


000032 - Farmers Insurance Group

Report Revision Date: 06/17/2013

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: N/A Rating Rationale: N/A Report Commentary: 06/17/2013	Time Period: 1st Quarter - 2013 Last Updated: 07/15/2013 Status: Quality Cross Checked	Corporate Structure: 06/17/2008 States Licensed: N/A Officers and Directors: N/A
 Best's Credit Rating Methodology	Disclaimer	 Best's Rating Guide

Additional Online Resources

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Rating Activity and Announcements	Corporate Changes & Retirements
Company Overview	AMB Country Risk Reports - United States

¹The Rating and Commentary date outlines the most recent updates to the Company's Rating, Rationale, and Report Commentary for key rating and business changes. Report commentary may include significant changes to Business Review, Financial Performance/Earnings, Capitalization, Investment/Liquidity, or Reinsurance sections of the report.

²The Financial date reflects the current status of the financial tables found within the body of the Report, including whether the data was loaded as received or had been run through our quality control cross-check process.

³The General Information date covers key areas that may have changed such as corporate structure, states licensed or officers and directors.

Associated Parent: [Zurich Insurance Group Ltd](#)

Farmers Insurance Group

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AMB #: 000032

Associated Parent: [050457](#)

NAIC #: N/A

FEIN #: N/A

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Rating Rationale

Rating Rationale: The ratings and outlooks of the members of the Farmers Insurance Group reflect their market leadership position, prudent risk management efforts, solid risk-adjusted capitalization and strategic importance to Zurich Insurance Group Limited. Offsetting factors include Farmers' historically variable operating performance and elevated underwriting leverage.

Farmers Insurance Group is a leading personal lines insurer in the United States, with a particularly strong market position in the West and Southwest. The ultimate parent of Farmers' attorney-in-fact (Farmers Group, Inc.), Zurich Insurance Group Limited, is one of the largest insurers in the world. While Zurich Insurance Group Limited does not directly own the members of Farmers Insurance Group, Farmers accounts for a significant portion of Zurich's worldwide premiums, and its strong brand-name recognition provides the overall organization with cross-marketing opportunities. Farmers' affiliation with Zurich has facilitated its expansion into the eastern United States, improved its insurance product density, and enhanced its strategy of providing a diverse mix of financial products and services. This relationship is reflected in the ratings of Farmers. The group's operating results, as reflected in both return on revenue and surplus, have been variable in recent years. While reported operating results continue to be somewhat distorted by the profit component of management fees paid to the attorney-in-fact, overall results have recently compared unfavorably to the group's private passenger auto and homeowners industry composite due to frequency and severity in weather events.

Although prior years were dampened by adverse reserve development and mold claims, Farmers took aggressive actions, resulting in improved operating trends and favorable reserve development patterns. In addition, strategic acquisitions have improved Farmers' product and geographic distribution, as well as created a multi-channel distribution system with captive agents, independent agents, and direct-to-consumer sales. Despite recent competitive market conditions, A.M. Best expects the group will continue to generate favorable operating results as a result of management's ongoing underwriting discipline.

Regarding future rating movement, establishment and continuation of a positive trend in underwriting results could eventually lead to an upgrade of the ratings. Conversely, if underwriting results should deteriorate causing a decline in risk-adjusted capitalization and/or a material change in the relationship with Zurich were to occur, a change in the outlooks to negative or downward rating pressure could be exerted.

Rating Unit Members

Farmers Insurance Group (AMB# 000032)

AMB#	Company	BEST'S		Pool %
		FSR	ICR	
002171	Farmers Insurance Exchange	A	a	51.8
002173	Mid-Century Insurance Co	A	a	16.0
002174	Truck Insurance Exchange	A	a	7.8
002172	Fire Insurance Exchange	A	a	7.5
004305	Farmers Insurance Co of OR	A	a	7.0
004306	Farmers Insurance Co of WA	A	a	2.0

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S		Pool %
		FSR	ICR	
011778	Civic Property & Casualty Co	A	a	1.0
011779	Exact Property & Casualty Co	A	a	1.0
002577	Farmers Ins of Columbus Inc	A	a	1.0
011780	Neighborhood Spirit P&C Co	A	a	1.0
003312	Texas Farmers Insurance Co	A	a	1.0
004159	Farmers Insurance Co of ID	A	a	0.8
003100	Farmers Insurance Company Inc	A	a	0.8
012089	Farmers New Century Ins Co	A	a	0.8
004083	Illinois Farmers Ins Co	A	a	0.8
003641	21st Cent North America Ins Co	A	a	
011587	21st Century Advantage Ins Co	A	a	
011109	21st Century Assurance Company	A	a	
011684	21st Century Auto Ins Co NJ	A	a	
010614	21st Century Casualty Co	A	a	
000876	21st Century Centennial Ins Co	A	a	
011768	21st Century Indemnity Ins Co	A	a	
011877	21st Century Ins Co Southwest	A	a	
003247	21st Century Insurance Co	A	a	
003786	21st Century National Ins Co	A	a	
002359	21st Century Pacific Ins Co	A	a	
012021	21st Century Pinnacle Ins Co	A	a	
002796	21st Century Preferred Ins Co	A	a	
002123	21st Century Premier Ins Co	A	a	
000577	21st Century Security Ins Co	A	a	
011402	21st Century Superior Ins Co	A	a	
012039	American Pacific Ins Co, Inc	A	a	
012404	Bristol West Casualty Ins Co	A	a	
012461	Bristol West Insurance Company	A	a	
000177	Coast National Insurance Co	A	a	
002784	Farmers Insurance Hawaii, Inc.	A	a	
002189	Foremost Insurance Company	A	a	
010796	Security National Insurance Co	A	a	
013761	Bristol West Preferred Ins Co	A	a	
004158	Farmers Insurance Co of AZ	A	a	
001879	Farmers Specialty Insurance Co	A	a	
004097	Farmers Texas County Mut Ins	A	a	
003634	Foremost County Mutual Ins Co	A	a	
001753	Foremost Lloyds of Texas	A	a	

Rating Unit Members (Continued ...)

AMB#	Company	BEST'S		Pool %
		FSR	ICR	
001897	Foremost Prop & Cas Ins Co	A	a	
001754	Foremost Signature Ins Co	A	a	
000270	Mid-Century Ins Co of Texas	A	a	

Key Financial Indicators

Period Ending	Statutory Data (\$000)					
	Premiums Written		Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholder's Surplus
	Direct	Net				
2012	18,311,402	14,645,727	-194,139	29,341	28,338,689	5,641,879
2011	17,621,146	14,861,681	-511,702	-106,940	28,545,639	5,677,985
2010	17,497,002	14,129,512	263,333	221,931	28,926,249	5,944,781
2009	18,540,327	12,708,993	844,504	689,901	30,019,929	5,740,628
2008	19,365,343	15,920,853	-155,373	-61,544	31,526,497	6,762,233
03/2013	4,546,332	3,330,321	252,949	217,057	28,940,082	5,825,637
03/2012	4,534,229	3,424,080	13,223	56,131	29,086,141	5,748,859

Period Ending	Profitability			Leverage			Liquidity	
	Combined Ratio	Investment Yield (%)	Pre-Tax ROR (%)	Non-Affiliated Investment Leverage	NPW to PHS	Net Leverage	Overall Liquidity (%)	Operating Cash-flow (%)
2012	105.4	2.5	-1.3	15.0	2.6	6.6	124.9	98.8
2011	107.9	2.8	-3.4	14.9	2.6	6.6	124.9	93.1
2010	99.3	3.1	2.0	18.0	2.4	6.1	126.0	102.9
2009	99.9	3.1	6.2	11.0	2.2	6.3	123.7	102.4
2008	107.0	3.6	-0.9	12.7	2.4	5.9	127.6	96.8
5-Yr Avg	104.1	3.0	0.3	...	...	...	...	...
03/2013	100.3	2.4	7.1	15.3	2.5	6.4	125.3	104.6
03/2012	105.4	2.9	0.4	15.6	2.6	6.6	124.7	93.7

(*) Within several financial tables of this report, this company is compared against the Private Passenger Standard Auto & Homeowners Composite.

