with Farmers Insurance Exchange effective March 1, 2005. The agreement is in force continuously for five years until terminated by either party giving ninety days written notice. Under the agreement, Farmers provides, or arranges for the provision of certain services on behalf of the Company. The Company pays all costs and expenses actually incurred by Farmers for providing or arranging for provision of such services on a monthly basis.

The types of services provided under the agreement are as follows:

- Prepare insurance policies, calculate premiums required, calculate commissions and arrange for payments of commissions to agents.
- Receive applications for insurance, underwriting applications and issue policies.
- Monitor adequate policyholder and agent records.
- Bill policyholders for monies due, properly record and account for monies received.
- Prepare all forms required to administer Company.
- Provide claims adjustment services.
- Provide/arrange for third party advisors to provide investment services at the rate of 0.125% of net assets.
- Such other services required deemed necessary to render services to policyholders.

The agreement was filed with the Department on June 29, 2005 pursuant to Section 41-3807, Idaho Code and IDAPA 18.01.23. In a letter to the Company dated July 5, 2005, the Department had not objections to the proposed agreement.

#### Tax Sharing Agreement

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

The tax sharing agreement was revised on July 25, 2000 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.

Effective July 2, 2007, the tax sharing agreement was revised to include Bristol West Holdings, Inc. and other companies. The agreement was 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 Chase. A report on the performance of each portfolio was furnished to Farmers Group, Inc. within fifteen 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 90 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 Farmer Group, Inc. investment portfolios including Securities Valuation Office reporting. Scudder Kemper Investment, 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.

Per the Company, 10/14/10, no changes were made to any of these agreements.

## CORPORATE RECORDS

### Articles of Incorporation and Bylaws

During the examination period, the Company's Articles of Incorporation and Bylaws were amended to conform with current Idaho law. Under the amended Articles and Bylaws, Directors may, but are no longer required to, be shareholders of the Company. It was discovered that the Company had not filed the aforementioned amendments with the DOI. During the examination fieldwork, the Company filed the amendments to the Articles of Incorporation and the Bylaws. These were approved by the DOI on December 13, 2010. It is recommended that in the future the Company file amended Articles of Incorporation and Bylaws with the Idaho DOI in a timely manner.

### Minutes of Meetings

A review of the minutes of the meetings of the Shareholders, the Board of Directors, and the various committees for the period January 1, 2007 through December 31, 2009 and subsequent thereto,



indicated compliance with the Articles of Incorporation and Bylaws with respect to the election of the Board of Directors and Officers, and the election or appointment of Committee members.

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

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

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

#### FIDELITY BOND AND OTHER INSURANCE

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

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

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

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

#### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

##### Pension Plan

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

The Regular Plan covers substantially all employees of the Farmers Property and Casualty Companies and Farmers Group Inc. and its subsidiaries who have reached age twenty-one and have rendered one year of service. Benefits are based on years of service and the employees' compensation during the last five years of employment.

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

Information regarding the Regular and Restoration Plans funded status is not developed separately. Farmers Insurance Exchange has no legal obligation for benefits under this plan.

#### Profit Sharing Plan

Farmers Insurance Exchange and certain of the Farmers Property and Casualty Companies had two profit sharing plans sponsored by Farmers Group, Inc. which were discontinued as of December 31, 2008. The Deferred Profit Sharing Plan was limited to 10% of pretax earnings, as adjusted, or a maximum of 15% of the annual salary or wages paid to the eligible employee and provided for an annual payment by Farmers Group, Inc to a trust for eventual payment to employees as provided in the plan. The Cash Profit Sharing Plan provided for annual cash distributions limited to 5% of pretax earnings, as adjusted, or 5% of the annual salary or wages paid or accrued to the eligible employee.

Effective January 1, 2009, the existing profit sharing programs (described above) were replaced by a new Short term Incentive Program (STIP) and a 401(k) Savings Plan, both sponsored by Farmers Group, Inc. The STIP is a performance-based plan that provides an annual incentive pay based on the achievement of certain Farmers Property and Casualty Companies' goals and individual employee performance. Regarding the 401(k) Savings Plan, contributions are made by eligible employees up to a yearly maximum allowable as defined by the Internal Revenue Service. Farmers Insurance Exchange and certain Farmers Companies match eligible employees' contributions up to 6% of earned base pay.

#### Postretirement Benefits

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

The following plans are offered to agents and district managers:

#### Farmers Agency Force Deferred Compensation Plan

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

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

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

#### TERRITORY AND PLAN OF OPERATION

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

The Company's business was marketed through a captive agency force of approximately 468 agents and/or agencies. Review of the active producer documentation indicated that all producers marketing auto and fire policies through the Company were properly licensed and appointed. It was also determined that the Department was notified within the prescribed time required by statute.

#### STATUTORY AND SPECIAL DEPOSITS

As of December 31, 2009, the Company had provided the following statutory and special deposits. The statutory deposit was held in trust for the protection of all of the Company's policyholders and/or creditors through the office of the Director of Insurance. The workers' compensation deposit was not held for the benefit of all policyholders. This deposit was maintained for the Idaho Industrial Commission and was on deposit with the State of Idaho Treasury Department.

<u>Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
<u>Idaho Department of Insurance</u>			
Boise Idaho Independent School District., 5%, due 7/30/2012, CUSIP Number 097437LU9	\$1,000,000	\$1,021,544	\$1,106,210
<u>Idaho Industrial Commission</u>			
Canyon County Idaho SC, 4.75% due 7/30/11, CUSIP Number 138789FE7	<u>250,000</u>	<u>255,390</u>	<u>263,370</u>
Totals:	<u>\$1,250,000</u>	<u>\$1,276,934</u>	<u>\$1,369,580</u>

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

## GROWTH OF THE COMPANY

The Company's Growth for the years indicated, as taken from its Annual Statements (or as adjusted by the examination report) is shown in the following schedule:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>	<u>Net Income</u>
2006 *	\$157,517,658	\$102,585,788	\$54,931,870	\$5,509,941
2007	171,018,632	110,626,460	60,392,171	5,215,822
2008	171,078,655	109,687,053	61,391,601	1,622,525
2009 *	\$166,851,383	\$100,537,375	\$66,314,008	\$4,741,144

\* As determined by Examination

## LOSS EXPERIENCE

The following exhibit reflects the annual underwriting results of the Company since 2006. The amounts were derived from the Company's filed Annual Statements and the current and prior examination reports, as indicated.

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Loss/UW Expenses Incurred</u>	<u>Total Losses &amp; Expenses</u>	<u>Ratio to Premiums Earned</u>
2006 *	\$85,431,724	\$47,380,331	\$34,359,437	\$81,739,768	95.67%
2007	92,578,167	53,103,200	8,564,542	91,667,741	99.02%
2008	91,620,372	57,643,393	38,197,337	95,840,730	104.61%
2009 *	\$76,251,828	\$41,319,229	\$32,317,857	\$73,637,086	96.57%

\*As determined by Examination

## REINSURANCE

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

### Policy Forms and Underwriting

Auto coverage plans are available for all forms of motorized vehicles including motorhomes, motorcycles, and all-terrain vehicles in addition to automobiles. Fire coverage plans include homeowners, rental, and landlord packages.

Farmers Insurance Company of Idaho limits its marketing to automobile and fire coverage, and does not write commercial, workers' compensation or life coverage.

Farmers Insurance Company of Idaho does not directly write commercial or workers' compensation business. However, these coverages are assumed under the reinsurance pooling agreement. The Company participates in an inter-company pooling reinsurance agreement. Under this agreement, the Company cedes 100 percent of business written to the pool and assumes its participation (.75%) back from the pool. By doing so, the Company takes on its proportionate share of risks from other states such as California, Texas, and Illinois, among others.

The underwriting and rating manuals for both homeowners and automobile policies were reviewed. The Company's underwriting manuals are comprehensive and well defined. No exceptions were found.

### Gramm-Leach-Bliley Act

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

### Credit Scoring

The Company researched and developed a credit scoring model called Fire & Auto Combined Evaluation Tool (FACET). The information provided is proprietary, and therefore, not included in the examination documentation. The Company's credit scoring model is used to develop the FARA (Farmers Automobile Risk Assessment) and FPRA (Farmers Property Risk Assessment).

Manual re-calculations were performed on all new business and renewals to determine the realized impact of the credit score on the premium charged. The credit scores were reviewed by the Idaho Department of Insurance. The Company's proprietary credit model was found in compliance as long as the Luxury Vehicle Factor was set at 1.00 (credit neutral) for all tiers and all scenarios.