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Business Profile

The Farmers Insurance Exchange and its subsidiaries primarily write personal lines business, including full coverage personal automobile and homeowners lines. This personal lines business represents the majority of the group's net premiums, with the remaining consisting of small "main street" commercial accounts and Foremost Specialty Lines. Business is produced by an agency force of more than 51,000 agents (including approximately 13,000 exclusive agents) and is supported by 29 state offices, 11 service centers and 200 branch claim offices. Nearly 45% of its business continues to be concentrated within the states of California and Texas. In recent years, however, the group has expanded its market presence eastward. In 1999, Farmers extended its operations into 12 eastern states assisted by its business relationships and reinsurance assumed from Maryland Casualty Company, an affiliate. Distribution in these eastern states is through a network of approximately 1,400 independent agents.

The group targets preferred and standard auto risks in 41 states, including policies for liability insurance, uninsured/underinsured motorists, no-fault or personal injury protection, as well as collision and comprehensive coverage. The group also markets motorcycle and recreational vehicle coverages. The majority of Farmers' personal lines property business is comprised of single family homeowners policies. In addition to homeowners, the group offers comprehensive personal liability, residential landlord and mobile home coverages. The largest commercial product line is commercial multi-peril (CMP) which represents 50% of commercial net writings. CMP is followed by workers' compensation and commercial automobile accounting for 22% and 8%, respectively.

Through Farmers' acquisition of Bristol West in 2007, the group expanded its personal lines auto business into the non-standard segment. Farmers further diversified its business with an agreement to acquire Zurich North America Commercial's Small Business Solutions book of business, which has approximately \$700 million in premium.

Farmers Insurance Exchange and 14 companion carriers participate in an intercompany pooling agreement in which premiums, losses and expenses are allocated to each company based on percentages outlined in the agreement. Current participation, in effect since January 1, 1999, is as follows: Farmers Insurance Exchange, 51.75%; Mid-Century Insurance Company, 16.00%; Truck Insurance Exchange, 7.75%; Fire Insurance Exchange, 7.50%; Farmers Insurance Company of Oregon, 7.00%; Farmers Insurance Company of Washington, 2.00%; Civic Property and Casualty Company, 1.00%; Exact Property and Casualty Company, 1.00%; Farmers Insurance of Columbus, Inc., 1.00%; Neighborhood Spirit Property and Casualty Company, 1.00%; Texas Farmers Insurance Company, 1.00%; Farmers Insurance Company, Inc., 0.75%; Farmers Insurance Company of Idaho, 0.75%; Farmers New Century Insurance Company, 0.75%; and Illinois Farmers Insurance Company, 0.75%.

Four companies within Farmers Insurance Group do not participate in the pooling agreement, but reinsure 100% of their business with Farmers Insurance Exchange. They are Farmers Insurance Company of Arizona, Mid-Century Insurance Company of Texas and Farmers Texas County Mutual Insurance Company. In addition, Coast National Insurance Company, Security National Insurance Company, Bristol West Insurance Company, Bristol West Casualty Insurance Company, and Bristol West Preferred Insurance Company, also maintain 100% reinsurance agreements.

On July 1, 2009, Zurich Financial Services Group (Zurich) through its subsidiary Farmers Group, Inc. (FGI), closed on the previously announced agreement under which FGI acquired AIG's Personal Auto Group, excluding AIG's Private Client Group. As part of the transaction, FGI immediately sold the regulated insurance entities to Farmers. The transaction has allowed Farmers entry into the direct market through the well-established platform of 21st Century Insurance Company. In addition, the acquisition has broadened and improved Farmers' product and geographic diversification. Zurich provides increased underwriting capacity to Farmers through a quota share agreement with cessions adjusted as necessary, currently set at 20%. The acquisition added an additional 18 companies to the Farmers Insurance Group.

Scope of Operations

Scope of Operations (Continued ...)

Total Premium Composition & Growth Analysis

Period Ending	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written	
	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)	(\$000)	(%Chg)
2012	18,311,402	3.9	35,033	-28.4	3,700,709	31.8	14,645,727	-1.5
2011	17,621,146	0.7	48,906	-9.0	2,808,370	-17.9	14,861,681	5.2
2010	17,497,002	-5.6	53,746	-83.3	3,421,236	-44.4	14,129,512	11.2
2009	18,540,327	-4.3	322,732	318.5	6,154,066	74.8	12,708,993	-20.2
2008	19,365,343	1.0	77,114	-3.2	3,521,604	95.7	15,920,853	-8.8
5-Yr CAGR	...	-0.9	...	-15.1	...	15.5	...	-3.5
03/2013	4,546,332	0.3	7,908,204	-1.5	9,124,214	-0.1	3,330,321	-2.7
03/2012	4,534,229	4.7	8,026,186	4.0	9,136,336	6.8	3,424,080	-2.1

Territory

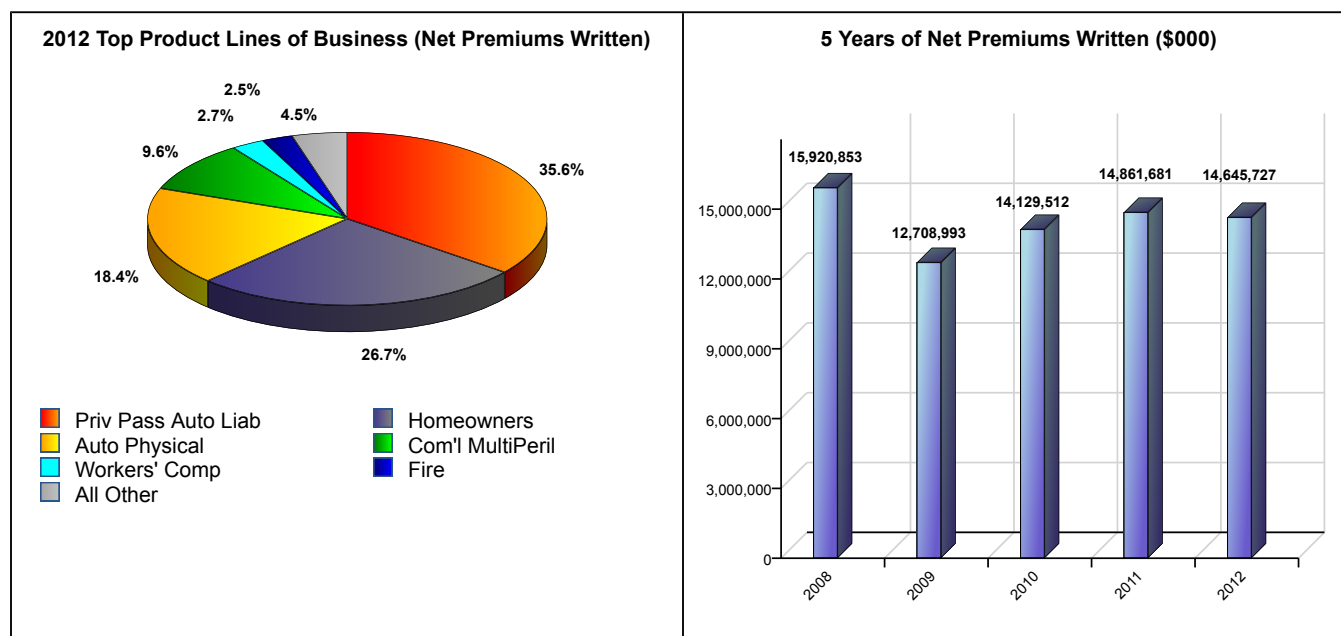
The individual member companies of the group collectively operate in all states.

Business Trends

2012 By-Line Business (\$000)

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention %
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Priv Pass Auto Liab	6,262,957	34.2	18,351	52.4	1,069,286	28.9	5,212,022	35.6	83.0
Homeowners	4,953,716	27.1	432	1.2	1,043,774	28.2	3,910,373	26.7	78.9
Auto Physical	3,980,401	21.7	11,750	33.5	1,292,093	34.9	2,700,057	18.4	67.6
Com'l MultiPeril	1,368,741	7.5	13	0.0	-36,071	-1.0	1,404,825	9.6	102.6
Workers' Comp	361,416	2.0	2,526	7.2	-32,781	-0.9	396,723	2.7	109.0
Fire	453,843	2.5	1,046	3.0	91,286	2.5	363,603	2.5	79.9
All Other	930,329	5.1	916	2.6	273,122	7.4	658,123	4.5	70.7
Total	18,311,402	100.0	35,033	100.0	3,700,709	100.0	14,645,727	100.0	79.8

Business Trends (Continued ...)