### Treatment of Policyholders

#### Claims

Statistical samples of paid auto and fire claims were pulled using a random number generator. The sample size was determined to give a 95% confidence level. These were reviewed to determine whether coverages were in-force at the date of loss, the claims was properly acknowledged and paid timely, among other things. The review of paid fire claims, however, indicated that all claims in this business line were properly paid in a timely manner.

The review of auto and fire claims indicated that all claims were properly closed based on policy coverage or other processes such as re-keying and settling under another claim number.

### Complaints

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

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

### Advertising and Sales Material

Farmer's generic advertisements are used in the multi-media market, including print and commercials. The materials consisted of paper black and white brochures that described coverages, customer service, claims, and driving safety programs.

The examiner reviewed generic advertisements used by Farmers insurance. Farmers Insurance Company of Idaho does not have any advertising which is specific to Idaho.

The Farmers website provides general information consumers need to know about auto and homeowner's insurance, as well as links to explanations regarding premium costs, types of insurance coverages, how to file a claim, and how to find an agent. The website also provides information on different safety and protection issues.

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

## ACCOUNTS AND RECORDS

### General Accounting

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

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

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

### Information Systems Review

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

## Independent Accountants

The annual independent audits of the Company for the years 2007 through 2009 were performed by PricewaterhouseCoopers (PWC) LLP, Los Angeles, California. The financial statements in each report were on a statutory basis. Beginning in 2009, the audit performed by PWC was consolidated with the other companies within the Farmers Insurance Exchange group. The Idaho Department of Insurance conducted its own planning meeting regarding Farmers Insurance Company of Idaho with representatives of PWC, in addition to relying on the California Department's review of CPA workpapers.

## 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, 2009 statement of opinion issued stated that the amounts carried in the balance sheet: (a) are computed in accordance with accepted actuarial standards and principles; (b) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under terms of its policies and agreements; and (c) meet the insurance laws of the state of Idaho.

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

Reserve for unpaid losses (Page 3, Line 1)	\$41,111,728
Reserve for unpaid loss adjustment expenses (Page, 3 Line 3)	12,163,912
Reserve for unpaid losses - direct and assumed (Schedule P, Part 1, total of Columns 13 and 15)	55,113,000
Reserve for unpaid loss adjustment expenses - direct and assumed (Schedule P, Part 1, total of Columns 17, 19, and 21)	13,775,000

See also Note 1 of NOTES TO FINANCIAL STATEMENTS later in this report regarding the California Department of Insurance's actuarial review of the Company's loss reserves.

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, 2009, the amount of the reduction was \$2,130,000.

A tabular discount was included as a reduction to loss reserves as reported in Schedule P in the amount of \$54,733.

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 \$118,283, 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 \$208,665 and \$681,893, respectively. Those reserves were included in the liability for unpaid losses and unpaid loss adjustment expenses and were disclosed in the Notes to Financial Statements.

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

Since the Company cedes 100% of its business to Farmers Group, the reserves represent the retroceded reserves based on the amount of the Company's participation in the pooled business reinsurance. The underlying pooled claims-paid data regarding Idaho specific claims for the Company were reviewed by the Idaho examiner during the examination and no exceptions were noted.

### FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

- Assets as of December 31, 2009
- Liabilities, Surplus and Other Funds as of December 31, 2009
- Statement of Income, For the Year Ending December 31, 2009
- Capital and Surplus Account, For the Year Ending December 31, 2009
- Reconciliation of Capital and Surplus, December 31, 2005 through December 31, 2009



ASSETS  
As of December 31, 2009

	<u>Per Company</u>		Examination <u>Adjustments</u>	Per <u>Examination</u>
	<u>Assets</u>	Nonadmitted <u>Assets</u>		Net <u>Admitted</u>
Bonds	\$124,899,754	\$ 0		\$124,899,754
Cash, cash equivalents and short-term investments	12,397,067	0	0	12,397,067
Investment income due and accrued	1,250,983	0	0	1,250,983
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	3,540,106	753,298	0	2,786,808
Deferred premiums, agents' balances and installments booked but deferred and not yet due	15,857,093	0	0	15,857,093
Accrued retrospective premium	28,511	0	0	28,511
Amounts recoverable from reinsurers	5,279,671	0	0	5,279,671
Net deferred tax asset	4,979,532	923,154	0	4,056,378
Business-owned life insurance – cash value	<u>298,118</u>	<u>0</u>	<u>0</u>	<u>295,118</u>
Totals	<u>\$168,527,835</u>	<u>\$1,676,452</u>	<u>\$ 0</u>	<u>\$166,851,383</u>

LIABILITIES, SURPLUS AND OTHER FUNDS  
As of December 31, 2009

	<u>Per Company</u>	Examination <u>Adjustments</u>	Per <u>Examination</u>
	Losses (Note 1)	\$41,111,728	\$ 0
Reinsurance payable on paid loss and loss adjustment expenses	4,663,792	0	4,663,792
Loss adjustment expenses (Note 1)	12,163,912	0	12,163,912
Taxes, licenses and fees	(17,852)	0	(17,852)
Unearned premiums	31,535,691	0	31,535,691
Advance premium	736,090	0	736,090
Dividends declared and unpaid: Policyholders	23,074	0	23,074
Ceded reinsurance premiums payable (net of ceding commissions)	4,849,349	0	4,849,349
Payable to parent, subsidiaries and affiliates	4,433,397	0	4,433,397
Aggregate write-ins for liabilities:			
Accounts payable	608,508	0	608,508
Deferred agent/DM compensation liability	323,512	0	323,512
Pooled share of unauthorized reinsurance	106,174	0	106,174
Total liabilities	<u>\$100,537,375</u>	<u>\$</u>	<u>\$100,537,375</u>
Common capital stock	\$ 1,504,000	\$ 0	\$ 1,504,000
Gross paid in and contributed surplus	33,162,448	0	33,162,448
Unassigned funds (surplus)	<u>31,647,560</u>	<u>0</u>	<u>31,647,560</u>
Surplus as regards policyholders	<u>\$ 66,314,008</u>	<u>\$ 0</u>	<u>\$ 66,314,008</u>
Totals	<u>\$166,851,383</u>	<u>\$ 0</u>	<u>\$166,851,383</u>

STATEMENT OF INCOME  
For the Year Ending December 31, 2009

<u>UNDERWRITING INCOME</u>	Per <u>Company</u>	Examination <u>Adjustments</u>	Per <u>Examination</u>
Premiums earned	\$76,251,828	\$ 0	\$76,251,828
Deductions:			
Losses incurred	\$41,319,229	\$ 0	\$41,319,229
Loss expenses incurred	8,571,200	0	8,571,200
Other underwriting expenses incurred	23,746,657	0	23,746,657
Total underwriting deductions	<u>\$73,637,086</u>	<u>\$ 0</u>	<u>\$73,637,086</u>
Net underwriting gain	<u>\$ 2,614,742</u>	<u>\$ 0</u>	<u>\$ 2,614,742</u>
<u>INVESTMENT INCOME</u>			
Net investment income earned	\$4,785,634	\$ 0	\$4,785,634
Net realized capital losses	194,750	0	194,750
Net investment gain	<u>\$4,980,384</u>	<u>\$ 0</u>	<u>\$4,980,384</u>
<u>OTHER INCOME</u>			
Net loss from agents' or premium balances charged off	\$ (776,203)	\$ 0	\$ (776,203)
Finance and service charges not included in premiums	637,243	0	637,243
Aggregate write-ins for miscellaneous income			
Miscellaneous (expense)/income	(357,437)	0	(357,437)
Pooled share of restructuring costs	(296,234)	0	(296,234)
Pooled share of uncollectible/installment premium receivable balances charged off	(189,291)	0	(189,291)
Premiums for business-owned life insurance	(3,630)	0	(3,630)
Total other income	<u>\$ (985,552)</u>	<u>\$ 0</u>	<u>\$ (985,552)</u>
Net income before dividends to policyholders and before federal and foreign income taxes	\$ 6,609,574	0	\$ 6,609,574
Dividends to policyholders	13,064	0	13,064
Net income after dividends to policyholders and before federal and foreign income taxes	\$ 6,596,510	\$ 0	\$ 6,596,510
Federal and foreign income taxes incurred	1,855,367		1,855,367
Rounding	1	0	1
Net income (loss)	<u>\$ 4,741,144</u>	<u>\$ 0</u>	<u>\$ 4,741,144</u>