By-Line Reserve (\$000)

Product Line	2012	2011	2010	2009	2008
Priv Pass Auto Liab	4,322,889	4,341,706	4,345,899	4,916,754	5,118,418
Homeowners	1,101,593	1,194,953	1,204,815	1,119,280	1,477,312
Auto Physical	234,130	252,465	207,683	220,411	280,885
Com'l MultiPeril	1,336,549	1,297,593	1,182,534	1,141,174	1,161,313
Workers' Comp	1,257,936	1,211,933	1,125,177	1,079,837	1,068,362
Fire	44,163	45,326	42,879	47,585	52,637
All Other	1,096,347	943,497	980,860	1,078,845	1,100,159
Total	9,393,608	9,287,473	9,089,847	9,603,886	10,259,086

Market Share / Market Presence

Market Share / Market Presence (Continued ...)

Geographical Breakdown By Direct Premium Writings (\$000)

	2012	2011	2010	2009	2008
California	5,202,763	5,101,077	5,168,611	5,341,696	5,622,317
Texas	2,800,077	2,727,723	2,759,388	2,913,439	2,910,123
Washington	690,002	710,925	763,966	831,173	860,565
Arizona	687,047	661,625	677,466	728,480	793,541
Colorado	656,444	631,914	632,933	700,124	720,659
Oklahoma	612,462	555,326	535,085	554,253	552,032
Illinois	610,589	566,551	546,170	575,871	605,880
Florida	590,353	573,014	444,560	412,298	547,958
Oregon	512,793	511,102	525,676	555,516	578,792
Minnesota	454,199	427,731	421,986	444,609	462,145
All Other	5,494,673	5,154,157	5,021,163	5,482,868	5,711,330
Total	18,311,402	17,621,146	17,497,002	18,540,327	19,365,343

Risk Management

Farmers' Enterprise Risk Management program has been ingrained at all levels of management, as each department is expected to accurately identify, assess, and manage their risks. A dedicated Chief Risk Officer is in place and oversees all processes, with reporting to the Exchanges' board as well as Zurich. Various committees have been established with regular reports presented to the Board of Directors. The group utilizes multiple scenario testing and various internal capital models, as well as scorecards for rating risks and the actions taken. As an example of ERM being applied, PMLs have been reduced in recent years, with continual ongoing risk mitigation efforts in catastrophe prone areas including rate increases and policy cancellations.

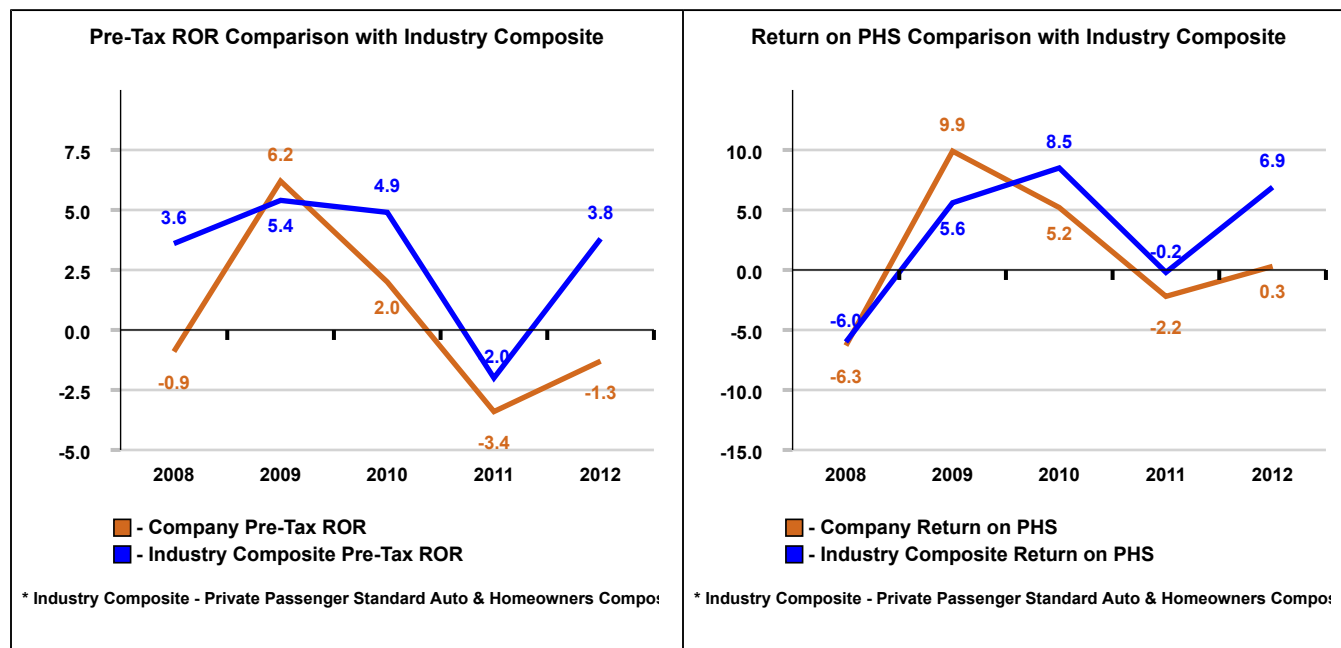
Stress Tests Performed: Risk-adjusted capitalization is stressed on a catastrophe basis, measuring the impact of an additional 100 year wind event on the group's surplus, at which capitalization was still considered adequate for the rating level.

Operating Performance

Operating Results: Operating profitability fluctuated during the past five years, resulting in five-year average pre-tax returns on revenue and equity which compared unfavorably to the private passenger auto and homeowners industry composite. After adding back the profit component of management fees paid to the attorney-in-fact corporation, Farmers Group, Inc. (FGI), Farmers' five-year returns would be more in line with the personal lines composite. Trends have been variable in most recent years with elevated losses due to frequent and severe weather events resulting in some fluctuation in surplus and pre-tax operating gain/loss each year.

Profitability Analysis

Period Ending	Company							Industry Composite		
	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return	Pre-Tax ROR	Return on PHS	Operating Ratio	Pre-Tax ROR	Return on PHS	Operating Ratio
2012	-194,139	-20,141	29,341	19,179	-1.3	0.3	102.0	3.8	6.9	96.4
2011	-511,702	-151,614	-106,940	-126,496	-3.4	-2.2	104.2	-2.0	-0.2	102.5
2010	263,333	177,875	221,931	303,808	2.0	5.2	94.4	4.9	8.5	95.2
2009	844,504	663,473	689,901	616,080	6.2	9.9	95.1	5.4	5.6	95.0
2008	-155,373	69,381	-61,544	-442,065	-0.9	-6.3	102.3	3.6	-6.0	97.2
5-Yr Avg/Tot	246,622	738,974	772,689	370,506	0.3	1.2	99.9	3.1	3.0	97.3
03/2013	252,949	212,027	217,057	228,395	7.1	2.7	96.4	XX	XX	XX
03/2012	13,223	50,198	56,131	92,702	0.4	-3.2	100.9	XX	XX	XX



Underwriting Results

Underwriting Results: Farmers' underwriting performance has been somewhat variable over the past five years, with a five-year combined ratio that was slightly higher than the personal lines industry composite. The combined ratio spiked in 2008,

Underwriting Results (Continued ...)

2011 and 2012, primarily due to an increase in frequent and severe catastrophic weather losses, including Hurricane Ike in 2008, Hurricane Irene and the major tornadoes in Alabama and Missouri in 2011, and Sandy in 2012. Underwriting results were also impacted by current market and economic conditions in recent years. However, Farmers combined ratio has been below 100 in years with generally milder weather patterns.