CAPITAL AND SURPLUS ACCOUNT  
For the Year Ending December 31, 2009

	Per <u>Company</u>	Examination <u>Changes</u>	Per <u>Examination</u>
Surplus as regards policyholders, December 31, 2008	\$61,391,601	\$ 0	\$61,391,601
<u>GAINS AND (LOSSES) IN SURPLUS</u>			
Net income	\$ 4,741,144	\$ 0	\$ 4,741,144
Change in unrealized gains or (losses)	(325,536)	0	(325,536)
Change in net deferred income tax	(40,656)	0	(40,656)
Change in nonadmitted assets	143,439	0	143,439
Cumulative effect of changes in accounting principles	169,924	0	169,924
Aggregate write-ins for gains and losses in surplus			
Pooled share of unauthorized reinsurance	234,091	0	234,091
Rounding	1	0	1
Change in surplus as regards policyholders for the year	<u>\$ 4,922,407</u>	<u>\$ 0</u>	<u>\$ 4,922,407</u>
Surplus as regards policyholders, December 31, 2009	<u>\$66,318,008</u>	<u>\$ 0</u>	<u>\$66,318,008</u>

RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT  
December 31, 2006 through December 31, 2009

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Surplus as regards policyholders, December 31, previous year	\$54,931,870	\$60,392,171	\$61,391,601
Net income	5,215,822	1,622,524	4,741,144
Net unrealized capital gains or (losses)	0	(56,593)	(325,536)
Change in net deferred income tax	(58,564)	(260,736)	(40,656)
Change in nonadmitted assets	237,087	(52,257)	143,439
Cumulative effect of changes in accounting principles	0	0	169,924
Aggregate write-ins for gains and losses in surplus:			
Pooled share of unauthorized reinsurance	65,956	(253,508)	234,091
Rounding	<u>0</u>	<u>0</u>	<u>1</u>
Change in surplus as regards policyholders for the year	<u>\$ 5,460,301</u>	<u>\$ 999,430</u>	<u>\$ 4,922,407</u>
Surplus as regards policyholders, December 31, current year	<u>\$60,392,171</u>	<u>\$61,391,601</u>	<u>\$66,314,008</u>

## NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Losses	\$41,111,728
<u>Loss adjustment expenses</u>	<u>12,163,912</u>

This examination of the Company was conducted concurrently with the examination of the Company's parents, Farmers Insurance Exchange, Truck Insurance Exchange, and Fire Insurance Exchange. The examination of the Exchanges was performed by the California Department of Insurance as of December 31, 2009. As part of California's examination, American Actuarial Consulting Group LLC reviewed Fire Insurance Exchange's liability for loss and loss adjustment expenses on an aggregate basis (i.e., on a pooled basis before business was retroceded back to the pooling agreement participants, including the Company). As a result, the examination of the Company did not include a direct review of loss reserves; rather, the Department of Insurance relied on the examination of Farmers Insurance Exchange's aggregate loss reserves. Based on the actuarial review, the Company had an indicated combined net loss and loss adjustment expense reserve redundancy at December 31, 2009.

### SUMMARY, COMMENTS AND RECOMMENDATIONS

#### Summary

The results of this examination disclosed that as of December 31, 2009, the Company had admitted assets of \$166,851,383, liabilities of \$100,537,375, and surplus as regards policyholders of \$66,314,008. 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

- 10     It is recommended that in the future the Company file amended Articles of Incorporation and Bylaws with the Idaho DOI in a timely manner.

CONCLUSION

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

Respectfully submitted,



David Emery, CFE, FLMI  
Senior Insurance Examiner  
State of Idaho  
Department of Insurance

AFFIDAVIT OF EXAMINER

State of Idaho  
County of Ada

David W. Emery, being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of the Farmer Insurance Company of Idaho for the period from January 1, 2007 through December 31, 2009, including subsequent events, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief, and that any conclusions and recommendations contained in the report are based on the facts disclosed in the examination.

David W. Emery  
David W. Emery, CFE, FLMI  
Examiner-in-Charge  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 27 day of May, 2011 at Boise, Idaho



Mary-Kaye C. Stewart  
Notary Public

My commission Expires: 03-19-2014

## **EXHIBIT B**

State of Idaho  
**DEPARTMENT OF INSURANCE**

C.L. "BUTCH" OTTER  
Governor

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

WILLIAM W. DEAL  
Director

**WAIVER**

In the matter of the Report of Examination as of December 31, 2009, of:

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

By executing this Waiver, the Company hereby acknowledges receipt of the above-described examination report, verified as of the 27th day of May 2011, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Exchange also hereby waives:

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

Dated this 14<sup>th</sup> day of June, 2011

BARRY PAUL WAGGENER  
Name (print)

Barry Paul Waggener  
Name (signature)

President  
Title