Farmers has taken substantive actions to improve its underwriting performance in both personal and commercial lines. Personal lines initiatives included strengthening underwriting guidelines and risk selection criteria, as well as the adjustment of rates on a more local level. The group implemented premium rate increases, and continues to refine its risk scoring mechanism for personal auto to facilitate more accurate segmentation and pricing of this business. Significant attention was also given to introducing more disciplined claims-settling practices for the group's homeowners business. In commercial lines, aggressive re-underwriting and re-pricing occurred in most lines as well as segmentation that helped to reduce underperforming risks. These efforts led to improvements in underwriting performance in the recent five-year period. In more recent years, results continued to improve driven by rate adequacy and improved frequency. In addition, Farmers has also actively improved its catastrophe management and reinsurance programs.

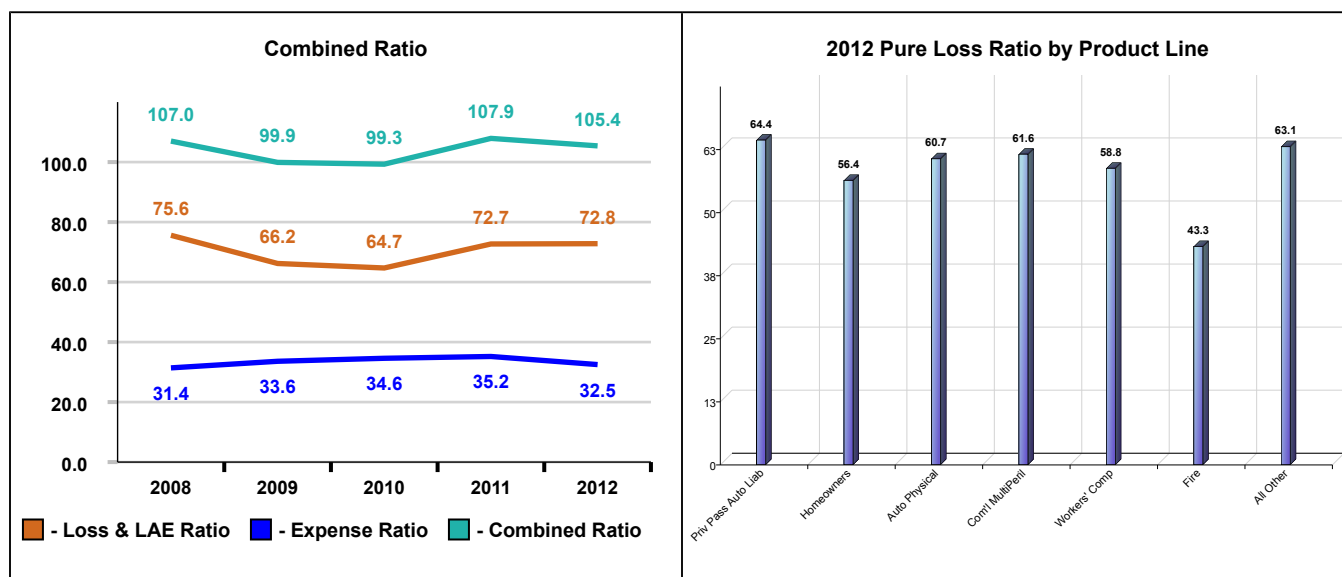
Underwriting Experience

Year	Net Undrw Income (\$000)	Loss Ratios			Expense Ratios			Div. Pol.	Comb. Ratio
		Pure Loss	LAE	Loss & LAE	Net Comm	Other Exp.	Total Exp.		
2012	-808,266	60.6	12.2	72.8	-1.9	34.5	32.5	...	105.4
2011	-1,092,737	60.5	12.2	72.7	-0.9	36.0	35.2	...	107.9
2010	-229,165	53.2	11.5	64.7	0.7	33.9	34.6	...	99.3
2009	345,696	55.0	11.2	66.2	2.1	31.6	33.6	...	99.9
2008	-1,003,759	63.5	12.1	75.6	6.8	24.6	31.4	...	107.0
5-Yr Avg	-2,788,231	58.9	11.9	70.7	1.4	32.0	33.4	...	104.1
03/2013	76,452	52.8	10.3	63.1	XX	XX	37.2	...	100.3
03/2012	-132,435	55.7	12.4	68.1	XX	XX	37.3	...	105.4

Loss Ratio By Line

Product Line	2012	2011	2010	2009	2008	5-Yr. Avg.
Priv Pass Auto Liab	64.4	59.3	55.5	56.1	61.6	59.6
Homeowners	56.4	63.9	55.4	58.3	75.7	62.3
Auto Physical	60.7	62.0	51.0	55.4	61.8	58.5
Com'l MultiPeril	61.6	60.1	45.5	45.0	49.1	52.7
Workers' Comp	58.8	62.6	66.8	58.7	56.2	60.6
Fire	43.3	50.1	45.3	52.3	79.6	53.0
All Other	63.1	47.9	42.7	46.6	45.3	48.9
Total	60.6	60.5	53.2	55.0	63.5	58.9

Underwriting Results (Continued ...)



Direct Loss Ratios By State

	2012	2011	2010	2009	2008	5-Yr. Avg.
California	55.7	50.4	47.8	42.9	51.0	49.5
Texas	60.9	56.9	48.7	57.3	110.5	66.9
Washington	47.7	41.8	45.0	56.0	58.8	50.3
Arizona	54.1	81.5	69.0	40.3	50.6	58.4
Colorado	74.8	59.8	60.4	75.6	61.9	66.6
Oklahoma	72.9	52.6	101.8	78.0	87.3	78.4
Illinois	59.7	59.2	52.3	55.1	63.9	58.1
Florida	63.4	65.0	54.3	60.8	65.8	62.3
Oregon	51.6	52.7	49.8	54.0	56.8	53.1
Minnesota	52.0	56.2	48.8	53.6	84.6	59.4
All Other	61.6	69.2	52.5	56.4	66.2	61.2
Total	59.3	59.0	52.5	53.3	67.8	58.5

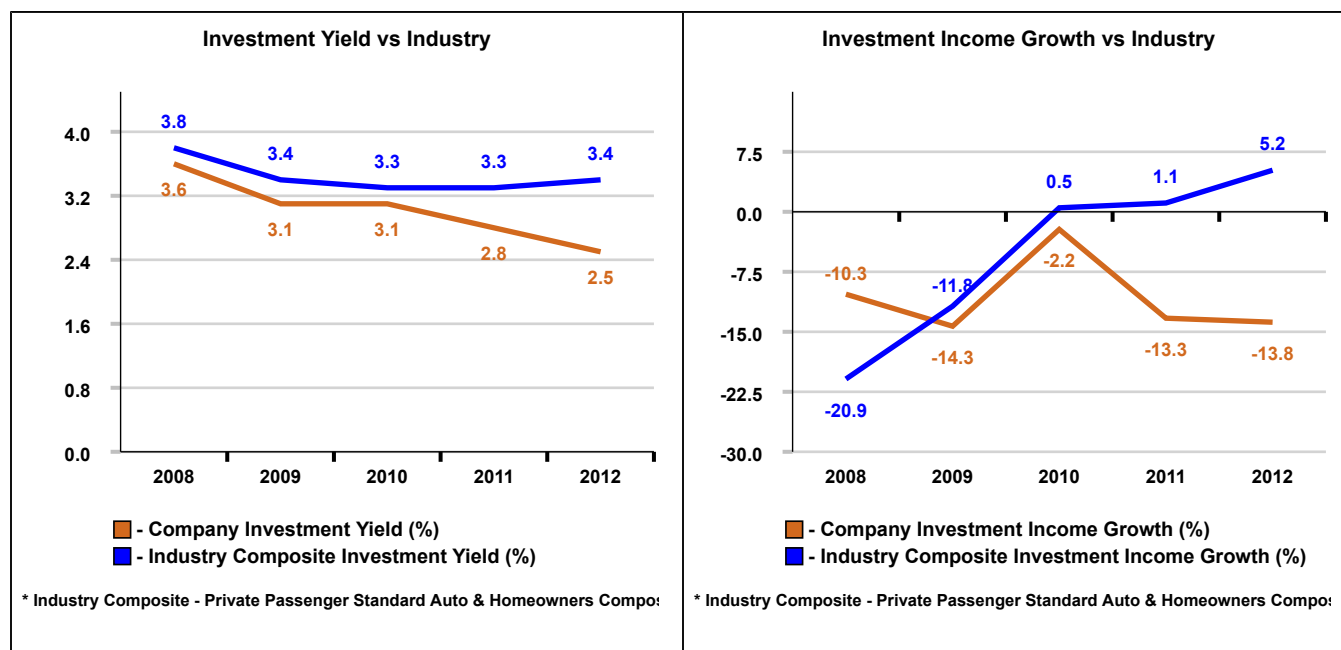
Investment Results

Investment Results: Farmers maintains a high quality and well-diversified investment portfolio consisting primarily of long-term bonds, with the remainder of invested assets allocated to common stock, short-term investments and cash. The bond portfolio consists primarily of tax-exempt municipals and investment grade public corporates. Investment yields have declined in recent years and are lower than the industry composite over the past five years, reflective of interest expense from surplus notes netted against investment income. In addition, a large portion of fixed income assets were held in tax-free municipal bonds. Farmers' conservative portfolio resulted in only minimal capital losses and impairments during the market downturn in 2008.

Investment Results (Continued ...)

Investment Gains (\$000)

Year	Company							Industry Composite	
	Net Investment Income (\$000)	Realized Capital Gains (\$000)	Unrealized Capital Gains (\$000)	Investment Income Growth (%)	Investment Yield (%)	Return on Invested Assets (%)	Total Return (%)	Investment Income Growth (%)	Investment Yield (%)
2012	484,601	49,481	-10,162	-13.8	2.5	2.8	2.7	5.2	3.4
2011	561,943	44,674	-19,556	-13.3	2.8	3.0	2.9	1.1	3.3
2010	647,993	44,056	81,877	-2.2	3.1	3.3	3.7	0.5	3.3
2009	662,843	26,428	-73,821	-14.3	3.1	3.3	2.9	-11.8	3.4
2008	773,167	-130,925	-380,520	-10.3	3.6	3.0	1.2	-20.9	3.8
5-Yr Avg/Tot	3,130,545	33,714	-402,183	-10.8	3.0	3.1	2.7	-6.5	3.4
03/2013	140,247	5,030	11,338	-14.4	2.4	2.7	2.5	XX	XX
03/2012	163,773	5,933	36,570	4.9	2.9	3.0	3.1	XX	XX



Balance Sheet Strength

Capitalization

Capitalization: Farmers maintains strong overall risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR). Farmers' capital position also reflects the financial condition of FGI, its extensive catastrophe management program and conservative investment risk profile. This is offset by the group's aggressive net underwriting leverage, above-average reinsurance utilization and significant dependence on surplus notes. However, as an integral member of the Zurich Financial Services Group, Farmers is afforded additional financial flexibility.

Farmers' surplus growth over the past five years is generally in-line with its premium growth. Surplus decline in 2008, which is the first surplus loss in over six years, is reflective of elevated catastrophe losses, including Hurricane Ike, as well as some impact by the poor economic and market conditions. Organic surplus growth had rebounded in 2009, but restated surplus results due to the acquisition of 21st Century more than offset the actual surplus gain. Surplus gains were also modest in 2010, somewhat reflective of milder weather patterns with some offset by stock holder dividends. Surplus declined again in 2011 and 2012 due to impact of frequent and severe weather events throughout each year.

Farmers Insurance Group has issued, or reissued, over \$2 billion of surplus notes and certificates of contribution, including \$370 million of surplus notes issued on March 1, 2000, to FGI and two of its subsidiaries in connection with its acquisition of Foremost Corporation of America. An additional \$630.5 million of certificates of contribution were issued in November and December 2001, again to FGI and three of its subsidiaries. In addition, there are three surplus notes totaling approximately \$1 billion, which are held by external investors.

Farmers Group, Inc., the attorney-in-fact, provides the insurance group with financial flexibility through a \$500 million credit facility and substantial debt capacity. In addition, FGI has significant invested assets that could be used for the benefit of the property/casualty group. However, these funds also remain available for general corporate purposes. Additional financial flexibility is provided by Zurich, through a quota share reinsurance agreement.

Capital Generation Analysis (\$000)

Year	Source of Surplus Growth							
	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains	Net Contributed Capital	Other Changes	Change in PHS	% Change in PHS
2012	-194,139	49,481	-173,999	-10,162	65	-55,350	-36,106	-0.6
2011	-511,702	44,674	-360,087	-19,556	-85,397	-54,902	-266,796	-4.5
2010	263,333	44,056	85,457	81,877	-114,650	14,994	204,153	3.6
2009	844,504	26,428	181,031	-73,821	-1,703,339	65,654	-1,021,605	-15.1
2008	-155,373	-130,925	-224,754	-380,520	-7,926	-131,900	-581,891	-7.9
5-Yr Total	246,622	33,714	-492,352	-402,183	-1,911,247	-161,504	-1,702,245	-5.1
03/2013	252,949	5,030	40,922	11,338	33	-44,669	183,758	3.3
03/2012	13,223	5,933	-36,975	36,570	...	-21,828	70,874	1.2

Capitalization (Continued ...)

Quality of Surplus (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus	Year End Policyholders Surplus	Conditional Reserves	Adjusted Policyholders Surplus
2012	1,965,025	53,800	627,127	2,995,927	5,641,879	11,169	5,653,049
2011	1,965,146	53,800	627,130	3,031,909	5,677,985	14,670	5,692,655
2010	1,965,245	53,800	636,080	3,289,655	5,944,781	18,276	5,963,057
2009	1,965,324	53,800	580,900	3,140,603	5,740,628	17,940	5,758,567
2008	1,979,940	53,800	1,542,754	3,185,739	6,762,233	57,145	6,819,378
03/2013	1,965,007	53,800	627,127	3,179,703	5,825,637	11,169	5,836,806
03/2012	1,965,102	53,800	627,130	3,102,827	5,748,859	14,670	5,763,529

Underwriting Leverage

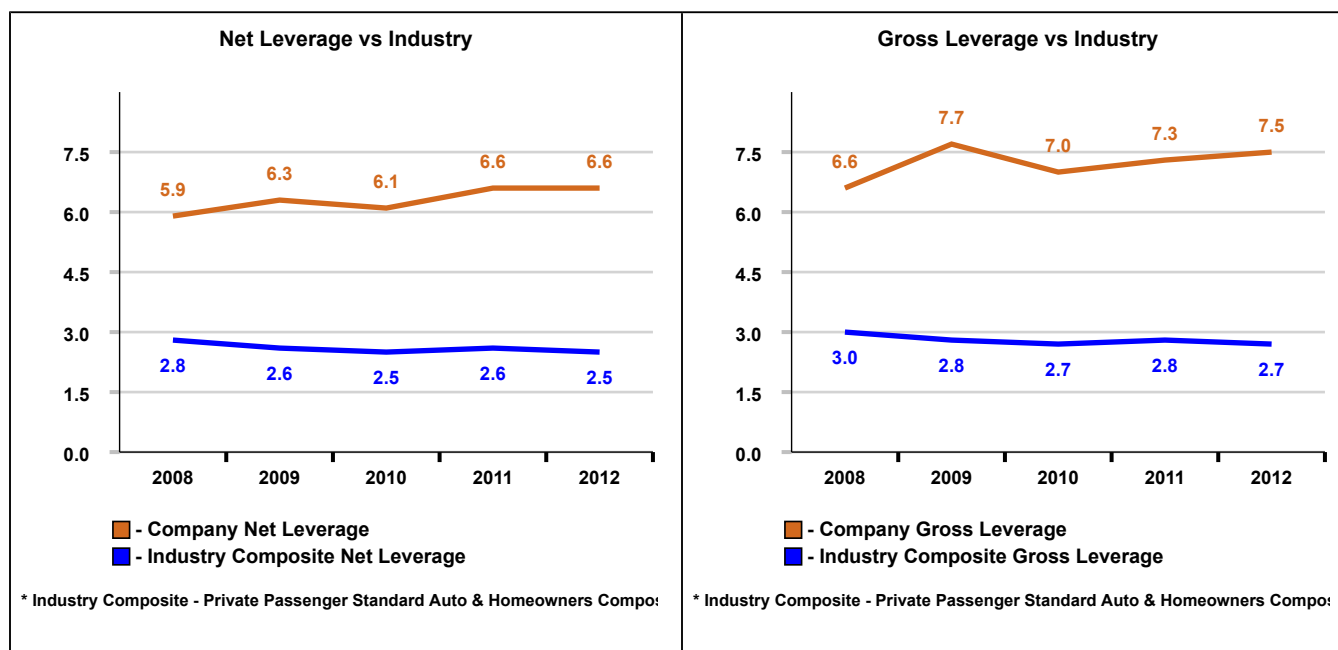
Underwriting Leverage: The group maintains above average underwriting leverage, as evidenced by gross and net leverage measures that are higher than the private passenger auto and homeowners composite. Also, both premium and liability underwriting leverage ratios are higher than the composite. In recent years, changes to the group's quota share have contributed to fluctuations in underwriting leverage measures.

Leverage Analysis

Year	Company				Industry Composite			
	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage	NPW to PHS	Reserves to PHS	Net Leverage	Gross Leverage
2012	2.6	1.7	6.6	7.5	1.1	0.7	2.5	2.7
2011	2.6	1.6	6.6	7.3	1.1	0.7	2.6	2.8
2010	2.4	1.5	6.1	7.0	1.1	0.7	2.5	2.7
2009	2.2	1.7	6.3	7.7	1.1	0.7	2.6	2.8
2008	2.4	1.5	5.9	6.6	1.2	0.8	2.8	3.0
03/2013	2.5	1.6	6.4	XX	XX	XX	XX	XX
03/2012	2.6	1.6	6.6	XX	XX	XX	XX	XX

Current BCAR: 155.3

Underwriting Leverage (Continued ...)



Ceded Reinsurance Analysis (\$000)

Year	Company				Industry Composite		
	Ceded Reinsurance Total	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)	Business Retention (%)	Reinsurance Recoverables to PHS (%)	Ceded Reinsurance to PHS (%)
2012	4,991,959	79.8	12.7	88.5	107.6	17.3	28.2
2011	4,153,658	84.1	12.8	73.2	107.8	15.4	25.6
2010	4,850,763	80.5	14.4	81.6	106.6	13.9	24.0
2009	7,995,408	67.4	22.6	139.3	104.5	14.4	26.8
2008	4,736,355	81.9	20.0	70.0	104.7	15.4	25.2

2012 Reinsurance Recoverables (\$000)

	Paid & Unpaid Losses	Incurred But Not Reported (IBNR) Losses	Unearned Premiums	Other Recoverables *	Total Reinsurance Recoverables
US Affiliates	8,369,719	12,187,676	14,175,282	-16,018	34,716,656
Foreign Affiliates	465,417	798,190	1,091,226	-2,360,398	-5,564
US Insurers	62,649	178,459	104,439	-195	345,352
Pools/Associations	177,471	32,770	76,156	...	286,398
Other Non-Us	73,019	12,882	6,312	-2,358	89,853
Total(ex Us Affils)	778,556	1,022,301	1,278,133	-2,362,951	716,039
Grand Total	9,148,279	13,209,978	15,453,416	-2,378,970	35,432,697

* Includes Commissions less Funds Withheld

Loss Reserves

Loss Reserves: Farmers has recently reported generally favorable accident year development. However, adverse development was reported in most prior calendar years, largely related to personal automobile, commercial multi-peril and workers' compensation lines. The group's commercial asbestos and environmental (A&E) exposure is limited, with risks characterized by small to medium, low hazard accounts and residential and small business policies. An environmental claims department individually reserves for a small number of exposures that are particularly unique and complex.

Loss and ALAE Reserve Development: Calendar Year (\$000)

Calendar Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Development to PHS (%)	Development to NPE (%)	Unpaid Reserves @ 12/2012	Unpaid Reserves to Development (%)
2012	8,499,277	8,499,277	...	...	58.4	8,499,277	100.0
2011	8,412,299	8,497,684	1.0	1.5	56.1	4,676,905	55.0
2010	8,188,666	7,975,826	-2.6	-3.6	60.4	2,923,960	36.7
2009	8,693,620	8,096,641	-6.9	-10.4	59.1	2,113,729	26.1
2008	9,356,785	8,704,957	-7.0	-9.6	53.1	1,635,651	18.8
2007	9,296,097	8,954,868	-3.7	-4.6	52.3	1,348,891	15.1

Loss and ALAE Reserve Development: Accident Year (\$000)

Accident Year	Original Loss Reserves	Developed Reserves Thru 2012	Development to Original (%)	Unpaid Reserves @ 12/2012	Accident Year Loss Ratio	Accident Year Comb. Ratio
2012	3,822,372	3,822,372	...	3,822,372	72.8	105.4
2011	4,019,194	4,020,524	0.0	1,752,945	75.5	110.7
2010	3,561,423	3,392,582	-4.7	810,231	68.2	102.8
2009	3,491,800	3,173,393	-9.1	478,078	66.7	100.4
2008	4,508,154	4,012,508	-11.0	286,760	73.1	104.5
2007	4,523,816	4,219,389	-6.7	166,035	68.3	98.6

Asbestos And Environmental Reserves Analysis

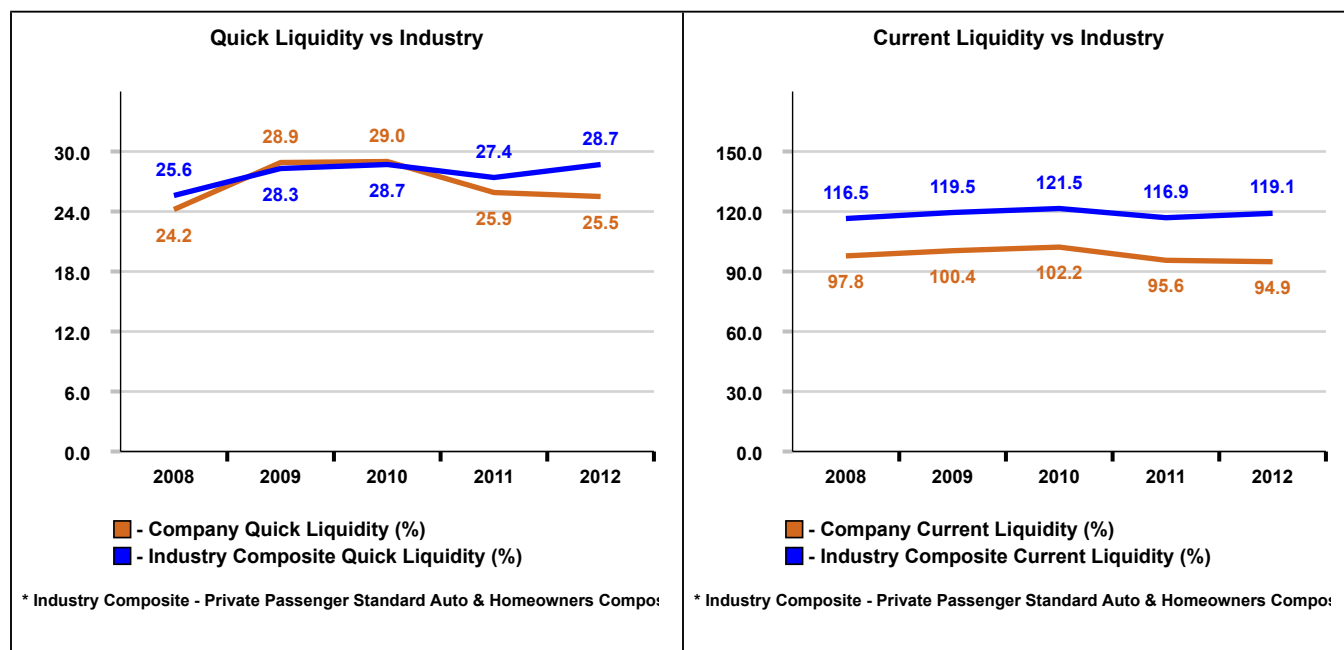
Year	Company						Industry Composite		
	Net A&E Reserves (\$000)	Reserve Retention (%)	Net Incurred But Not Reported (IBNR) Mix (%)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)	Survival Ratio (3 Yr)	Comb. Ratio Impact (1 Yr)	Comb. Ratio Impact (3 Yr)
2012	496,344	83.8	95.8	6.5	1.2	0.6	9.1	0.6	0.6
2011	394,094	80.3	94.0	5.4	0.3	0.5	9.1	0.5	0.6
2010	428,448	81.4	94.9	5.7	0.2	0.6	7.2	0.7	0.5
2009	472,069	79.8	95.1	...	0.8	...	...	0.6	...
2008	422,300	77.4	94.3	...	0.8	...	...	0.3	...

Liquidity

Liquidity: Farmers maintains adequate balance sheet liquidity, although both current and overall liquidity measures fall short of the personal lines industry composite. The group mitigates potential asset/liability mismatches, such as when its bond portfolio duration becomes greater than its reserve duration, through laddered maturity strategies and asset diversification. Operating cash flows have fluctuated in recent years, with some negative impact by frequent and severe weather events. In addition, the group maintains a credit facility through FGI totaling \$500 million. Loans from this facility are to provide for any unanticipated short-term needs the group might experience. As an integral member of Zurich Financial Services Group, Farmers is also afforded significant additional financial flexibility.

Liquidity Analysis

Year	Company				Industry Composite			
	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS(%)	Quick Liquidity (%)	Current Liquidity (%)	Overall Liquidity (%)	Gross Agents Balances to PHS (%)
2012	25.5	94.9	124.9	16.3	28.7	119.1	172.3	6.7
2011	25.9	95.6	124.9	15.5	27.4	116.9	169.2	5.8
2010	29.0	102.2	126.0	10.8	28.7	121.5	172.0	6.1
2009	28.9	100.4	123.7	18.0	28.3	119.5	169.1	6.6
2008	24.2	97.8	127.6	23.0	25.6	116.5	164.6	8.2
03/2013	XX	83.6	125.3	16.3	XX	XX	XX	XX
03/2012	XX	82.2	124.7	19.2	XX	XX	XX	XX



Liquidity (Continued ...)

Cash Flow Analysis (\$000)

Year	Company					Industry Composite	
	Underwriting Cash Flow	Operating Cash Flow	Net Cash Flow	Underwriting Cash Flow (%)	Operating Cash Flow (%)	Underwriting Cash Flow (%)	Operating Cash Flow (%)
2012	-890,604	-190,381	-654,167	94.2	98.8	97.9	104.4
2011	-1,761,606	-1,103,129	-1,106,096	89.0	93.1	93.2	99.4
2010	92,826	412,857	-457,176	100.7	102.9	99.9	105.4
2009	-330,653	330,904	-234,646	97.5	102.4	98.4	105.7
2008	-1,549,845	-560,904	1,046,524	91.1	96.8	97.9	104.2
5-Yr Total	-4,439,882	-1,110,653	-1,405,562	...	...	...	...
03/2013	-26,474	180,543	182,070	99.3	104.6	XX	XX
03/2012	-447,634	-261,094	-224,312	89.2	93.7	XX	XX

Investments

Investment Leverage Analysis (% of PHS)

Year	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate / Mortgages	Other Invested Assets	Common Stock	Non - Affiliated Investment Leverage	Affiliated Investments	Class 3-6 Bonds	Common Stock
2012	2.3	2.6	5.4	4.8	15.0	0.8	5.4	18.6
2011	2.0	2.2	6.6	4.1	14.9	1.7	4.4	18.8
2010	3.4	1.1	6.8	6.7	18.0	2.4	4.4	19.9
2009	1.6	1.2	2.1	6.1	11.0	0.1	3.7	19.3
2008	1.7	1.0	0.4	9.7	12.7	5.4	3.6	15.8

Investments - Bond Portfolio

2012 Distribution By Maturity

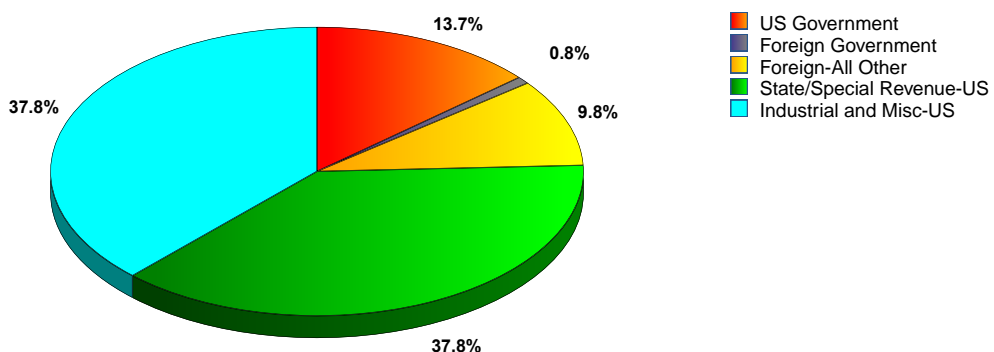
	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	1.0	11.4	1.7	0.2	...	3.5
Government Agencies & Muni.	7.2	20.4	8.4	1.0	0.3	4.1
Industrial & Misc.	8.3	23.5	14.5	1.2	0.6	5.0
Hybrid Securities	...	...	...	...	0.1	25.0
Total	16.6	55.3	24.7	2.4	1.0	4.2

Investments - Bond Portfolio (Continued ...)

Bond Distribution By Issuer Type

	2012	2011	2010	2009	2008
Bonds (000)	18,362,295	17,788,236	18,060,029	18,234,312	17,587,113
US Government	13.7	12.2	9.4	9.1	2.6
Foreign Government	0.8	1.3	1.6	0.6	0.5
Foreign-All Other	9.8	9.4	9.0	6.0	4.3
State/Special Revenue-US	37.8	37.5	42.4	47.5	51.6
Industrial and Misc-US	37.8	39.6	37.6	36.8	41.0

2012 Bond Distribution By Issuer Type



Bond Percent Private vs Public

	2012	2011	2010	2009	2008
Private Issues	6.4	6.4	6.2	4.0	3.3
Public Issues	93.6	93.6	93.8	96.0	96.7

Bond Quality Percent

	2012	2011	2010	2009	2008
Class 1	87.5	88.3	90.3	91.0	91.5
Class 2	11.9	11.1	8.7	8.6	8.0
Class 3	0.5	0.3	0.5	0.3	0.4
Class 4	0.1	...	0.1	...	0.1
Class 5	0.1	0.3	0.3	...	...
Class 6	...	...	...	0.1	0.1

Investments - Equity Portfolio

	2012	2011	2010	2009	2008
Total Stocks(000)	245,434	253,629	411,628	292,799	963,636
Unaffiliated Common	109.4	91.0	96.5	119.9	68.0
Affiliated Common	-12.3	6.0	1.6	-22.5	28.6
Unaffiliated Preferred	2.9	3.0	1.9	2.7	3.4

Investments - Mortgage Loans And Real Estate

	2012	2011	2010	2009	2008
Mortgage Loans and Real Estate (000)	215,335	194,473	189,869	131,504	118,145
Property Occupied by Company	32.3	36.7	66.0	47.5	43.0
Property Held for Income	67.7	63.3	34.0	52.5	57.0

Investments - Other Invested Assets

	2012	2011	2010	2009	2008
Other Invested Assets(000)	394,600	1,120,240	2,258,252	2,429,071	2,790,302
Cash	-34.0	-10.4	-11.8	-12.6	-14.2
Short-Term	54.3	76.0	93.3	107.2	104.9
Schedule BA Assets	43.0	14.2	6.2	5.2	2.0
All Other	36.7	20.3	12.3	0.2	7.2

History

The origin of the Farmers Insurance Group dates back to the founding of the lead company, Farmers Insurance Exchange, in 1928. The group also includes two other reciprocal insurers: Truck Insurance Exchange (organized in 1935) and Fire Insurance Exchange (founded in 1942). In addition to these reciprocal insurers, the group includes Mid-Century Insurance Company (chartered in 1949); Farmers New World Life Insurance Company (acquired in 1953); Farmers Insurance Company, Inc. (chartered in 1955); Farmers Texas County Mutual Insurance Company (affiliated since 1962); Texas Farmers Insurance Company (organized in 1967); Illinois Farmers Insurance Company (chartered in 1968); Farmers Insurance Company of Arizona and Farmers Insurance Company of Idaho (both incorporated in 1969); Farmers Insurance Company of Oregon and Farmers Insurance Company of Washington (both organized in 1970); Farmers Insurance of Columbus, Inc. (incorporated in 1979); and Mid-Century Insurance Company of Texas (incorporated in 1987); Civic Property and Casualty Company, Exact Property and Casualty Company and Neighborhood Spirit Property and Casualty Company (all incorporated in 1995); Farmers New Century Insurance Company and Farmers Reinsurance Company (both incorporated in 1997).

Management

In December 1988, at a special meeting, control of Farmers Group Inc. passed to BATUS Inc., Louisville, Kentucky, a subsidiary of B.A.T. Industries p.l.c., when shareholders of Farmers Group, Inc., approved the acquisition of the attorney-in-fact corporation. The acquisition also gained approval of nine major states where the Farmers Insurance Group operates. In January 1990, ownership of Farmers Group, Inc., was ultimately transferred to South Western Nominees Limited, which is owned by B.A.T. Industries, London, England, a multinational holding company involved in tobacco and financial services.

Farmers Group, Inc., continues to be the attorney-in-fact for the Farmers Insurance Exchange which, together with two other exchanges and one mutual, comprise the Farmers Insurance Group along with their insurance subsidiaries.

On December 23, 1997, B.A.T. Industries and Zurich Insurance Company signed a definitive agreement to merge B.A.T. Industries' Financial Services Business (BAFS) with Zurich. The businesses of Zurich and BAFS were transferred in September 1998 into Zurich Financial Services, a new Swiss company.

Farmers Insurance Group is led by the Farmers Insurance Exchange. This reciprocal and two other affiliated reciprocals each operate through a separate attorney-in-fact. Farmers Group, Inc., is the attorney-in-fact for the lead company and the parent organization of Fire Underwriters Association (attorney-in-fact of Fire Exchange) and Truck Underwriters Association (attorney-in-fact of Truck Exchange). All are under the same general management and located in Los Angeles, California.

A board of governors of Farmers Insurance Exchange, consisting of eleven members (subscribers), has general supervision over the finances of the exchange and over its operations to the extent limited by the subscription agreements and power of attorney, and has power to make and amend rules and regulations for the conduct of the business and affairs of the exchange. The attorney-in-fact corporation receives management fees from the insurance group which, as a percentage of earned premiums, are as follows: auto 13.45%; homeowners, 13.45%; commercial, 16.10%; workers' compensation, 16.10%; and all other lines, 5.0% to 20.0%. Out of such compensation are paid all acquisition costs and operating expenses except losses, loss expenses, agents' commissions, taxes, licenses and fees.

The group's operations are currently under the direction of Jeff J. Dailey, president and chief executive officer.

Reinsurance

Catastrophe reinsurance with a top limit of \$1 billion is purchased for all states and all perils excluding Florida windstorm and California earthquake. Florida windstorm top limit is \$380 million, while California earthquake top limit is \$1.75 billion. Additional protection is purchased for Texas and other Gulf coast states (excluding Florida) windstorm up to a top limit of \$2 billion. In addition, contingent capital arrangements are available for an additional \$500 million in excess of \$2 billion for Texas Hurricane and California wildfire.

Consolidated Balance Sheet (\$000)

Admitted Assets	12/31/2012	12/31/2011	2012 %	2011 %
Bonds	18,362,295	17,788,236	64.8	62.3
Preferred Stock	7,145	7,563	...	...
Common Stock	268,471	230,887	0.9	0.8
Cash & Short-Term Invest	80,148	734,315	0.3	2.6
Real estate, investment	145,828	123,131	0.5	0.4
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	308,232	378,230	1.1	1.3
Investments in Affiliates	-23,962	22,873	-0.1	0.1
Real Estate, Offices	69,507	71,343	0.2	0.2
Total Invested Assets	19,217,664	19,356,578	67.8	67.8
Premium Balances	5,556,287	5,483,614	19.6	19.2
Accrued Interest	162,215	182,384	0.6	0.6
Life department	...	...	...	...
All Other Assets	3,402,523	3,523,063	12.0	12.3
Total Assets	28,338,689	28,545,639	100.0	100.0

Liabilities & Surplus	12/31/2012	12/31/2011	2012 %	2011 %
Loss & LAE Reserves	9,393,608	9,287,473	33.1	32.5
Unearned Premiums	6,255,339	6,166,002	22.1	21.6
Conditional Reserve Funds	11,169	14,670	...	0.1
Derivatives	...	...	...	...
Life department	...	...	...	...
All Other Liabilities	7,036,693	7,399,509	24.8	25.9
Total Liabilities	22,696,810	22,867,654	80.1	80.1
Surplus notes	1,965,025	1,965,146	6.9	6.9
Capital & Assigned Surplus	680,927	680,930	2.4	2.4
Unassigned Surplus	2,995,927	3,031,909	10.6	10.6
Total Policyholders' Surplus	5,641,879	5,677,985	19.9	19.9
Total Liabilities & Surplus	28,338,689	28,545,639	100.0	100.0

Interim Balance Sheet (\$000)

Admitted Assets	03/31/2013
Bonds	18,280,478
Preferred Stock	7,121
Common Stock	269,953
Cash & Short-Term Invest	262,219
Other Investments	535,966
Total Invested Assets	19,355,738
Premium Balances	5,832,091
Accrued Interest	141,869
Reinsurance Funds	1,841,681
All Other Assets	1,768,704
Total Assets	28,940,082

Liabilities & Surplus	03/31/2013
Loss & LAE Reserves	9,116,381
Unearned Premiums	6,019,887
Conditional Reserve Funds	11,169
All Other Liabilities	7,967,008
Total Liabilities	23,114,446
Capital & Assigned Surp	2,645,934
Unassigned Surplus	3,179,703
Total Policyholders' Surplus	5,825,637
Total Liabilities & Surplus	28,940,082

Consolidated Summary Of 2012 Operations (\$000)

Statement of Income	12/31/2012	Funds Provided from Operations	12/31/2012
Premiums earned	14,556,390	Premiums collected	14,424,533
Losses incurred	8,825,674	Benefit & loss-related pmts	8,749,174
LAE incurred	1,771,069		
Undwr expenses incurred	4,767,074	LAE & undwr expenses paid	6,565,123
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	840	Dividends to policyholders	840
Net underwriting income	-808,266	Underwriting cash flow	-890,604
		Net transfer	...
Net investment income	484,601	Investment income	588,200
Other income/expense	129,527	Other income/expense	127,351
Pre-tax operating income	-194,139	Pre-tax cash operations	-175,053
Realized capital gains	49,481		
Income taxes incurred	-173,999	Income taxes pd (recov)	15,328
Net income	29,341	Net oper cash flow	-190,381

Interim Income Statement (\$000)

	Period Ended 03/31/2013	Period Ended 03/31/2012	Increase / Decrease
Premiums earned	3,565,774	3,593,417	-27,643
Losses incurred	1,882,039	2,002,970	-120,931
LAE incurred	367,111	445,314	-78,203
Undwr expenses incurred	1,240,105	1,277,204	-37,099
Other expenses incurred	...	...	...
Dividends to policyholders	67	364	-297
Net underwriting income	76,452	-132,435	208,886
Net investment income	140,247	163,773	-23,526
Other income/expense	36,251	-18,115	54,366
Pre-tax operating income	252,949	13,223	239,726
Realized capital gains	5,030	5,933	-903
Income taxes incurred	40,922	-36,975	77,898
Net income	217,057	56,131	160,925

Interim Cash Flow (\$000)

	Period Ended 03/31/2013	Period Ended 03/31/2012	Increase / Decrease
Premiums collected	3,888,300	3,697,246	191,054
Benefit & loss-related pmts	2,183,774	2,247,346	-63,571
LAE & undwr expenses paid	1,730,933	1,897,170	-166,237
Dividends to policyholders	67	364	-297
Underwriting cash flow	-26,474	-447,634	421,160
Net transfer	...	...	...
Investment income	181,802	205,549	-23,747
Other income/expense	39,160	-18,115	57,275
Pre-tax cash operations	194,488	-260,200	454,688
Income taxes pd (recov)	13,946	894	13,052
Net oper cash flow	180,543	-261,094	441,637

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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